OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 24 February 2026

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website—
www.parliament.scot or by contacting Public Information on 0131 348 5000

Tuesday 24 February 2026

CONTENTS

	Col.
SUBORDINATE LEGISLATION	**1**
Scottish Aggregates Tax (Miscellaneous Amendment) Regulations 2026 [Draft]	1
Revenue Scotland and Tax Powers Act (Interest on Unpaid Tax and Interest Rates in General) Amendment Regulations 2026 (SSI 2026/17)	1
Revenue Scotland and Tax Powers Act (Involved Third Party) Amendment Order 2026 (SSI 2026/18)	1
SCOTTISH SPENDING REVIEW	**5**

FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
8th 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:

Jack Gillespie (NHS Scotland)
Mirren Kelly (Convention of Scottish Local Authorities)
Ivan McKee (Minister for Public Finance)
Tiffany Ritchie (Scottish Funding Council)
Sarah Roughead (Police Scotland)
Jonathan Waite (Scottish Government)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 24 February 2026

[The Convener opened the meeting at 10:01]

Subordinate Legislation

Scottish Aggregates Tax (Miscellaneous Amendment) Regulations 2026 [Draft]

Revenue Scotland and Tax Powers Act (Interest on Unpaid Tax and Interest Rates in General) Amendment Regulations 2026 (SSI 2026/17)

Revenue Scotland and Tax Powers Act (Involved Third Party) Amendment Order 2026 (SSI 2026/18)

The Convener (Kenneth Gibson): Good morning and welcome to the eighth meeting in 2026 of the Finance and Public Administration Committee. We have three items of subordinate legislation to consider and I intend to allow around 30 minutes for this part of the meeting. We will begin with an evidence session with the Minister for Public Finance on the draft Scottish Aggregates Tax (Miscellaneous Amendment) Regulations 2026. The minister is joined by Scottish Government officials Jonathan Waite, who is the aggregates tax bill team leader, Cara Woods, who is senior policy adviser on aggregates and landfill taxes, and Emma Phillips, who is a lawyer with the Scottish Government legal directorate. I welcome our witnesses to the meeting and invite the minister to make a short opening statement.

The Minister for Public Finance (Ivan McKee): The Scottish Government is working closely with the United Kingdom Government, His Majesty's Revenue and Customs, and Revenue Scotland to ensure the successful introduction of the Scottish aggregates tax. This has included productive engagement on cross-border legislation to ensure that the administrative arrangements for the Scottish aggregates tax and the UK aggregates levy work together effectively.

The three Scottish statutory instruments that are under consideration today make provisions that are required to ensure the practical operation of the Scottish aggregates tax, which the Scottish Government remains on track to deliver on 1 April 2026.

The Scottish Aggregates Tax (Miscellaneous Amendment) Regulations 2026 cover the tax treatment of aggregate that is collected and transported across the border and complex multistage supply chains involving intermediaries. This is a type of indirect supply where a business acts as an intermediary between the aggregate producer and the end user of aggregate—for example, a builders' merchant.

The regulations provide taxpayers with clarity on the operation of the Scottish aggregates tax. They are intended to prevent double taxation, minimise market distortion and support a smooth transition from the UK aggregates levy to the Scottish aggregates tax. The approach taken follows detailed and close collaboration with Revenue Scotland, HMRC, and industry stakeholders, including through our expert advisory group. That engagement preceded a public consultation that was held in June last year on proposed approaches and continued following the closure of the consultation to ensure that all relevant cross-border scenarios had been considered. Following engagement with HMRC, complementary amendments to the UK aggregates levy legislation are being made through the Finance (No 2) Bill to ensure that the two taxes dovetail.

The SSIs under consideration today also include the Revenue Scotland and Tax Powers Act (Involved Third Party) Amendment Order 2026, which makes provisions that enable the inspection of the business premises of involved third parties for the purposes of the tax.

In addition, the Revenue Scotland and Tax Powers Act (Interest on Unpaid Tax and Interest Rates in General) Amendment Regulations 2026 provide that interest on an amount of unpaid Scottish aggregates tax is due from the filing date of the tax return for the purposes of the tax.

The changes made by these two SSIs are made under the Revenue Scotland and Tax Powers Act 2014, and were consulted on as part of the Scottish aggregates tax administration regulations public consultation. The SSIs will ensure that the Scottish aggregates tax is operationally effective in line with the wider legislative regime for the devolved taxes.

The three instruments are intended to support the effective and efficient administration of the Scottish aggregates tax by Revenue Scotland. In particular, introducing secondary legislation and provisions in relation to certain cross-border movements of aggregate will enable taxpayers to understand the tax treatment of those movements under the new Scottish aggregates tax regime.

I am happy to take questions, convener.

Liz Smith (Mid Scotland and Fife) (Con): I am generally happy with the instruments, minister. I have just one question. The policy note intimates that the instrument will not have much impact on

local government, but four Scottish local authorities have their own quarries so they are taxed in a separate way. At the time, did any of the local government officers express any concern about this?

Ivan McKee: No, not that I am aware of, but I will ask my officials to say whether there has been any feedback on that.

Jonathan Waite (Scottish Government): There was no concern as part of the consultation analysis. The scenarios that we have been looking at cover cross-border movements that originate in the rest of the UK and come into Scotland. We engaged with the Convention of Scottish Local Authorities throughout the process but it did not highlight any issues.

John Mason (Glasgow Shettleston) (Ind): I just have one point on the Revenue Scotland and Tax Powers Act (Involved Third Party) Amendment Order. Could you give us an example of a scenario where this might have an impact? Who would an involved third party be and why would we want to—

Ivan McKee: I will ask my officials to come in on some of the detail on that. In general, it is about the point at which the tax is levied or becomes due, which would typically be about where it is used. If it is quarried in Scotland and used in Scotland, the tax is payable in Scotland. In scenarios where it is moved across the border in either direction, the point at which the quarry sells it on to the intermediary is the point at which the liability would arise. There would obviously be various scenarios within that, and it is important that we use the regulations to make sure that all the scenarios are considered, so that there are no loopholes.

John Mason: You are talking about entering the business premises of an involved third party. Why would anyone want to do that? Is it just to check?

Ivan McKee: Oh, you are asking about that provision. Yes, it is so that, in a case where there are questions or where Revenue Scotland wants to verify what is happening with regard to that movement, it would have the power to do that, as you would expect.

John Mason: So, as well as checking on the quarry itself, Revenue Scotland will be able to check other organisations that take the material. Is that the idea?

Ivan McKee: Yes. None of my officials are saying that I am wrong, so I must be right.

The Convener: As we appear to have no more questions, I turn to item 2, which is formal consideration of the motion on the instrument. I invite the minister to move and speak to motion S6M-20639.

Motion moved,

That the Finance and Public Administration Committee recommends that the Scottish Aggregates Tax (Miscellaneous Amendment) Regulations 2026 [draft] be approved.—[*Ivan McKee*]

Motion agreed to.

The Convener: I thank the minister and move to the next item.

We will hear from the Minister for Public Finance on two instruments that are subject to the negative procedure—you touched on them earlier, minister, but never mind. They are SSI 2026/17 and SSI 2026/18. The minister is supported by the same three Scottish Government officials as last time. I invite the minister to make a short opening statement covering both instruments.

Ivan McKee: Convener, I refer to my earlier comments.

The Convener: Do members have any questions?

As members have no further questions or comments, I thank the minister and his officials for their evidence.

Ivan McKee: Thank you. I will see you again.

The Convener: I will call a break until the appearance of our next witnesses.

10:09

Meeting suspended.

10:27

On resuming—

Scottish Spending Review

The Convener: The last item on our agenda today is an evidence session on the Scottish Government's Scottish spending review 2026. For this item, we are joined by Mirren Kelly, chief officer for local government finance at the Convention of Scottish Local Authorities; Jack Gillespie, interim deputy director of finance at NHS Scotland; Sarah Roughead, chief financial officer at Police Scotland; and Tiffany Ritchie, acting director of finance at the Scottish Funding Council.

We will move straight to questions. As this is a round-table format, I will ask the first question, and we will see what interest that generates from others around the table. People should catch my eye, or that of the clerks, so that we can decide who speaks next. We will try to have as involved a discussion as possible.

We were originally going to have a panel but, because there are four of you here, that would be a bit unwieldy; you might all feel duty bound to answer every question and we would be here all day. If we do it this way, as a round table, we will cover much more ground.

The first question is to Mirren Kelly. The Fraser of Allander Institute has warned:

"The local government settlement looks very difficult over the 3 year period, particularly as this includes social care where the Scottish Government have assumed, again, that there will be growing demands."

Do you have any comments on that, Mirren?

Mirren Kelly (Convention of Scottish Local Authorities): I guess that I would agree with that summary. We can see that there have been improvements with the Scottish Government, in that some uncommitted funding has come through, last year and this year. However, the clear increase in demands, not just in social care but particularly there, presents a really challenging picture.

There are not only demands for existing services, with increased complexity; alongside that, there are quite a lot of incoming additional duties. For instance, the right to breaks, which will come in over the next period, equates to several hundred million pounds. The spending review poses some questions: where will that funding come from, and does it come with an opportunity cost in other parts? What does that mean, not just for local government services but across the wider public sector? What then happens?

10:30

The Convener: The Institute for Fiscal Studies has said that,

"without heroic improvements in productivity",

the proposed

"increases in health and social care spending … will almost certainly not be enough to maintain let alone improve services."

I am referring here to the 0.7 per cent real-terms increase in health and social care spending.

Mirren Kelly: On the challenge of reform and transformation, while local government has been reforming and transforming for decades, there has been a real-terms cut, year on year, while additional services have been introduced. Where do we go? What does reform of social care look like, specifically? What models are available that do not consist of individuals providing care on a person-to-person basis that could release some efficiencies? I agree that, at present, they would need to be "heroic".

The Convener: But how does the Scottish spending review help? You are obviously talking about a longer period of time, as opposed to having annualised budgets. Does that arrangement allow you to bring in more efficiencies, planning more strategically and delivering more effectively?

Mirren Kelly: It definitely assists in a level of strategic planning. Clearly, however, we have to plan on the basis of the information that is presented in the spending review, which arguably indicates—as has been identified by others—that there has been a relative deprioritisation of the local government settlement.

Craig Hoy (South Scotland) (Con): When we have put the concerns of COSLA and other organisations to the Cabinet Secretary for Finance and Local Government in relation to the spending review, we have got the impression that the spending review gives a somehow notional figure, and that we should not set much store by it. What confidence does that give you with a three-year budget cycle? If the minister responsible for it is effectively saying, "Don't worry about these figures; something more will turn up," does that give you any concerns as to how local authorities will plan for the medium to long term?

Mirren Kelly: Directors of finance—section 95 officers—will have to set short-term, medium-term and long-term planning assumptions, and they have to use the information that is made available to them to do so. The information that they have at present is in the spending review. They can make a judgment on assumptions that they may consider, as spending scenarios, and I agree that our past experience would suggest that there can

be significant changes within a settlement period, which may be positive. At the moment, however, the spending review sets out that the prioritisation of known resources is not heading towards local government.

Craig Hoy: Some decisions taken by central Government obviously have an impact on local government through the wage bill. The Scottish Government has set a 9 per cent pay policy, which appears to have almost all been spent now, in the first couple of years of the policy. What is COSLA therefore expecting in relation to wage growth within the local government sector, next year and in future years?

Mirren Kelly: I could not possibly predict how negotiations would go with our bargaining groups. However, I think that remaining within 9 per cent over the three years would be a very optimistic assumption to plan on.

Craig Hoy: If there is no further money coming forward and the unions do not agree to a real-terms cut in wages, what is the net result for other services?

Mirren Kelly: There is always a balance. What is an affordable offer? There is also the trade-off of what we are losing, or what we have to charge for services. There will be options available, and it will depend on the settlements as they come through. What are any new or existing expectations on local government? Has there been an opportunity to reduce some expectations? That could free up some resource in the context of those conversations. Is it instead wholly dependent on cuts to services and increases in fees, charges and council tax?

Craig Hoy: Okay—

The Convener: Hold on a second, Craig. I need to let other people in, obviously, given that it is a round-table format.

Michael Marra (North East Scotland) (Lab): Multiyear funding is a long-term demand of local government, because it wants to be able to plan for the longer term. The committee was a bit concerned, because we do not like to see the number going up considerably over time to meet various needs, but we recognise the challenge because of the funding situation.

However, part of it is surely about getting local government to deal with the reality that is in front of it. If the cabinet secretary came to you and said, "Well, actually, we think that the situation might change—it probably will—and there will be more money," how would that impact the approach that local government takes to dealing with the hard-line, difficult scenario that it is presented with at the moment? Will you wait and hope that things get better? What is the practical reality?

Mirren Kelly: It makes it challenging. In effect, we are still operating in uncertain conditions. In a practical sense, we have to do scenario planning. As is usual, we can develop options for best-mid-worst scenarios, operate based on them and flex as much as we can between them. The action taken is also dependent on local circumstances and whether there are any shocks in the system.

The ability for local authorities to take risks is diminished because their reserves have been cut. Several authorities are operating with unallocated reserves that are less than the prudent level, which is 2 to 4 per cent. That means that the amount of risk that can be taken on is reduced compared with what it might have been 10 years ago, when councils might have been willing to take a slightly less risk-averse approach.

The Convener: The Scottish Government's reserve is 1 per cent.

Michael Marra: This question, which is for all the witnesses, is about the process of engagement by the Government with your organisations on the figures that have been set out in the spending review.

We were all struck by figure 6 in the Scottish Fiscal Commission's report. The graph shows local government spending taking a hard left. There are smaller decreases in other areas, and there are increases in some areas too. Did you have discussions with the Government about that, and if so, what rationale did it set out to you?

Mirren Kelly: From our point of view, we have had very good engagement with the Scottish Government, and it has increased during the past couple of years. We have had good sessions with various cabinet secretaries to try to deliver understanding about the process.

I am aware that funding for certain elements in the spending review is not there as it will come through transfers from other portfolios. However, without having clarity about what those transfers might be, we do not know what margins we are operating within, which creates a challenge.

There was some engagement about the spending review, but we were not aware of the detail. Our spokespeople and other colleagues definitely had the opportunity to have quite a lot of discussions, though.

Liz Smith: Given that local government has been deprioritised—as Mirren Kelly rightly set out—to what extent have discussions taken place inside COSLA about the opportunity costs, given the extensive demands that you have mentioned for health and social care? You will have to make cuts.

Mirren Kelly: It is never simple for COSLA, as we represent 32 unique organisations.

There are, obviously and quite rightly, local factors at play when considering where priority lies, and there are also constraints, as statutory duties have to be met, but the focus will be on where the demographic pressures will come from. Some areas have an increasing older population and some have an increasing younger population or a broader population. That presents different challenges and means that councils have to make decisions based on that.

Patrick Harvie (Glasgow) (Green): My question is for COSLA, but it is also relevant to the other witnesses.

Often, the phrase "public service reform" is received by the workforce as code for cuts—nothing more sophisticated than that. I wonder about the extent to which any part of the public sector is managing to have a different kind of conversation with the workforce and their representatives, not just to avoid provoking industrial action but to achieve some buy-in. Very few people working in public services think that nothing should change about the way in which their work is done and the way in which their jobs are organised. However, if we do not recast the idea of public service reform in a way that works with the workforce, it will inevitably fail and probably cost more money in the long run by causing disruption and industrial action. Is any part of the public sector managing to have that conversation in a different way that does not just raise people's hackles from the start?

The Convener: Tiffany Ritchie is keen to come in, and I will bring in Jack Gillespie after her.

Tiffany, Patrick Harvie has touched on the issue of public sector reform, and your submission states:

> "SFC's contribution to public service reform is through the delivery of the most significant transformation of the tertiary education sector in over a decade."

I am happy for you to speak to anything that has come up before, but I would be keen for you to follow up on that statement, too.

Tiffany Ritchie (Scottish Funding Council): Absolutely. Thank you for the opportunity to come to the committee today.

I want to pick up on two elements. The SFC manages about £2 billion for the colleges and universities of Scotland. What has been said about the need to ensure that there is buy-in to public sector reform is absolutely right. On the SFC side, we are going through massive transformation as a result of the Tertiary Education and Training (Funding and Governance) (Scotland) Bill, which will give us the responsibility for the whole of the apprenticeships function. A huge number of staff are coming over to us, and we are going to make sure that that is a safe and secure transition.

There are huge benefits from that process, and it focuses not on, for example, workforce reductions but on how we transform the system for the end users in order to ensure that learners and employers—the colleges and universities themselves—have confidence that they can meet demand where it is needed and that the learners who are going through the system get what they want out of it. Obviously, economic growth is vital, but we need to ensure that the learners achieve what they want from the years of investment that they are putting into their education.

There will also be huge benefits from a reduction in the administrative burden. At the moment, two public bodies are requesting data around apprenticeships in different ways for different systems. We can fix that through this public service reform.

Lastly, there is a benefit that comes from bringing things together. With regard to discussions around an annual budget and the impact that it has, we are able to take a more strategic look at things. We are able to bring together research and innovation with apprenticeships, so that we can look at the future skills need and undertake more of that multiyear planning, which I think will really benefit the process. That answers your question with regard to the SFC.

I want to highlight that there is huge reform going on in the college and university sectors, and it ties in with the question about what the Scottish Government's engagement has been. We have had a step change in engagement with the Scottish Government through the recent budget and spending review. Now, universities, colleges, the Scottish Government and the SFC work much more closely together in what we call the tripartite alignment groups. We have a joined-up view about stabilisation and transformation. We have to undertake radical change at pace, and we have to make sure that institutions keep their doors open throughout that. Getting buy-in to that was vital, and part of the reason why we got the uplift to the budget in 2026-27 was that there was that shared view.

Universities Scotland has worked hard with all the universities, the SFC and the Scottish Government and I am absolutely delighted that, as a result of that work, we have launched a framework for future funding, along with a parallel workstream with the colleges. That has involved more joined-up thinking and longer-term planning than we have seen before. That gives us huge

optimism about our ability to address some of the problems that we are facing.

The Convener: I am glad to hear positive responses.

Jack Gillespie (NHS Scotland): Although NHS Scotland is at the start of our journey towards reform, we are making notable progress, and I have a few examples of what that looks like.

First, there cannot just be cuts for NHS Scotland, because we need to maintain, if not improve, service provision. It needs to be more financially sustainable. Towards the end of the last calendar year, the Scottish Government published the service renewal framework and the population health framework, which set out a high-level strategy to shift the balance of care into the community, with a focus on prevention. In doing so, it will improve financial sustainability as well as outcomes. That sets the tone for what we are doing on reform.

10:45

Recently, we have asked our boards, through two sub-national structures in NHS Scotland east and west, to collaborate across boundaries, improve outcomes and improve the regional financial position. In the next few years, our boards will be implementing a one-stop shop for finance, procurement, human resources and payroll systems across NHS Scotland. It will allow us to collaborate better and to share shared services across NHS Scotland. That provides a strong platform for reform and is a big opportunity for us.

Finally, I want to touch on the digital front door, which is an exciting opportunity that we are implementing. There will be a digital interface for people to interact with NHS Scotland when required, which is being rolled out in NHS Lanarkshire. By the end of 2026, we aim to have about 25 per cent of correspondence coming through the digital front door, which should remove 25 per cent of paper correspondence and the associated costs.

There are lots of opportunities. We are at the start of a journey, but we are making meaningful progress and are bringing people along with us. It is not about cuts but about how we change how we do things. Importantly, we need to be more financially sustainable.

The Convener: You touched on the health and social care service renewal framework, closer collaboration between NHS boards and the integration of systems. Do we have the right number of health boards in Scotland? There is an argument that we have too many health boards or that health boards should be better integrated with local authorities. For example, in the area that I represent, there are three local authorities that have been established for political, rather than practical, reasons. The college and the health board have the same boundaries. Is there not an argument for integrating local authorities with health boards and the college sector, so that there is one structure to help with economic development, skills and delivery of health and other services.

Jack Gillespie: I do not want to comment on the number of health boards; that is not my area. From 1 April, NHS National Services Scotland and NHS Education for Scotland will merge to become delivery Scotland, which will reduce the number of health boards by one. That is a start.

The Convener: You are commenting on the number of health boards, because you are saying that it is a start. In this committee, we feel free to say what we think.

Jack Gillespie: I appreciate that, but I am not commenting on how territorial boards interact across boundaries and whether that is appropriate. However, at national level, we have committed to merging NHS Education for Scotland and the NSS. The idea is that the whole will be greater than the sum of its parts. The new body will help to drive digital innovation across NHS Scotland.

The Convener: Four people are keen to come in.

John Mason: I want to follow up with Tiffany Ritchie about the Tertiary Education and Training (Funding and Governance) (Scotland) Bill. The bill will come at quite a cost and we will not lose any public bodies; at the end of the day, we will still have the SFC and Skills Development Scotland—their responsibilities are just moving. I take your point that the approach will be more joined up, but there will be a significant cost for pensions. As soon as the staff move, their pensions will have to be topped up, and I believe that there will be an information technology cost, because the SDS system has to be disentangled so that parts of it can be put into the SFC. I am happy to accept that what we end up with will be better than what we started with, but is it inevitable that there will be significant one-off costs that follow a bit of rearrangement? Others may want to comment on that.

Linked to that, I will pose a question to the police. The reform to your service is held up as one of the most significant recent reforms. If I am correct, we went from eight bodies to one, which I think is a good thing. Has that been a total success? Is it a good financial model that other parts of the public sector could copy?

Tiffany Ritchie: Yes, absolutely. There will be transition costs in the region of £5 million, and potentially of £10 million, set out in the financial memorandum. Those are up-front costs, and it is a very clear invest-to-save case. It is set out in the financial memorandum that it will take a number of years to stabilise. We expect a radically improved system that generates savings thereafter—not the sort of job cuts that folk cannot buy into, but a newly designed funding body that has a more coherent vision and a better multiyear plan for how we meet demand and support economic growth. We also think that it will support learner pathways.

As I mentioned, going to college or university is an investment of years for learners and there should be total efficiency, whether they have one qualification in one place or whether it is built on another. If they are coming back to reskill or upskill, they should know that that currency is recognised whatever qualification they take on. We can improve on that, and there is more that we can do. We will, no doubt, touch on our funding model reviews, the credit-based funding system for colleges and the student number-based system for universities—we are looking at all of those.

I think that that would tie in with apprenticeships in a system that is more flexible and better meets demand. There are significant benefits to come.

Michael Marra: I will come back to you on that, Tiffany. You said that the engagement with Government has been positive and has been partly focused on keeping the doors open. We are in a situation whereby universities are shedding thousands of jobs right now, and, across the three-year spending review period, the SFC's funding is down by £10 million. Is the settlement commensurate to the scale of the challenge that people face right now? Institutions are in crisis, including in Aberdeen, Dundee, Strathclyde and Edinburgh, all with huge job losses.

Tiffany Ritchie: I absolutely agree with Mr Marra on the scale of the challenge. Our financial sustainability reports last September tried to set out clearly that we share that view. There is a risk that institutions might close their doors, and the impact on the local community and the regional and national economy of one of our colleges or universities ceasing to be a going concern would be profound.

I am glad that there is a very welcome budget uplift for 2026-27, which will support stabilisation. That will help us to ensure that these institutions remain a going concern and start the transformation initiatives and mechanisms that can support longer-term sustainability. However, you are right that the pressures that they face, such as inflation, will not go away. The transformation that needs to be undertaken will be multiyear, so you are right that we need a multiyear investment.

At the moment, we have only level 2 figures for future years, and we cannot issue multiyear allocations to institutions on that basis. We would very much welcome greater certainty and clarity on multiyear funding.

The Convener: Tiffany, you said in your submission:

> "International fee income is expected to increase from £1,324m in 2023-24 to £1,532m by 2026-27 (15.7% increase) but projections will be revisited to reflect 2025 student recruitment cycles."

I would have thought that there has been a significant reduction in the number of overseas students rather than an increase. Is it not the case that the university sector is made more fragile by its reliance not just on overseas students but on the decisions that are taken at Westminster—for example, on who can get a visa and so on?

Tiffany Ritchie: Yes, convener. You are right that the increasing reliance on the income from international students impacts on the resilience of universities. It is right that we have institutions in Scotland that are world class and that participate internationally. It is right that they undertake activity that brings in international students, international staff and international income. That is the right and proper thing to do. However, as we set out in our September report, there is a lack of resilience there. It is a more volatile income stream—it has proven to be volatile, and it will continue to be volatile. Universities need to have better risk management practices, so that they can manage and maintain their resilience when those income streams deviate, as they may well. Those forecasts are reasonable, based on the evidence, but they are highly volatile and highly subject to change. We need institutions to plan and be able to adjust at pace should that income not come to bear.

The impact of UK Visas and Immigration is highly concerning. We are working with all universities to ensure that what planning can be done is being done. Some institutions are taking proactive steps, which is probably the prudent thing to do. I share your view that there is a risk around that.

The Convener: You said in your submission:

> "No university is forecasting a cash deficit throughout the forecast period; however, many institutions are taking proactive steps to keep them in a positive cash position."

What sort of proactive steps are they taking? The word "proactive" can mean many different things.

Tiffany Ritchie: Absolutely. Between colleges and universities, there are two different pictures.

When the colleges moved to the public sector, in 2014, they put their reserves into arm's-length foundations—ALFs. There was about £100 million in those and it has now reduced to near zero. The cash reserves for colleges are almost entirely used up and the graphs in our sustainability report show a straightforward downward trend. We are materially concerned about the amount of cash that colleges have; that is part of the reason for the stabilisation effort. Without that, they will not continue as going concerns.

We do not see that with universities. It looks as though universities' cash balances have remained reasonably healthy. However, the graphs do not show you that the source of their income has changed from largely Government funding to largely income from international students. The graphs also do not show you that that income is highly leveraged.

Our universities are not unique in that. It is not only the case for universities in Scotland but is true across the piece. The universities rely on their lenders, through bank or lending covenants that must be met. If the international student income changes—if there is a deviation in that—they are at risk of breaching the bank covenants, at which point they would suddenly not have the cash that they required. That is what we saw happen with the University of Dundee. There is a fragility in that situation.

Michael Marra: The circumstances in Dundee are unique in the sector. They relate to management practice, people not being able to read management accounts and all kinds of issues. The situation is an absolute disaster and a disgrace.

I am concerned about the SFC's record in the sector more broadly. You are sounding alarms about the sustainability of the sector at this meeting and the SFC is doing that more generally, but it feels to me as though the SFC has been asleep at the wheel on the matter for years as the sector has become more leveraged and more reliant on risky international funding. We have not heard the Scottish Funding Council tell that story to the public about those precious institutions, which, as you say, are important. What is different about the SFC's approach now from the approach that steered us into this mess in the first place?

Tiffany Ritchie: It is absolutely right that the public be made fully aware of the risk in the system. Our sustainability reports in September were a way of making that much clearer than it had been previously.

There has been a step change in the institutions. The process has been happening over the long term, but, in the past few years, the risk from the multi-economic factors and global macroeconomic trends that universities are exposed to has become more volatile. Five years ago, international student income was not as risky a proposition as it is today. We have never seen the sort of changes in American and Chinese students that we have seen in recent years. Covid-19 had a profound impact on the situation as well.

The risk has increased. We are offering more transparency, or continuing transparency, with our reporting. However, given the increase in risk, we are reflecting on our practices in the SFC. We naturally engage with private sector specialists, the Department for Education and the Office for Students down south, as well as with our Welsh counterparts, Audit Scotland and other public services specialists, to ensure that our institutional scrutiny is leading edge.

We have agreed a programme to enhance our institutional scrutiny, which we are implementing across four areas. First, there was a slight suggestion that institutions were not clear about the SFC's expectations, and we want to ensure that no suggestion of uncertainty remains. Therefore, we are reissuing our financial memorandum and have issued fresh guidance on governance.

Secondly, although we are a huge holder of data and we get a lot of financial data returns, many of the issues with institutions, including the choices that they make about their income portfolios, relate back to management decisions and performance, the quality of the leadership and the governance. That is further upstream, and we want to catch it before it becomes a financial issue. We are looking at getting more performance data and lead indicators to identify where there could be a problem in an institution well before it becomes a financial issue.

11:00

The third area is about recognising that, although we get a lot of data returns, they tell us only so much. They might tell us that, on paper, things are working, but that might not be the case in practice. The finance committee might not be reading the management accounts, or the chair of the audit committee might not be challenging as they should. Therefore, we will be actively engaging more directly with those members of governance to ensure that we can see things working in practice, not just on paper.

The fourth area of enhancing institutional scrutiny is interventions. It is about having a little more grit when we engage with institutions and making it clear from the outset that, where we see folk not meeting the expectations that we have clarified, there will be material repercussions. The TET bill was helpful in that regard and has helped

to formalise some of our interventions—for example, independent examinations.

The Convener: Thank you. Other folk are keen to come in on this subject.

Sarah Roughead, can you touch on Police Scotland's estate master plan? It will release around £50 million to £80 million of capital receipts over the next five to 10 years, meaning that you will be able to invest in, for example, body-worn video cameras for front-line police officers and staff, as well as rolling out the digital evidence-sharing capability. I was hopeful that you would touch on that point in addition to whatever else you wanted to contribute.

Sarah Roughead (Police Scotland): Of course. Thank you for the invitation to come here today. I will combine all of that with answers to Mr Mason's and Mr Harvie's questions.

The committee will be aware that Police Scotland has undertaken significant reform since 2013, and the figures speak for themselves. Specifically, £2.5 billion has been saved over the past 10 years, and the service is saving around £300 million on an annual basis.

That has included the workforce reduction that Mr Harvie spoke about—from around 24,000 officers and team members to fewer than 22,500 today—together with a centralisation of enabling functions. That is the reform that we have undertaken, which has been recognised both by the Scottish Government, which is explicit in the SSR about the £2.5 billion saved, and the Criminal Justice Committee, which, in December, stated that the reform within the police and fire services—the fire service has also gone through a major reform—is an unmatched achievement in the public sector. However, the committee also noted—this is what I will come on to—that the room for further savings is now exhausted, and some of those savings must now be reinvested into certain areas.

I agree that reform is not just about efficiencies and cash savings but about capability building and capacity building from within. Some of the areas that you touched on are absolutely part of the digital transformation that we have already started to undertake. The roll-out of body-worn video cameras is very well progressed and is a key enabler in creating efficiencies and getting more officer hours back on the front line. The digital evidence-sharing capability is not just about efficiencies and reform within Police Scotland itself but is about having an end-to-end portfolio view and working with our partners in the justice portfolio on how we can get evidence in a way that prevents duplication and, therefore, reduces the amount of manual time spent within the service. Both of those measures are well progressed and are continuing, and we include that kind of digital transformation as part of our reform ask.

When we are thinking about reform in the context of Police Scotland, the two elements that are stated in the SSR are important. On the 0.5 per cent further head count reduction each year, the SSR is explicit that the front line should be protected. A key question is, what is the definition of front line when it comes to protection? We count it as officers, C3—the contact, command and control division—and criminal justice. The impact of that level of reform—a 0.5 per cent head count reduction—is relatively limited. Our team members are all valuable, but that reduction is manageable over the period and it equates to fewer than 50 team members. However, it is critical that we understand what protection of the front line means.

The bigger issue is the flat-cash position in resource funding. Over the period, there is a real-terms reduction in Scottish Government-allocated resource and capital funding, which has been informed by the SSR. Based on current OBR and Bank of England inflation baselines, there has been a real-terms reduction of 5.6 per cent in resource funding and of 14.8 per cent in capital funding in our £1.6 billion budget. That is significant in the connotation that flat cash has for our pay, given the reform that we have done plus our ratio of pay to non-pay. Our pay bill accounts for 86 per cent of our costs, so flat cash has strong implications for how we fund the unfunded portion—inevitably, that will be through our team members.

The Convener: Police Scotland is in an interesting position, because, as John Mason touched on, the reduction from eight police forces to one had a hugely positive impact—you do not have eight chief constables, all the bureaucracy that goes with that, eight headquarters and so on. In the old days, if there was an incident where I live, which is three miles from the Renfrewshire border, a police car would be sent from Irvine, 40 minutes away, when one could be sitting in Lochwinnoch, five minutes away, because they were not allowed to cross even internal borders in Strathclyde. There has been a huge improvement in service delivery. As a committee, we try to talk about outputs rather than inputs. However, I take your point that the police have carried out many reforms and have delivered lower crime levels—last year, homicide levels were at a record low for Scotland, I think.

It is about where action can be taken. Do you feel that the Government is of the view that, because Police Scotland continues to improve in terms of the key issues that we face, such as reducing crime, with less money, it is perhaps not a priority when, in fact, it should be? That is to ignore specialist areas such as cybercrime, which

has increased hugely relative to other forms of crime. What kind of relationship do you have with the Government when it comes to conveying the fact that you have made huge transformations over the past decade and longer but are now at the stage of not being able to continue on the same course?

Sarah Roughead: As you would expect, there is very regular engagement between the Scottish Police Authority, the chief constable and the leadership team, and the Scottish Government. Throughout the SSR process and the budget submission, we have been absolutely clear that we have not completed our reform. We have done an extraordinary amount of it, but there is still more that we want to do, and we are ambitious about that—for example, I spoke about digital transformation. However, we are lean. We have made significant savings and there are unfunded pressures in-year, which create the 14 per cent of non-pay savings. We are getting leaner and we are trying to be as efficient as possible, but, in my view, reform takes space and time, and it cannot be done in a scenario in which business-as-usual pressures are increasing.

We have that engagement, and we were absolutely clear to the Criminal Justice Committee, in its pre-budget scrutiny, that, under a flat-cash scenario, which is what is proposed by the SSR, we cannot provide a balanced budget. That will have significant operational implications, as that committee recognised.

The Convener: Okay. I am sure that we will put those issues to the cabinet secretary when she comes before us.

Mirren Kelly: I very much welcome the committee's round-table approach.

Convener, you mentioned opportunities in the reform of organisations. As I am sure that you are aware, there is significant interest from local authorities in exploring the single-authority model. A few island authorities have been keen on that for years, and we are seeing positive progress in discussions. However, it is not limited to the islands. The Ayrshire councils are engaging on options that could be transformational. There are opportunities there.

One point that I would like to flag from a local authority perspective is the fact that people sometimes say, "There are 32 local authorities. That's a lot. Do you need that many?", but they forget how much local authorities deliver. Those 32 organisations deliver hundreds and hundreds of local services, so the presumption—

The Convener: We still have an unwieldy structure. In Ayrshire, there is an integration joint board, a health board and three local authorities. Although there is some cross-local authority working, that is not always the case. Sometimes there are shared services and sometimes there are not. I think that it would be better to have one structure under democratic control. I have been saying that for about 12 years. I am glad that we are moving forward—albeit at a snail's pace—with regard to the islands, because it seems daft that, on some of the islands, there is a lot of overlap between the people who run the health board and those who run the local authority, which means that the same people move from meeting A to meeting B to meeting C.

In the long term, the single authority model is a sensible approach. Of course, the issue with such reforms is that they are expensive. It is not as though you can suddenly flick a switch. They will cost a significant amount of money and take a lot of time. However, in a country of 5.4 million people, in which we have community planning partnerships, city deals and so on, a much less cluttered public sector landscape would be more effective and efficient. I think that what is happening with the Scottish Funding Council, whereby more services are being integrated into one structure, is a good way forward.

Mirren Kelly: I do not disagree with what you say about the opportunities. We share some of the questions that Police Scotland has about what a front-line service is, because—

The Convener: I had just written that down. I think that we need an explanation from the Government. If we went round the table asking everyone what they thought "front-line services" meant, we would get different answers. People in services that you or I might not consider to be front-line services will consider those services to be front-line services. When I spoke at the most recent Scottish Parliament information centre briefing, I said, "Nobody in here would be considered front-line services by the general public." However, some of those people consider themselves to be members of a front-line service. I think that we need a definition of that term.

I also make the point that front-line services do not work without having people behind the scenes. It is easy but lazy to say that more money should be put into the front line. What is important is what that means.

Mirren Kelly: It is really important that we have that conversation. Especially when it comes to some of the digital opportunities, people in those roles have traditionally been viewed as back-office, non-front-line IT staff, when, in fact, that technology is delivering front-line services. How can we capture that and factor it in?

The Convener: Planes cannot fly without air traffic control.

Mirren Kelly: I would not want to test it.

Local government has a full-time equivalent workforce of 213,000, of whom 53,000 are teachers—in other words, 25 per cent of our staff are teachers. They account for more than a third of the pay bill. I would assume that there is a view that teachers count as front-line staff, which means that 25 per cent of staff are protected. When you go through your staff, you quickly realise how many of them are front line. For example, refuse collectors are front line. The people you are left with are those who do the payroll and the accounts and keep the IT services going. It is really challenging.

The Convener: Is "front-line" a helpful description? What does it mean? Any service is delivered through a team approach.

Mirren Kelly: I prefer looking at the organisation as a whole, rather than subdividing it, for that reason.

The Convener: A number of people are keen to speak, which I am pleased about. We will start with Michelle.

Michelle Thomson (Falkirk East) (SNP): I have a brief comment about "front-line". I am guessing that all the organisations that are represented here will, as a result of the work that they have done over successive years, have a clear understanding of how every function delivers into the front line. I completely agree with your argument.

11:15

Before I ask a general question, I have a small question for the SFC, which picks up on the comments about leverage and the issue around bank covenants. To what extent are those elements being gamed in, given what we saw in 2008, when the mechanisms that represented a minor technical breach of covenant in banking contracts provided the excuse for some quite rapier-like behaviour by private banks that exist to make a profit, with the result that there was asset stripping of various businesses. Stepping away from the purpose of universities, many of them hold significant assets. How well equipped are the SFC and the universities to understand that issue, going back to what we all learned in 2008?

I note that the last time that I asked that question was when I was a member of the Education, Children and Young People Committee—John Mason was there as well. Ironically enough, the person I asked was the principal of the University of Dundee, and we have seen how things have worked out there.

Tiffany Ritchie: I agree with what you say. This is an area in which we need to maintain our scrutiny.

We work closely with the main lenders and meet them regularly to understand their agenda, their appetite and their view of the sector. I would say that the reputation of the universities in Scotland is extremely strong. Even those that have got into financial difficulty have continued to perform well in all the international league tables. Their credit quality is very high, and we actively monitor that. We undertake reviews and report annually to our own finance committee on how the lending environment looks, what the future repayment schedule is and how much confidence we have in institutions. For example, I recently met the chief financial officer of one of the institutions to discuss how they are managing the institution's cash balances to ensure that it meets its covenants. My experience is that the university senior finance leaders are very aware of the risk and are monitoring and managing it closely. However, you are right that we will have to stay alive to the issue.

A number of institutions have taken proactive steps. They have seen that their international exposure is not optimal and that an issue in, for example, Nigeria or another country could affect them, and they have proactively reached out to us, their external auditor and their lender to have a proactive discussion about whether they could flex their bank covenants for a period to ensure that they do not have an issue while they take the steps to rectify the situation. Those have been very constructive discussions, and we are working much more closely together. Things such as the Gillies review have highlighted how important that is, so folk are paying more attention to that now.

Michelle Thomson: My general question is for everybody—I am not going to pick anyone to go first, because you are all in different stages of evolution. We always have a sort of dance in this committee—you will notice that the convener teases somebody into just pushing the dial a wee bit. I suspect that the reason for that is that, culturally, some organisations will always want to hedge what they say because they are aware that all the evidence that is given will be picked up by the Government and they do not want to step over a line. There are also sometimes internal challenges.

My question is a general one about culture. How equipped is each of your organisations to understand the potential scale of the threats that are coming down the track, which I think are deeply significant? In other words, could you go faster than Government itself is able to anticipate, and have you got that kind of push and pull? The short-termism of the political landscape that we are in—we have two electoral cycles in this

Parliament—plays into what can realistically be done, and that could threaten the speed of change.

Mirren Kelly: The situation is challenging. There are challenges and opportunities, are there not? One constraint on the opportunities for local government is that we must operate within the existing legislative and policy requirements while delivering lots of services that are fundamentally critical to individuals and communities, which means that there is limited opportunity to make radical changes without Scottish Government support. There is also the impact caused by local authorities being caught up in the political cycle. There is almost a point at which people are politically willing to test radical change, and we must consider how that fits in with the cyclical nature of some of what we do.

Michelle Thomson: I would also be interested in your thoughts, Tiffany. I do not hear a great deal of recognition of those real blockers to change. We have already spoken about multiyear funding, but the political cycles also inhibit risk taking when the extent of the change that we need is risky. Does anyone want to comment on that?

The Convener: We have touched on the issue of council tax reform many times; it is particularly affected by the electoral cycle.

Tiffany, do you want to come in? Four others are also keen to speak.

Tiffany Ritchie: That is a fair question, Ms Thompson.

The 161 SFC staff are confident and have a strong appetite for reform because we have worked with universities, colleges, and the Scottish Government to do some longer-term forecasting. Like you, we can see the scale of the problems that may be coming down the road and of the radical change that is needed.

I do not think that the SFC itself will be the answer. We can see the impact of the SFC working with universities and colleges. We are working not only with the Government sponsor team for education but across Government. The economy directorate is trying to stimulate regional partnerships and we can help with that. The health directorate is trying to ensure that the right qualified staff are available at the right time and we can support colleges and universities to ensure that all the places that need to be filled are filled. We were discussing what we can do about local government geography and the SFC has been working on a college infrastructure investment plan to see how we can make best use of all the available assets, some of which are not fully utilised. For example, one university is exploring whether, when there is lower demand for its premises, the local health service could run clinics there. That innovation is wonderful.

The other side will come from multiyear planning and more creative thinking. As I think Ms Roughead said, it is hard to come up with the innovation and creativity that are needed for transformation when you are just firefighting and trying to keep the doors open, but I think that 2026-27 might be an opportunity for stabilisation and transformation. We are so lucky at the SFC because we have a research and innovation link. Some of the world's brightest minds are available to Scotland and are researching transformation across the world, looking at the best examples. For example, they are looking at what is happening in New Zealand, which has a huge, diverse, highlands and islands style geography, to see what people there are doing by working across silos to transform their public services. There is huge opportunity there.

John Mason: My question is aimed at those either from COSLA, the health side, or both, because it is about IJBs, which were mentioned earlier. Are they a bad example of public sector reform? It seems to me that we started with two sides, health and local government, that we wanted to be more joined up but that we have ended up with three bodies. We have IJBs and health and social care partnerships as well. The Children (Care, Care Experience and Services Planning) (Scotland) Bill is going through the Parliament at the moment and now, instead of having two organisations involved in service planning for children, we are looking at having three. Has that saved any money or has it cost more? Is that a good example?

I will raise another issue. The committee on the whole seems to be enthusiastic about zero-based budgeting, but I am sceptical.

The Convener: You have touched on that.

John Mason: I am very sceptical about it. We have hospitals, colleges and schools and we cannot just abolish them and say that we will start from zero tomorrow.

The Convener: I am not convinced that that is how zero-based budgeting works.

John Mason: The convener and I clearly do not agree about this, so maybe somebody who is enthusiastic about zero-based budgeting could persuade me.

The Convener: I think that zero-based budgeting is about taking a fresh look, rather than just having the original structure grow arms and legs. It is about going back to first principles and looking at what we are trying to deliver in terms of output.

John Mason: Would you like to debate the subject?

The Convener: This is probably not the right forum for that, John, but the Scottish Government has said that it will look at it, although it is somewhat unclear whether it has. I was going to ask our guests what their organisations are doing about that, how they feel about it and whether they are taking that approach, and I might come on to do that later. However, we have a number of people who want to speak, so I will forgo that for the moment.

Michael Marra: I have a question about health, so perhaps Jack Gillespie will deal with it. The majority of the savings in the spending review—£1 billion of the £1.5 billion—fall within health. What detail have you had about how those savings will be measured and reported against for Government?

Jack Gillespie: The savings forecast across the SSR from NHS boards is fully based on the delivery of 3 per cent recurring savings from each board. They will report to the Scottish Government quarterly or monthly, depending on the time of year, so we will have a flow of information on what each board is doing. We also ask them to complete self-assessments and understand performance against their own savings targets, including where it is maybe falling behind, and we share progress across NHS Scotland. So, if Glasgow is falling behind and Lanarkshire is not, they can learn from each other. We have really good data on what each board is delivering and how that contributes to the 3 per cent recurring savings target. The data is fed up to the Scottish Government and forms part of routine reporting. We have really good assurance about what the boards are delivering, when, and how.

Sarah Roughead: I want to follow up on a few comments and respond to questions that have been raised throughout the discussion.

On Ms Kelly's discussion about workforce mix, and thinking about Police Scotland in particular, threat, harm, risk and the nature of crime are changing—cybercrime is an example of that. When we think about planning and the review period that is in front of us, we have been really clear. We have just had a best value audit, which was positive about our governance and our vision, but it said that we need to do more about workforce planning, including the workforce mix, and we recognise that. It is quite a techie point, but when that is combined with the digital transformation, it is important to look at what the resource versus capital allocations look like. I am sure that that will be different for each of the witnesses around the table 18 months, three years and five years from now, as we move from an old capital infrastructure estate to digital licensed software that will all need resource funding. That is an important point when we are talking about workforce mix and allocations.

I will also follow up on Ms Thompson's point and the convener's question about the £50 million to £80 million from the estates master plan. We have been clear about our estates master plan. Over the next 10 years, we expect that it will need £500 million and we are ambitious and hopeful for an annual budget of around £100 million and that we will be able to reinvest £50 million to £80 million across the estate. That is incredibly important for our welfare and for building digital capability.

If we are thinking about reform and bringing anything closer to Government, I just want to flag that, in 2013, as it was brought closer to central Government, Police Scotland lost its power to borrow and to hold reserves. In times of really restricted funding, those are incredibly important tools for us, and we have been speaking to Mr McKee about it. It is those things—not unintended consequences, but added elements—that need to be thought through when we are talking about reform and what our budgets will look like.

Mr Mason, I will not try to persuade you about zero-based budgeting one way or the other, but—

John Mason: Oh, go on.

The Convener: Zero-based budgeting is stuff like, for example, having a meeting on a Monday morning because we have always had a meeting on a Monday morning. It is sometimes about looking at little things like that and asking whether we need to do that or whether we can do something else with that time. It can be at quite a mundane level. It does not necessarily have to be about whether we should take a Khmer Rouge approach, John. I seem to remember you in the 2011 to 2016 session calling for the closure of hospitals and for all the money to be given to GP practices. That is on the public record. It has clearly been in your head for a wee while. However, that is not what it is about. It is about looking at where, within a structure, resources can be allocated more efficiently by asking, for example, do we really need to do that, or could we move resources somewhere else?

11:30

Sarah Roughead: As an organisation that deals with threat, harm and risk every day, that is where we allocate our team and our resource. If we are looking at reform and zero-based budgeting, it is important to think about the role of each office and institution within the portfolio. For example, if we need to become more effective and build our internal capacity and capability within Police Scotland, we need to look at what our role is—and,

often, we are the service of first and last resort. The chief constable was clear at the SPA board meeting last week about our interconnectivity with health, for instance, and responding to mental health call-outs. It would be helpful to have a broader view across the system in terms of who is responsible and what the appetite is for proportionate response in each of these areas.

The Convener: The issue of mental health is a growing one. For example, some years ago, it was revealed that more than half of all the cases that were taken to the children's panel had a mental health component. There is a real issue around how well trained police officers are to deal with the often distressing incidents that they have to handle, in which mental health issues appear to be a growing component.

When the general public think about police services, they often think about the bobby on the beat or in a police station in the centre of a town. We have moved a long way from that, but perceptions have not changed along with that move.

We come back to you, Jack. I do not know whether zero-based budgeting is part of what NHS Scotland is doing at the moment. Perhaps you can tell us.

Jack Gillespie: First, I will touch on Ms Thomson's point about the appetite for, and pace of, reform.

As I said earlier, we in NHS Scotland have set the direction of travel and we have set a strategy. The appetite for reform is certainly there, in both the Scottish Government and our health boards. However, there also needs to be working in partnership, along with collective effort, both of which are happening. We frequently hold forums. The two subnational structures meet to discuss how to deliver the terms of the subnational planning directive and the population health and service renewal frameworks. Collaboration has to be there at the start and we have to go through that process together, as opposed to one element going before the other.

I do not have thoughts one way or the other with regard to zero-based budgeting, although I note that the convener feels very strongly about it. To provide some assurance, I note that there has been a real deep dive into each budget line, in particular ahead of the spending review. Of course, really mundane things happen, and they can happen without zero-based budgeting. However, I will stay out of that discussion, because, as I said, the convener obviously feels very strongly about it.

Michael Marra: If you are diving right into the depths of the budget lines, is it not then a little bit strange that the other side of it only comes out at level 2? I see a few raised eyebrows from our witnesses on that point. The Government has not produced the detail and given it back to you. You have examined those spending lines right down to their depths, but, by the sound of things, you want more detail. Does everyone agree that level 2 is insufficient and not commensurate with the level of the examination that you undertook as organisations?

Jack Gillespie: With regard to the amount of detail at level 2, I appreciate that more detail helps members to challenge and scrutinise matters, which is, of course, very important. However, there is a balance to strike between providing an appropriate amount of detail and providing space to manage in-year volatility, especially across a three-year forward look. Level 2 is where that came out. I appreciate that more detail would be helpful, but aspects such as tariffs, conflicts or hyperinflation could render those detailed numbers irrelevant quite quickly, and we need to give ourselves a bit of space in which to deliver.

Michael Marra: Was it the SFC that said that you want to go beyond level 2? What would be the counter-argument?

Tiffany Ritchie: Absolutely. Even level 3 would help us. The colleges and universities are making multiyear investments in learners, and they could never countenance taking on a student who would not be funded to complete their course. Therefore, even if it were just for our own selfish purposes, level 3, at least, would be highly useful.

Some flexibility is needed in the Government's approach so that changes can be made where there is in-year volatility, but that perhaps needs to come with greater planning certainty. We have a large number of in-year budget transfers, but that could perhaps be improved on.

The Convener: The committee has been wrestling with that issue for a while.

Craig Hoy: Contained in the spending review for the next three years is a significant shift in the focus of health expenditure away from hospitals and towards community-based healthcare. The overall budget rises by 2.4 per cent in real terms, whereas the increase for national and territorial health boards is 0.4 per cent. That means that other areas such as community-based healthcare and primary care see much more significant increases of roughly 12 per cent. The Institute for Fiscal Studies says that, for health boards to be able to continue to deliver, they will have to make 3 per cent annualised efficiency savings. The IFS describes that as potentially "heroic" when compared with the recent capacity to deliver efficiency savings.

Some health boards—for example, NHS Dumfries and Galloway—are at stage 3 of the support and intervention framework as a result of their financial pressures. If health boards do not deliver those 3 per cent efficiency savings, what will be the risk to the sustainability of Scotland's hospitals and those health boards? Would the Scottish Government have to step in? Would that move resource away from primary care, community care or elsewhere? Is there a risk that some of our health boards could, in effect, go to the wall between now and the end of the decade?

Jack Gillespie: There is a lot to unpack there. The shift towards the community is in line with the priorities set out in the service renewal framework and the population health framework. It will be really difficult for our health boards to achieve 3 per cent recurring savings, and it is a difficult space for them to operate in. Audit Scotland's "NHS in Scotland" report says that there have been 2.2 per cent recurring savings in 2024-25, but the figure for two years before that was 1.1 per cent, so it has doubled in that two-year period. It is on the correct trajectory. It will be really difficult for our boards to achieve, but it is achievable, and they have totally bought into it. The importance of those 3 per cent savings is completely and totally reinforced by the Scottish Government.

With regard to movements on the support and intervention framework, with NHS Dumfries and Galloway being at stage 3, it really depends, but I note that the framework is there to provide support and improve performance. A good example of that is NHS Grampian, which was escalated to stage 4 in May 2025 not just on finance grounds but on leadership and governance. At the time, the rate of overspend was really concerning and the situation was forecast to decline further. The board was moved to stage 4 and it received increased support, scrutiny and challenge. It is now on course to meet key financial targets and it is presenting a credible plan to return to financial sustainability.

It is difficult to answer the question with granularity, because there are 22 health boards and each has its own challenges. However, looking across Scotland, if a board's financial position, in particular, does spiral, the support and intervention framework is there to help it to turn things around in a way that is appropriate to a board that is in that position.

Craig Hoy: How easy would it be to pivot away from the commitments on community-based healthcare and primary care in order to move that resource back? The Government would potentially have to examine portfolios such as local government and justice if it found that there was inflexibility between those two areas of healthcare in Scotland.

Jack Gillespie: It would depend on each board's circumstances and the reason for the escalation. The strategy to invest in the community is there, and that will be seen through.

Liz Smith: Off the back of the question that Mr Mason asked Mirren Kelly and Jack Gillespie, I would like to explore the IJB issue. Mr Mason pointed out that IJBs are, effectively, third bodies that are involved in the decision-making process—you have local government, the health board and the IJB. Certainly in my part of the country, there has been a lot of criticism of IJBs. Is the IJB structure the most effective way to deliver services, or should we look at doing something else?

Jack Gillespie: I will not comment on whether the IJB structure is appropriate.

The Convener: Oh, go on. [*Laughter.*]

Liz Smith: Go on. That is why I asked the question.

The Convener: We are looking at the Scottish spending review, which involves large sums of public money, so we want people to be very straightforward about exactly what they think. If you think that IJBs are the greatest thing since sliced bread, please tell us; if you think that they are the work of Satan, tell us that. I imagine that your view will be somewhere between those two extremes, but we are keen to hear it.

Jack Gillespie: As Mirren Kelly said, a lot of organisations play a role in a lot of IJBs. There is variation in their performance, financial sustainability and interactions with their services. Across Scotland, there is good practice and bad practice.

Liz Smith: Is that a leadership thing?

Jack Gillespie: It depends on services, infrastructure, leadership and financial sustainability. It is not as simple as saying, "Here is one problem that applies to all."

Mirren Kelly: To address Mr Mason's point as well as yours, IJBs are relatively young: they are about 10 years old. That period has included the pandemic, which means that they have faced some acute challenges quite early in their establishment.

The intent behind IJBs is really positive. They are meant to provide better integration across two quite big, complex organisations in order to achieve better outcomes for people. They are not perfect, but that is partly because they are still bedding in quite significant cultural change, and good progress has been made on that front.

The Convener: When we look at integration joint boards, we must remember that the Greater

Glasgow and Clyde health board area is absolutely massive—it includes a lot of different local authorities. When it comes to the conversation that you are having, it is not even balanced, because Inverclyde, Renfrewshire, East Renfrewshire, Glasgow and so on are all part of that health board area.

Mirren Kelly: The needs across those IJBs vary hugely. It follows that there are risks to one or two bigger bodies picking everything up, because it means that the ability to adapt to local circumstances and needs is lost. There absolutely are opportunities to improve in that area, and there are financial challenges.

The Convener: You said that there are opportunities for improvement. Will you give some examples of those?

Mirren Kelly: The joint agreement is to shift the focus towards care in the community, which is significantly better for individuals and communities. As mentioned, that is the focus of the service renewal framework and the population health framework.

It is all about learning from what does or does not work. There is good practice and there is bad practice, and we need to support the former. One point that I want to reflect on is that we need to be really alive to the risk of cost shunting when making decisions.

The Convener: That is why the IJBs were established.

Mirren Kelly: Exactly.

The Convener: It was because councils and health boards were always trying to push the burden on to each other, frankly.

Mirren Kelly: The IJBs should be allowing space for a coherent, integrated conversation about where investment should go.

Liz Smith: Is there better accountability for decision making with IJBs than there was before they were set up?

Mirren Kelly: I do not think that it is for me to comment on that.

The Convener: Of course it is. That is why Liz Smith is asking you directly. We might have to use instruments of torture in this round-table session. [*Laughter.*]

Mirren, you were next to speak. Liz Smith wanted to ask something specific there, but I am keen for you to have the opportunity to say what you want to before Patrick Harvie comes in with his questions.

11:45

Mirren Kelly: I want to pick up on some of the points that have been raised about capital, because—I will not beat about the bush—within the spending review period, the capital position is really dire.

Local authorities have an enormous public estate, and there is a real concern in terms of the ability to maintain that. As some have noted, local authorities do not have a challenge with regard to borrowing. Availability of borrowing is not the issue; it is the affordability of borrowing that is a problem, given the commitment that the council would then have in its future revenue budgets if it had to borrow.

Local government has to ask some serious questions and use the levers that are available to it to potentially consolidate and rationalise the public estate. There are barriers that exist around that, particularly with regard to the school estate and challenges that local authorities face in terms of what can be done in that regard. Some good conversations have been had with partners about co-location and so on, and that needs to be considered. However, in relation to certain key infrastructure assets, we need to consider whether there is enough money to maintain them. For example, 93 per cent of the road network is the responsibility of local authorities, and only 7 per cent is in the trunk network. There is an increase in funding for trunk roads, and flat-cash capital for local authorities.

The Convener: Capital funding is scheduled to reduce over the next five years. It is going to be the same in 2029-30 as it was in 2023-24 in real terms. Of course, that is only if you accept the gross domestic product deflator, which I think is a poor measure of capital.

I was going to save this issue for next week's meeting, but I will mention it now, given what you have just said. The Scottish Futures Trust has talked about innovative funding mechanisms, such as road pricing and congestion charging. Motorists already pay 63.54p per litre in fuel duty, plus VAT, and they also pay VAT on whatever else is charged on a litre, so the total VAT probably comes to 70p to 85p a litre. They also pay road tax. Are those innovative charges realistic and deliverable? How popular would they be? I think that we know the answer to that second question.

What other mechanisms could be used to bring in additional capital for things such as routine road maintenance? We have all driven along some of the horrific roads that are an issue across the entire UK. It is a big problem, and Governments have tackled it in a half-hearted way. The UK Government has put significant money into the issue, but it appears that the money is being used

for things other than what it is supposed to be used for.

Would you like to see, for example, as part of the annual capital allocation, a ring-fenced fund for tackling potholes, over and above the normal local government capital allocation, and for that to be distributed in line with the normal distribution formula?

Mirren Kelly: Our starting position on that is no. We are not fans of—

The Convener: Even if it were in addition to the normal capital allocation? That is interesting.

Mirren Kelly: We would prefer that it not be ring fenced. That is the answer. We are open to conversations around—

The Convener: You just want a big capital allocation.

Mirren Kelly: Yes.

The Convener: Okay, fair enough. That is a good way of putting it. I am glad that we got that out there.

Patrick Harvie: I am tempted to follow up on the transport policy aspects of the last question, or perhaps to encourage COSLA to look at, rather than just capital, the opportunity to have the power to make decisions about road pricing as a source of revenue generation in the future to meet those needs. Instead, however, I will ask about the spending review—not just what it contains, but how we use it.

For quite a long time, the emphasis has been on single-year budgets, and people have talked about the value that a longer-term look ahead would give us, but we need to be realistic about what the spending review can include. It will never include the level of detail or absolute certainty that some people would wish for. It is a first sketch of the Government's intentions or expectations with regard to its spending plans. However, what I do not get from the 2026 spending review is a sense of how the Government will apply priorities if it finds that it has more or less slack in its budget in the years that the spending review period covers. For example, will it choose to prioritise preventative spending, real-terms pay settlements or the needs of a sector that has been constrained, such as local government? I do not get a sense of what those priorities will be as things change.

Do any of the witnesses have any comments to make about the extent to which we can realistically expect to enable democratic debate and scrutiny on the setting of those priorities, and on the deprioritisation that has to come with such prioritisation, as opposed to just going back to the pattern of receiving each year's budget and reacting to it?

The Convener: If anyone wants to answer that, please let me know. In the meantime, I will ask a question of Tiffany Ritchie. When it comes to asset disposals, colleges will be permitted to retain 70 per cent of their sales proceeds of more than £1 million. Why is it 70 per cent and not 60, 80 or 100 per cent? What is the rationale behind that figure?

Tiffany Ritchie: We were delighted to work with the college sector and the Government to introduce that flexibility. It is part of a wide range of flexibilities that we are exploring with the college sector. As Ms Roughead highlighted in relation to borrowing, it will not be the sole solution, but it is one of the flexibilities that we would like to explore with some of our college partners.

Asset disposal goes hand in hand with the college infrastructure investment plan; it is not simply a case of choosing between job cuts and selling assets. It is not "asset stripping", which I think is the phrase that was used earlier. It involves conducting a strategic review of estates in order to make best use of the assets that we have and to plan ahead regarding what infrastructure is needed to meet the demand that is coming down the road.

As for the 70 per cent figure, the idea is that you keep the first £1 million and then you keep 70 per cent of what comes in thereafter. There is a debate to be had with the Government about the remaining 30 per cent, but it could be put towards wider college sector initiatives. That could involve, for example, looking at more shared services—we are working with Advanced Procurement for Universities and Colleges on that—or at more collaborative forms of estate utilisation. That is happening between schools and colleges, and it could happen between universities and colleges.

The Convener: Are colleges not keen to keep all of that money?

Tiffany Ritchie: I think that colleges would absolutely prefer to keep all of it. However, I also think that the college sector is very bought into the sector-wide collaborative approach. That is what the framework for future funding and the college infrastructure investment plan are looking at. Operating in silos might protect an individual institution's financial sustainability in the near term, but it will not help to achieve a long-term trajectory of sustainability for the whole sector. We are now seeing new forms of partnership working emerge quite strongly, so I think that colleges recognise that it is part of that collaborative piece.

The Convener: In your submission, you said:

"To secure efficiencies across the sectors we fund, we provide funding for the delivery of procurement services and digital infrastructure at a national level through Advanced Procurement for Universities and Colleges",

as a result of which you said that significant savings have been made. Can you talk about how that is working, how it has managed to save resource and the amount of capital that you are able to deploy?

Tiffany Ritchie: There are two leading shared services that we are very pleased to support. The first is Advanced Procurement for Universities and Colleges, which makes huge savings when it secures contracts across the wider sector. We have a number of large institutions—some are very large—but we also have a number of very small ones that would not achieve such savings if they contracted as individual bodies. I think that we estimate those savings to be around £27 million.

The Convener: Yes—you say that, through Jisc and APUC, savings of £27 million and £37.2 million, respectively, are made.

Tiffany Ritchie: Jisc deals with the digital infrastructure. The use of Jisc ensures that universities in particular have shared services and IT systems. As with colleges, we have some huge universities, but there are also smaller ones that would not be able to achieve that quality by themselves.

The Convener: Is the Scottish spending review helping you to enable that work by, for example, allowing colleges and universities to enter into contracts over a longer period of time, or is it completely superfluous in that regard? We are looking at how impactful and helpful the Scottish spending review is, and how it could be improved.

Tiffany Ritchie: The budget uplift for 2026-27 means that we are doing more work with APUC—the shared services procurement team—to explore the potential for greater sharing of services across colleges and possible catalysts for much bigger programmes. That has helped.

As for the multiyear spending review, it is helpful to have that top-level direction of travel, but it does not provide the level of detail to enable us to make multiyear commitments in the way that we would like to. As we have discussed, the scale of transformation and shared services that we need will require multiyear investment. I am afraid that level 2 presents some challenges for us in that respect.

Craig Hoy: Last week, we found out about the Scottish Government's flagship invest-to-save scheme—when I say "flagship", I do so in an understated way. In the present financial year, the scheme has managed to spend only £12 million of the £30 million that was allocated to it.

I would like to get an impression of whether such schemes are the right mechanism or catalyst for delivering efficiency. Did your organisations engage with the invest-to-save scheme? I get the impression that, if that is indicative of the level of appetite for efficiency within Government, it is relatively muted. Have your organisations engaged with that Scottish Government scheme?

Tiffany Ritchie: We are very much engaged in it. If there is another invest-to-save scheme in 2026-27, we will certainly bid into it.

The idea is very strong. As we mentioned in relation to the TET bill reform, it involves up-front costs for long-term strategic change and benefits, which I think is the right approach. It is part of a more strategic, multiyear approach to investment.

However, it would be helpful to discuss with the Government the timeframe over which it is looking for the benefits to be realised. The last time we looked at the scheme, we noted that there was a reasonably short timeframe for that, which is challenging. A horizon of two to three years would perhaps be more realistic.

The Convener: One of the issues with the Scottish spending review is that there is a huge differential between who will gain and who will lose over the next three years. For example, housing will receive a 26 per cent real-terms increase in budget, whereas the budget for climate action and energy will decline by about 20 per cent. There is a kind of fan effect, as the overall resource is increasing only very modestly.

COSLA sought additional resources equivalent to the entire real-terms uplift in the Scottish budget this year, which would have meant nothing extra for anybody else. Clearly, that was never going to happen, but the amount of demand that exists relative to how resources and capital are allocated is a real issue.

Everyone is keen to say where additional funding should go, but I do not think that anyone around the table would be willing to say publicly where they think those additional resources should come from—although I would be happy to hear from anyone who is.

Tiffany Ritchie: My only reflection here comes back to Mr Harvie's earlier question about how to prioritise. There is a limit to which you can choose between, for example, health, local government, the police force and education. The truth may lie in the idea of the prevention strategy, which involves investing upstream not only in, dare I say it, education and skills, but economic growth—the enterprise agencies and similar—to stimulate inclusive growth that supports the just transition and net zero and that addresses child poverty. That might mean that we can achieve improved financial and fiscal sustainability, rather than having cuts and salami slicing that may not achieve true value.

The Convener: That takes us on to issues such as widening the tax base and where we set taxes. If we had had economic growth at the level that we had before the financial crash, we would all be significantly better off. I think that all the studies have shown that: incredibly, we might have been up to 30 per cent better off per capita, simply as a result of having an extra 1 or 2 per cent of economic growth over that 17 or 18-year period.

Mirren Kelly: I agree with those comments. We need to focus on prioritisation and, critically, deprioritisation. Lots of things that we are all doing have come from legislation that is decades old. We are still caught up in doing those things. Because more legislation is added and nothing is taken away, the budgets get more and more compressed, and we cannot continue to deliver.

We need to think about what the expectation is when it comes to public services. That needs to go hand in hand with consideration of what we are asking people to contribute and how we stimulate that. That question about prioritisation and deprioritisation is critical.

The Convener: It used to be described as falling into desuetude. This might be apocryphal, but I think that, in the 1990s, it was still legal to kill someone with an arrow under a statue of Henry VIII, providing that it was in Nottingham. It was something ludicrous like that. I do not know whether that was the case. However, the issue that you raise goes back, to an extent, to zero-based budgeting.

12:00

The committee has tackled the issue of prevention—John Mason has been a terrier on that particular issue over many years. It is easy to say that we should spend money on prevention of this and that, but what should we deprioritise? That has always been an issue. Even in the 2011 to 2016 parliamentary session, when Mr Swinney allocated £500 million specifically for that, there was not the commensurate reduction in some of the services that were not delivering as much as possible.

I remember that Birmingham City Council gave evidence to the committee in which it said that it had had to tell social workers who had been working for the council for 30 or 40 years that most of what they had done during their entire careers had been completely worthless and might even have been counterproductive. That makes it hard to get people to buy into a new way of working. Prevention is not an easy task, but it is something that our committee is still keen to pursue.

We have now been engaged in discussions for an hour and a half. I hope that folk are not too exhausted. That is the limit that we set ourselves, but as no one else has put their name down to make any comments, I am keen that we have a wind-up. I will give each of our witnesses an opportunity to mention something that might not have come up in the discussion but which they feel should be raised. I will therefore ask our four guests if they would like to make any final statements. The last person to comment will be Mirren, as she spoke first.

Jack Gillespie: I thank the committee for the opportunity to be here. One of the questions focused on what information it would be useful to gather in future spending reviews, when they come around. The reform journey that we are starting on will materially change the profile of our spend, what it looks like and how it splits between community and acute services. A future spending review will need to be cognisant of that, but when that time comes, we will work with colleagues to make sure that that happens.

Sarah Roughead: I would like to reiterate that Police Scotland is absolutely supportive of the Government's ambition to deliver more effectively and efficiently for Scotland; however, for Police Scotland, we must absolutely recognise what has come before and where we are, what we have delivered to date and the ability to deliver further within the restricted funding envelope.

Tiffany Ritchie: Again, I thank the committee for the opportunity to discuss matters today. I agree with what has been said about the scale of the problems that we are facing, and I think that we have an opportunity to support both stabilisation and transformation.

I will say—because I have been dying to do so—that, on zero-based budgeting, having a radical review of roles and responsibilities, almost putting finance to one side, could be beneficial, and the TET bill is helpful in that respect. We would be delighted to support that however we can.

The Convener: Thank you. Mirren will have the last word.

Mirren Kelly: I agree with what everyone else has said. Local government has been on the efficiency journey for decades, and there is a challenge about where it goes. We need to have a radical review of what we are all delivering and what Scotland wants us to deliver, which will involve having conversations about what we should shift towards.

The Convener: I remember debating best value a quarter of a century ago in this place.

I thank our guests and committee members for all their contributions today, which have been very helpful. A lot of what you have raised will be put to the cabinet secretary when she gives evidence to the committee.

That ends our deliberations and discussions for today.

Meeting closed at 12:04.

This is the final edition of the Official Report of this meeting. It is part of the Scottish Parliament Official Report archive and has been sent for legal deposit.

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

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba