Official Report
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DRAFT

Public Service Reform Committee

Comataidh Ath-leasachadh nan Seirbheisean Poblach

Thursday 1 October 2026

Session 7

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PUBLIC SERVICE REFORM COMMITTEE
7th Meeting 2026, Session 7

CONVENER

*Bob Doris (Glasgow Kelvin and Maryhill) (SNP)

DEPUTY CONVENER

*Michelle Campbell (Renfrewshire North and Cardonald) (SNP)

COMMITTEE MEMBERS

*Max Bannerman (Highlands and Islands) (Reform)
*Joe Fagan (South Scotland) (Lab)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Alex Kerr (Hamilton, Larkhall and Stonehouse) (SNP)
*Lorna Slater (Edinburgh Central) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Simon Mair (Scottish Government)
Ivan McKee (Cabinet Secretary for Public Service Reform)
Cathy Sumner (Scottish Government)

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Service Reform Committee

Thursday 1 October 2026

[The Convener opened the meeting at 09:35]

Decision on Taking Business in Private

The Convener (Bob Doris): Good morning, everyone, and welcome to the seventh meeting of the Public Service Reform Committee.

Our first agenda item is to decide whether to take item 3 in private. Do colleagues agree to take that item in private?

Members *indicated agreement*.

Pre-budget Scrutiny 2027-28

09:35

The Convener: Our second item of business is an evidence session on the committee's pre-budget scrutiny inquiry, on how the 2027-28 Scottish budget can best advance public service reform.

I welcome back to the committee Ivan McKee, Cabinet Secretary for Public Service Reform. He is accompanied by Cathy Sumner, interim deputy director of spending and pay strategy at the Scottish Government, and her PSR strategy and governance colleague, Gabrielle Cahen. I thank all three of you for coming along this morning.

Cabinet secretary, I invite you to make some opening remarks.

The Cabinet Secretary for Public Service Reform (Ivan McKee): Good morning. Thanks for inviting me along today.

I have considered with interest the evidence that the committee has been receiving in the past couple of weeks and, to be honest, I do not disagree with a lot of what has been discussed—whether on the centrality of prevention, the importance of the third sector, the positive impact of relatively modest investment in communities or the importance of addressing siloed budgeting. As the committee will know, I consider our approach to budgeting to be critical to how we can progress the ambitions of the public service reform agenda. Last time I was here, I described the challenges that we face due to siloed budgeting and the need to change our approach to budgeting in order to better focus on outcomes, prevention and collaboration.

It is always helpful to hear views from a wide range of representatives. Indeed, I hosted a summit of more than 200 leaders from public bodies, local government, trade unions and the third sector just yesterday. It focused on practical changes that we can make to deliver improvements in data sharing, community empowerment, preventative budgeting, service delivery and leadership. That is important, as it demonstrates that we must not view one part of the reform agenda in isolation; we should see it as a series of mutually supporting workstreams.

The PSR strategy set out an interconnected approach across leadership, accountability and budgets. I would very much welcome the committee's views on how it would see changes, from a budget presentation and operational perspective, through the lens of parliamentary scrutiny.

As I have set out, each pillar of the PSR strategy is designed to reduce cost according to different timeframes. First, our work on efficiency reduces cost over the course of the parliamentary session, while maintaining service quality and availability. We are already making significant progress in that area. For example, the single Scottish estate programme is on track to deliver between £50 million and £80 million of savings over its five years; on the digital side, more than 140 automations have been delivered so far, which equates to between £15 million and £20 million in avoided costs; and combined savings from the commercial value for money and collaborative procurement programmes have exceeded £320 million over the past two years.

Secondly, by better joining up services—taking out duplication and administration costs—the strategy will ensure that people get access to the help that they need more easily, alongside reduced costs. Much of the restructuring work contributes to this pillar. Every pound spent on unnecessary duplication is a pound that cannot be spent on front-line services.

Thirdly, there is a shift towards prevention. Indicative analysis in the strategy shows that reducing overall poverty by a quarter by 2030, for instance, could avoid £2.9 billion of public spend. Through tracking, prioritising and investing in prevention, we can support people to live happier lives and save money at the same time.

The programme for government sets out an ambitious acceleration of delivery based on the principles in the strategy. It sets out our commitment to ensuring that decisions are made at the right level in order to have the greatest impact, overcoming siloed organisational boundaries. From the perspective of citizens, and as has been highlighted in the evidence that the

committee has heard over the past few weeks, it is also about ensuring that public services are there when people need them.

The committee will have seen the initial reform proposals for local government that were set out on 21 September. Between now and the start of December, there will be a period of intense engagement with partners and stakeholders on options, with the proposals representing a starting point for discussion. It is important to emphasise that no final decisions have been taken; we are moving into this engagement in good faith. We have therefore not yet undertaken detailed financial modelling.

In the strategy, and during the debates that were held on the topic in June and two days ago, I have been consistently clear about the central importance of empowerment to reform. Community empowerment and local government are vital to our approach, and supporting and trusting communities to lead will be fundamental to the future of public services.

When I last met the committee, we spoke about the role of financial and workforce targets and about the need to balance speed of delivery with proper consultation and to avoid unintended outcomes of reform. The workforce is critical to our ambitions for reform and, as part of that, we need the right number of people in the right roles, empowered and incentivised to deliver change.

With regard to workforce targets specifically, and to the means of achieving those targets, I know that members will be seized of the responsibility of how we discuss the livelihoods of those who deliver our public services. It is useful to reiterate that the approach to workforce should be seen in the wider context of reform activity. It is about getting the right resource in the right place, aligned to how we reshape our services.

On prevention, as we set out in the strategy, we want to ensure the sustainability of our public services. To do so, we want to understand what demand is preventable and give our public services the strategic capability and commitment to bring together partners to intervene in tackling its root causes.

The committee has heard from the witnesses it spoke to about the importance of prioritising preventative activity and about some of the tensions involved in identifying what should be classed as prevention. For the 2027-28 budget, preventative budgeting work will allow us, for the first time, to track the scale and shape of preventative intervention at different levels and to do so in a way that is matched to outcomes. That will give us a baseline from which to monitor future activity and, along with the refreshed national performance framework, will provide a clear framework to monitor the Government's focus on improving outcomes for citizens.

I look forward to the discussion today.

The Convener: Thank you for your opening statement, cabinet secretary. I acknowledge that your official Simon Mair has also joined us to support our evidence session.

The last time you met us, we were trying to drill down on what workforce reduction numbers would look like. I suggested 20,000 people and asked whether you recognised that number. I will not go down that road today, but from the evidence that we have had, it is pretty clear that, in the short term, the reduction of the workforce is not a cost-free option. Significant up-front costs will be involved in ensuring that there are no compulsory redundancies and that voluntary severance packages are as they should be. How will that be reflected in the coming budget? How are the costs for voluntary severance schemes to be met across the public sector? What contribution can we expect from the Scottish Government to meet those costs in the short term?

Ivan McKee: Regarding the overall number, I replied in my letter to you with the baseline number, which I think gives you clarity on where we are starting from. We have indicated the scale of the reductions that we are seeking over the time period.

Before we jump to conclusions about the process for head-count reduction, it would be instructive to look at some examples. As I indicated in the previous evidence session, over the past four years, the head count within the core civil service has been reduced by about 11.5 per cent. That has been done exclusively through natural attrition and through reductions in contractors working in the core Scottish Government. It is a reduction amounting to more than 1,000 people, and it was done with no up-front cost or up-front investment, which you suggested would be needed.

There are other examples across the public sector. Some public bodies have reduced their head count by between 10 and 30 per cent. There are processes to do that correctly, either through attrition—if the attrition rate runs at 6 per cent and you are seeking a 4 per cent or less reduction, the civil service has demonstrated that that is manageable within those constraints—or through a voluntary severance scheme, provided you get the timing right. For a voluntary severance scheme, the vast bulk of that cost can be delivered in year, because you are effectively using what you would have paid in salaries at the beginning of the year to fund the redundancy costs through the voluntary programme. As you move into the second year, you start to realise savings.

As we have demonstrated, there are ways to design head-count reduction programmes that do not necessarily involve significant up-front costs.

The Convener: Does that mean that we should not expect to see a budget line anywhere in the 2027-28 budget that takes into account the costs of restructuring and public service reform?

09:45

Ivan McKee: If you are talking specifically about head count—if there were such a line, I would expect it to be the biggest item—that would be managed within individual portfolio budgets. The expectation is that, for the most part—not exclusively, because there will be timing issues in some regards—we would seek to manage that within budgets. There will be cases where that might not be so because of timing issues, and that would be baked into the budgets at a portfolio level rather than overall.

The Convener: When we look at portfolio budgets, can we expect to see a greater breakdown? Initially, headline figures will appear within the budget, and then we will have levels 2 and 3. It is always a blur in the first instance, when this all comes out. In those portfolio budgets, will there be a notional amount to take account of the cost of voluntary severance?

Ivan McKee: That will be dealt with at an individual public body level, so you would need to drill down into the accounts of the individual public body.

The Convener: Will there be a cost assumption in the money given to each public body when the budget is set for next year?

Ivan McKee: There will be discussions through the normal budgeting process that the Deputy First Minister leads with portfolios. That process will be built on the discussions that they have had with their individual public bodies. If a public body seeks to reduce head count, it will make an assessment of whether it can do that through attrition or other means. If it is running a voluntary severance scheme, it will make a calculation based on how much of that can be done in a year, and then it will seek, if necessary, to have a conversation about that. There will not be a single budget line at portfolio level, because it will be within the public bodies. As I said, this is not new, because a whole range of public bodies have been delivering head-count reductions consistently for a number of years now and have been managing it within their budgets.

The Convener: It is definitely not new. I had a look at the Scottish college regionalisation agenda from 2011 to 2014. At that point, £52 million was made available for voluntary severance to Colleges Scotland, but it did not have a budget line. Audit Scotland reported after the event, in a 2015 report, that the money went from the Scottish Government to the Scottish Funding Council, which decided how best to prioritise moneys to support colleges. Clearly, there must have been some cost assumption at that point with regard to what went to the Scottish Funding Council. Across all portfolios, if discussions are ongoing with the national health service and public bodies such as the Scottish Environment Protection Agency, as part of public service reform, some cost assumption must be emerging in relation to the initial costs. How can we shine a light on that? One of the things that Audit Scotland looked at in 2015 was the fact that there was not necessarily the transparency that we would all like to see in relation to that.

Ivan McKee: First, I am not familiar with what happened in 2015, but I am happy to go and have a look at it. As I said, this is not new; it has been going on in recent years. A number of public bodies have driven reductions in their head count, which in some cases are quite substantial. For the most part, they have managed that within their existing budgets through the mechanisms that I have described, such as attrition or voluntary severance. They have done that within their annual cost envelope, without requiring any increase, because they got the timing right. That is my first point.

My second point is that the data, by its nature, will be granular, because the work will be happening in individual public bodies across a landscape. Once we have worked through what those budget allocations are, there may be a way for us to start to pull the data together from individual public bodies. However, you will appreciate the way that the process works: public bodies make submissions to portfolios; portfolios have a discussion with the Deputy First Minister; allocations emerge from that; and public bodies get their allocations and work within them to deliver the head-count reduction that they need to take forward. There would not be complete clarity on how much was actually spent on those restructuring efforts until well through the process.

The Convener: Therefore, do you expect that this time next year—if we fast forward to that—each area of the public service where there is to be reform will have granular detail on where head-count reductions have been due to attrition, end of contractual arrangements, or voluntary severance?

In relation to the case of Colleges Scotland, of course I do not expect you to be over all of it, cabinet secretary, but it took some colleges up to two years to be back in credit financially after the packages that emerged. There are definitely short-

term, up-front costs. This committee wants to make sure that there is transparency around that across all portfolios that are subject to public service reform, so that we can scrutinise it.

Ivan McKee: I get that, and I appreciate that you want to see the data. As I said, the process will work through different public bodies, which will have different approaches to how they go about it. Up-front costs are only necessary if two things are true: first, that the reductions happen mid-year rather than at the start of the year; and, secondly, that the average pay-out is more than 12 months by definition. In many cases, that will not be so. As I said, public bodies would be expected to seek to manage that through their existing in-year allocations in the first instance and to have a conversation if they found that they could not do so for whatever reason.

The Convener: You make a good point, cabinet secretary, about what the pay-outs would look like for voluntary severance. This is not an evidence session on what happened with Colleges Scotland. However, if I recall correctly, there were contentious issues around bonuses for some senior managers in colleges at the time, so it is to make sure that we apply best practice, which I believe was brought in after those issues with reform.

One thing that we know is that there will be lots of individuals, perhaps in the NHS, whose jobs will have changed dramatically or will no longer exist, having been reconfigured in some way. That means that there will be a significant redeployment strategy with no compulsory redundancies, and there will be a significant challenge in relation to reskilling or upskilling. How do you anticipate that being funded by each public service provider when it comes to public service reform?

Ivan McKee: We have been working with trade union colleagues, who are very keen, as we are, for redeployment opportunities across the wider public sector to be as available as possible—the committee has heard some evidence on that. Clearly, for different classifications of public bodies, that can be an issue that needs to be addressed, but, at the moment, that process is not as smooth as it could or should be. We are very keen to work with colleagues to make that process as easy as possible, because it helps everyone. To be honest, one of the upsides of the rationalisation of public bodies is that it removes those barriers; it is easier for people to move around one large organisation rather than between several small ones with barriers between them. We are very conscious of the need to do that.

Skills training is an ongoing process across public bodies, because training in digital technology, alongside any professional retraining that is required, happens in any event.

The Convener: I am just thinking out loud: if 500 or 1,000 staff found themselves, over a gradual, iterative process, doing jobs that looked a fair bit different from the ones that they had been doing, and there were skills and training requirements for that, would the cost fall wholly on the public sector organisations and within their existing budgets, or would we expect the Scottish Government to make a contribution towards that?

Ivan McKee: As I said, that is happening anyway and independently of the reform process, although the reform process might accelerate some of that.

The Convener: But not at this scale, cabinet secretary. Going from 14 health boards down to two is a pretty substantial reform of scale—maybe you would accept that it is a wee bitty unprecedented.

Ivan McKee: Yes, but, for the vast majority of people who work in the health service, their jobs are not going to change. If you are working on a ward or in another role in the health service, the fact that the management structure has changed will not change the job that you do on an ongoing basis. The vast majority of people will not see that change. There will be a change where we can make savings around the extent of management roles and the layers that sit there. Clearly, there will be less need for director-level roles, and, over time, the amalgamation of back-office functions will offer opportunities for savings. Again, a lot of that might not necessarily be about changing jobs. It will just mean that, where there is duplication, there is less need for people, and, as people retire, they do not get replaced.

The Convener: We will move to questions from Murdo Fraser shortly, but first I would like to check this point. If the NHS, SEPA or whoever were to say that there was a significant strain on their budgets regarding redeployment and on reskilling and upskilling requirements, could we expect the Scottish Government to have a discussion with those public bodies? Could there be budgetary recompense for them in that regard?

Ivan McKee: That discussion would obviously have to be had as part of the ongoing budget process. Clearly, many factors are talked about in that process as allocations are worked out and set.

The Convener: We try to follow the public pound, because we want to see how every pound is spent in each of those bodies and public services. How much of that money will have to go to voluntary severance in the short term, and how much will go to upskilling, retraining and everything else?

How can this committee and others scrutinise the budget, cabinet secretary? I picked the example of Colleges Scotland earlier because there was support for it in the budget, but that support was masked because it went through the Scottish Funding Council first and then came out. I should point out that the Audit Scotland report had a lot of positives about public service reform and that it was not just about one or two of the negatives that I have highlighted, but how can we exercise our public scrutiny functions if we do not know what assumptions have been made around those discussions?

Ivan McKee: There are two things here: the assumptions and the discussions. Clearly, many things are factored into our budget allocation process in order to arrive at the final number. To be frank, I would want to see, as much as you do, what was being spent on voluntary severance schemes or additional retraining as part of that process. I am very comfortable to share the actuals as we track them—recognising, of course, that the matter sits within the finance portfolio under the Deputy First Minister.

The Convener: I get all that, cabinet secretary, and we will move on, but I put on record that we are asking you those questions because you are the cabinet secretary who is leading on all that. Although the matter sits under the Deputy First Minister, you are the one who is taking all those silos apart and bringing them into your responsibility to ensure that it all dovetails and goes without any hiccups.

Ivan McKee: I totally appreciate that, and I am just making the point that the budget allocation process sits with the Deputy First Minister. However, this is part of that and you are absolutely right that transparency on the matter is really important.

I point out that we have the invest to save fund, which is designed with a whole range of measures. Although it is focused primarily on how we face the challenges on preventative budgeting, some of it gets allocated to voluntary severance schemes—the last figure that we have shows that just over £10 million of that fund was allocated in that regard.

The Convener: I think that there will be lots more on that soon. I will bring in Alex Kerr shortly, but Murdo Fraser wants to ask specific questions on some of this stuff, so I will bring him in first.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning, cabinet secretary. I am keen to follow up some of the convener's questions around workforce. To conceptualise that, I noticed yesterday that when the Deputy First Minister was in front of the Finance and Public Administration Committee, she said that plans to cut the size of the public sector were "off course" and that the issue was at the "forefront" of discussions that she was having with you

"because we are not going in the right direction currently and we need to reset some of that work."—[*Official Report, Finance and Public Administration Committee*, 30 September 2026; c 27.]

That is quite alarming, is it not? Are you feeling the wrath of the Deputy First Minister? [*Laughter*.]

Ivan McKee: It is a fact that the numbers are not where we would hope them to be. I will say a few things about that.

First, there are parts of the public sector that are delivering on those workforce targets—the Scottish Government has talked about that. As I said, some agencies have had significant head-count reductions over the past few years, and continue to do so as they remodel their approach to service delivery and look for removal of duplication and so on. So, that has happened in some areas, but there are others where increases have taken place—looking at the raw data, the health service has been by far the biggest driver of that, but there have been drivers of increases in the justice system, too, such as in clearing the court backlog or in the Scottish Prison Service.

Those are the main areas where we have seen that head-count reduction. As a Cabinet team, we are seized of the need to address those issues and to work through how we manage the reduction in portfolios and public bodies. I made this point last week, too. The process will not be linear; it will be lumpy, because our pulling public bodies together will open the door for more reductions to take place. In some areas of the public sector landscape, such as the core Scottish Government, there has been a gradual reduction month on month. In other areas, the process will, by its nature, happen in a lumpier way, if I can call it that.

10:00

Murdo Fraser: But you would, I presume, agree with the Deputy First Minister that, right now, the situation is not on track? Do you accept that?

Ivan McKee: I have said that, and I have explained where and why that is the case.

Murdo Fraser: I will ask about a couple of specifics. You referenced the core civil service. Some progress has been made on that but, according to figures that we have seen, the core civil service numbers are up more than 30 per cent since 2019, so there are a lot of extra people. A couple of weeks ago, *The Sunday Times* reported that 32 members of staff in the civil service are on a priority movers list. They are still being paid—the salaries are estimated to be between £2 million and £2.4 million—and they are waiting to be

redeployed. Clearly, that comes at a cost, because people are not performing roles that are required, but they still have to be paid. If you maintain a policy of no compulsory redundancies—which, of course, is what you are doing—that will be multiplied many times across the public sector.

Ivan McKee: I will say a couple of things on that. I have seen that figure of 32 being reported. The permanent secretary manages that on a day-to-day basis and is aware of it. That figure is out of a head count of 9,500, and he is managing that situation.

Across the wider public sector, there are public bodies that have driven head-count reductions and have worked through the no compulsory redundancy policy to its conclusion. VisitScotland is an example of that. If we end up in a situation where there clearly is no role for someone and every other avenue has been exhausted, a process is in place for that.

Murdo Fraser: Can I stop you there? When you say that a process is in place, what are you talking about? Are you talking about compulsory redundancy as an end point?

Ivan McKee: Yes, but a very extensive process sits before that.

Murdo Fraser: So the policy of no compulsory redundancy actually—

Ivan McKee: There is a no compulsory redundancy policy.

Murdo Fraser: But you have just said that there is compulsory redundancy in certain circumstances.

Ivan McKee: The policy works through all the available options extensively to prevent that from happening as best as can be achieved.

Murdo Fraser: Okay. I am sorry that I interrupted you. I am interested in the extent to which the issue of having people on a redeployment list will be reflected right across the public sector. Given that the committee is interested, particularly right now, in budget, do you have any sense of what the cost will be, across the public sector, of maintaining people in positions that have effectively become redundant while they are waiting to be redeployed?

Ivan McKee: People can find redeployment. We have talked about opportunities for people to move between roles. As part of that process, which I have outlined, we would seek to work through that. Clearly, I cannot at the moment say what those numbers would be at any point, because we need to work through the detail, and it will depend on individual circumstances, never mind individual organisational approaches.

As I said, until now the Scottish Government has not had a voluntary scheme. There are mechanisms that can be deployed that can help to enable people to be able to move from roles. A whole suite of measures can be deployed in that regard.

Murdo Fraser: On the voluntary severance scheme, last week, we heard from David Robertson, chief executive of Scottish Borders Council. He said that, if the council has to lose people, it can do so through voluntary severance, but that requires a cash injection up front. Will that feature in the budget for the coming year?

Ivan McKee: As I said, every individual organisation will be in a different situation. A number of things can be done through non-replacement of roles that go through attrition. With attrition running at 6 per cent, there is scope to use that as a very effective lever, as the core Scottish Government has shown. There are processes whereby, if you get the timing right on a voluntary severance scheme, you can do so within a year's budget without having additional up-front costs.

Those would be preferable measures to deliver head-count reductions before we have to look at additional investment. However, as I have said, if individual public bodies have a case as to why they require additional support for head-count reductions, that would be considered. The mechanism for that is through the budget allocation process.

Murdo Fraser: Does the head-count reduction target apply evenly across the public sector? Are there agencies that might be exempted?

Ivan McKee: We have been clear on where we want to focus that. I know that we could have a discussion about cohorts of front-line workers but, for our purposes, we have commitments on teacher numbers, doctors, nurses and so on, and you would expect those to be protected and possibly to increase over time. In other areas, such as social care, there are large cohorts in the public sector that have a clearly different type of role, and there is a different approach to that.

As a consequence, where you have a different shape of workforce in parts of the public sector, by necessity, the expectation for what that head-count reduction profile looks like could be different. An example of that is the core Scottish Government civil service, where the expectation is a 4 per cent year-on-year reduction, compared with a 0.5 per cent reduction across the public sector. Clearly, there are differences depending on the nature of the workforce in any given part of the system.

Murdo Fraser: Part of the reason why I asked the question is that, last week, when we took

evidence from the Scottish Fire and Rescue Service, it said that it had already been through a process of rationalisation and amalgamation. This is paraphrasing what we were told but, essentially, it said that there is no more scope to reduce back-room function, so any requirement to reduce head count means a cut in front-line staff.

Ivan McKee: Even if you are looking at a 4 per cent reduction, with the rate of development of technology and the other opportunities that are there, there is always scope to review processes to look for automation opportunities and so on and to improve digitisation in systems. I think that any leader in any organisation would recognise that there is always scope to do more.

I recognise the point that you make about historical activity. As I mentioned, we are conscious that organisations around the public sector have been delivering consistent head-count reductions over a period of time. Understanding what that historical activity looks like compared with organisations that have not been on that trajectory is a factor in the approach.

Murdo Fraser: So some areas could be in for bigger targets and bigger reductions.

Ivan McKee: Yes. We need to understand the overarching numbers but, as you say, where public bodies have been on a trajectory proactively, that is a factor that we would consider.

Murdo Fraser: My final question goes back to my first question. We have a budget coming up, and the Deputy First Minister has said that you are not currently going in the right direction. How will we tell, from what is in the budget when we see it, whether you are on track?

Ivan McKee: You will see that we are on track not from the budget but from the quarterly public sector workforce head-count numbers. We have augmented that data set and now publish data by individual public body as well as the overarching numbers by portfolio, so there is a lot more granularity in the data set. That will tell me, you and everybody else whether we are on track.

Part of the reason for our being able to deliver in certain parts of the system is through the development of enhanced recruitment controls and prioritisation around where hires are allocated. That process can be used more extensively across parts of the public sector to address the issue.

The way that the budget process works is that there is a fixed amount of money once you have decided what you are doing with the various tax levers and United Kingdom Government funding, and it is then a question of how that is allocated by portfolio. You start with a fixed number and allocate that out, and the numbers add up at the end of the day because they have to. The decisions on where the allocations go is a function of many factors, one of which would be where the workforce reduction profile would sit.

Murdo Fraser: Thank you.

Alex Kerr (Hamilton, Larkhall and Stonehouse) (SNP): You spoke earlier about the potential for redeployment. The committee heard evidence from Liam Davenport of the Public and Commercial Services union, both in person and in further correspondence. He said:

"In the UK Civil Service there is a Cabinet Office level agreement"

to give people an opportunity, before redundancy, to look at roles in different public sector organisations. I know that the Scottish Government is looking at that; Liam Davenport mentions that you may be looking at a "pilot … in Phase 2." Will we see anything around that in this budget? Given the focus on head-count reduction, would such an approach be accelerated?

Liam Davenport also mentions that PCS foresees that the Scottish Government would be the folk who would oversee that process. Is that how you would see it?

Ivan McKee: It happens at a number of levels. You mention the budget process, but, to be honest, that aspect would be separate from the budget process, It is something that we do anyway, regardless of the timing and mechanisms in the budget process, so it does not need that process to move it forward. It will happen naturally anyway, because people will get jobs in other bits of the public sector off their own back—of course they will. We are conscious that, at one level, we can be more proactive on signposting where opportunities are so that individuals can identify those and be able to apply for them.

As I said, there are sometimes structural barriers around the nature of the classification of a public body, which can present challenges. However, we are committed to seeking to remove those barriers. As I said earlier, by having fewer public bodies, we are, by definition, removing those barriers.

Alex Kerr: When will the Government's oversight of that process come into place in a more formalised version? Have you an idea of when that would happen?

Ivan McKee: Next week, we are publishing the workforce management framework that we have been working on, which, in effect, pulls together a series of policy guidelines and best practice around the whole journey from recruitment to head-count reduction and everything that sits in between. As part of that, there will be a chapter on best practice with regard to people moving and redeployment, and how Government can support that effectively.

As I said, however, there is not a switch where we go from not having that process to having it. We are very keen to do it, but it is a matter of removing barriers to enable it to happen, and working through what needs to happen to give effect to that.

Alex Kerr: I have another question. We have received quite a bit of evidence on really good pilot projects on prevention. For example, Helen Malo from Hospice UK talked about the work that is being done in that regard. She mentioned the partnership working that gets started and works really well to achieve a broad aim, which might be about, say, tackling poverty, but then just does not go anywhere else in the public sector.

You mentioned the invest to save scheme, but quite a few of the submissions in response to our call for evidence said that it is probably not big enough or well enough known to have as much of an impact as we would like it to have. In this budget, is the scheme still the right vehicle, and is it going to be scaled up to help scale up the types of projects that Helen Malo mentioned across the country?

Ivan McKee: There are a couple of things there. You raise an interesting point as to whether the invest to save scheme is well known; perhaps there is work to be done to publicise it more widely. We are always keen to get more applications to the scheme in order to focus on the best ones that come forward.

It is also important to recognise that it is the invest to save scheme, so it is about people saying, "I need this amount of money because, over a period of time, it will save that amount of money", which will then be paid back into the pot. As part of those justifications, therefore, there needs to be clarity on where they see the return. The scheme is designed to address the issue whereby people would not invest in prevention, either because the money does not come back in that year or because it comes back somewhere else in the system.

On prevention more generally, extensive work has been done, as I mentioned previously, on budget line tagging. The prevention unit in Government has been working extensively on that. It gives us a decent enough level of granularity to enable us to identify budget lines in terms of the preventative nature of the spend, because prevention—as you will have heard in evidence to the committee—can happen at different levels. Some things will have an immediate impact, whereas with other things it will take longer. Sometimes there is a significant impact, whereas for others it is less so; some of the impacts are further upstream and some further downstream, and so on.

10:15

Taking all that into account, the budget line tagging will enable us, for the first time, to look at the whole budget and see how much of it is being spent on prevention and at what level. That will then give us a baseline from which to start to ask questions—I am sure that the committee would be interested in that—as to how we shift the balance of resources. We will be able to measure it, and then we can figure out how we are going to shift it.

Alex Kerr: So, we are not going to see a big scaling up of the invest to save scheme or a similar type of fund in this budget. The budget line tagging is more about getting a health check on what is being spent on prevention.

Ivan McKee: There are two separate things. The invest to save fund is £30 million; I do not make the decisions on budget allocations, and the Deputy First Minister will make a decision in due course on the extent of the fund going forward.

The output from the tagging work is on a completely different scale, because it is about looking at the budget of £60 billion or £70 billion, when we add everything up. The numbers that we are talking about that are being deployed in prevention would run into billions, so that is clearly on a different scale.

Alex Kerr: We had evidence from the Scottish Fire and Rescue Service on the huge cost of some of the reforms when the regional bodies came together, but the SFRS also talked about the positives that came out of that with regard to the data systems and everything coming together. However, I go back to the point that we will not necessarily see a lot of that investment in this budget per se; this is more about finding out what is currently being done.

Ivan McKee: There is prevention activity going on all the time. We had an interesting conversation about that at the summit yesterday. Somebody said that stuff that we just do normally is not really prevention, and they cited education, roads maintenance and whatever else. I said, "Well, at the end of the day, if you didn't do those things, you would cause huge crisis spend later on, further down the system." To some extent, therefore, everything can be deemed preventative spend.

My point is that it is important to understand the granularity and the impact of different levels of preventative spend on different bits of the system. It is more complicated than just a yes/no question. Nevertheless, work is happening across a range of portfolios anyway with regard to preventative spend. Last year, we published, along with the strategy, a summary of all the preventative interventions—or, rather, a selection of them—that had happened over the previous 25 years. Of course, there were many, so it is not as if that stuff

is not happening. There is a lot of it happening already—the budget line tagging will give us all some visibility of exactly what it is, and that will allow us to focus more sharply on how we would seek to move resources in a measurable way to more preventative interventions.

The Convener: I want to check on something in relation to the tagging of budget lines as preventative spend. You made the point that some of that spend is business-as-usual activity and that, when someone says to you, "But is this really preventative spend?", you highlight that, if you did not do that, crisis would happen, so yes, it is preventative spend.

Yes, there is a baseline from this year's budget, but in next year's budget, there could be a huge amount of preventative spend that is really just business as usual. The approach does not actually track innovation in preventive spend.

Ivan McKee: I think that we are getting ahead of ourselves there—

The Convener: It is not so much about this budget, although I welcome the steps that we are taking in this budget. It is more about, in subsequent years' budgets, how we can map out preventative spend where there has been new activity and service reform, and how that is tracked within budgets.

Ivan McKee: I will let Cathy Sumner talk to the detail, because there is a bunch of work happening behind the scenes on the prevention and investment framework and other activities.

At a conceptual level, we are moving into a new world here. For decades, we have talked about how a shift to prevention is really important, and we have isolated examples of where stuff has happened, but this is the first time that we have looked at the whole budgeting process and asked how much of it is prevention. We absolutely understand—I have mentioned several times—that preventative spend happens at different levels and has different impacts depending on what it is, so an attempt to get below a top-line number and categorise it in that regard is important. You are right that that will give us visibility of what is going on and we can then seek to influence, measure and focus on that. I will let Cathy Sumner speak to some of the detail of that.

Cathy Sumner (Scottish Government): There is quite a lot going on in the Scottish Government's prevention unit, which was established recently. We have talked about tagging. You will see much greater transparency in the 2027-28 budget document on the current level of preventative spend, which we have not seen before. The pilot that was run considered a percentage of the Scottish budget—about £20 billion of spend. It highlighted around £3 billion of preventative spend within that, and it set out the nature of that spend. We are looking to do the same for the whole budget for 2027-28. That will provide a better baseline of current spend.

There is work going on beyond that. First, we want to use the forthcoming budget to inform decision making. As you have heard in evidence, it will be a very tough budget for 2027-28. There will be choices and trade-offs to be made within a very tight funding envelope. The prevention tagging puts a different lens on spending so that, when ministers are making decisions, they have better evidence as to whether spend is preventative and they can base their decisions on that. That is not necessarily visible to you, but that is happening within the Government for the coming budget.

Secondly, and moving beyond that, the team is considering a prevention investment framework. More will be coming out on that soon, and we can again consider how we can use the evidence on what preventative spend is most impactful and on how we can shift resources for that.

The third lens that is being used, which I think you have heard about, is the drivers of demand work. The team is considering the big drivers of demand on public services at source and which preventative spend is most impactful in tackling those. That means that, when we are looking to shift resources, we can move them to the most impactful prevention spend. There will be more coming out on that quite soon.

Lorna Slater (Edinburgh Central) (Green): I have three questions for you, cabinet secretary. First, I wanted to dig a bit more into the invest to save fund. Some of the evidence that we have heard at the committee indicates that one of the reasons why the Christie commission recommendations were never implemented was that they required up-front spending. I have some concerns about the invest to save fund: whether it is the right amount of money, whether it is being deployed strategically and how we can see that in the budget. If that fund is being handled like other grant funding, with people applying for a pot of money, it becomes a question of squeaky wheels or whoever has the time to do it, rather than taking a strategic approach. Is the invest to save fund the beginning and end of the up-front costs to implement the Christie recommendations, or is there another strategy here?

Ivan McKee: The answer to that lies in what we have just talked about. Invest to save was implemented two years ago. It was about addressing the situation in some way—and in a relatively small way. For the reasons that you have identified, that fund will always have its challenges

in how it operates, because it relies on people putting applications in. It was specifically designed to begin to understand exactly how such mechanisms could and should work if we wanted to scale them up more extensively. What kind of applications would we get? How effectively would people be able to quantify the return on those investments? That is the save part of it. To what extent would it encourage collaboration across different areas, portfolios, public bodies and so on? We have been going through that process over two cycles, and we have learned a bit from it. It will be up to the Deputy First Minister in the budget process, in making decisions on the scope and scale of that.

The heavy lifting here will come from the work on preventative budget tagging, so that we can understand what we are actually spending on prevention. Then, we can start to consider how to move significant amounts of money into the prevention space.

On resources, we have a relatively fixed amount of money, so we need to decide how we are going to spend it. We will always have challenges on day-to-day spending elsewhere that needs to be factored in, but there is absolutely a commitment here. Clearly, investment in prevention is important. If we had another £1 billion or whatever that landed from somewhere tomorrow, we would be in a different place. We are constrained by where we are, however, and we need to work within that.

Lorna Slater: Cabinet secretary, I do not want to blur the lines between spending and prevention, and spend to save. My colleague Murdo Fraser always raises the example of NHS appointments being sent out on paper—if we could do that through an app, it would not prevent anyone from getting ill, but we would save money.

There are two different things. One is about preventing people from needing services; that is about demand reduction through preventing people from getting ill or falling into crisis. There is also spending to save to improve our services and make them better for people. My worry is that the prevention tagging is doing a different job, while the invest to save is a grant fund for any business or organisation with a good idea and is not being strategically deployed in the spend to save space. Surely, we must be strategic about our spending, to get those Christie recommendations in place and to save money.

Ivan McKee: Again, there are a number of different things happening there. We implemented invest to save, on a relatively small scale, because we felt that it was important to do something. That was put in the budget two years ago. By going through that process, we have learned more and more about how that type of investment could be deployed to help investments that would not take place otherwise because the budget silo would prevent them from happening—because of the year it happens in and because people would say, "It's my silo, and nothing else." The idea was to have something—on a small scale, at least—that would allow us to break through those barriers and do that.

On the second point about preventative spend and demand management, we all understand that. The issue is about how we get the resources in the right place to do that. The preventative tagging in the budget should allow us to do that.

Investing in general activity—the work on digitisation for sending out letters, and so on—has a target of saving £100 million. In reality, the saving could be a lot more than that. Putting in a digital system would allow us to have a cost saving and a service improvement—usually both together By definition, those benefits apply to all digital systems, or we would not implement them, and they come from the digital spend that we are making anyway. Could and should more of that happen? Absolutely, it should, where appropriate. However, it is not as though that is not happening.

Lorna Slater: When we look at the budget, where will we see those items? We have already talked about invest to save. Are invest to save and the digital spend the two pots of money that we should be looking at? When we are scrutinising the budget, what should we be looking for?

Ivan McKee: We have spoken about the invest to save fund. The preventative budget tagging will give us a whole set of new data and opportunities to understand what is happening with preventative spend at different levels, in which portfolios and so on. In relation to digital spend, the process works by money going to portfolios and public bodies; the public bodies then spend it wherever they spend it. It is quite difficult to add all that money back up in a specific budget line. We have started to do that on the historical corporate spend data that we published for the first time two years ago and then again last year. We now have two or three years' data on that. At some point, we need to switch to a place in which we are proactive about that and we understand ahead of time during the budget process what will be spent across the whole system on, for example, digital. Then, we can start to strategically manage that more effectively.

At the moment, everyone in the 100 or so public bodies has their own wee budget for digital and they will spend it on whatever they think is important for them. Getting our arms around that is a big job, but it is important to do it.

Lorna Slater: Absolutely. I have another question. We hear all the time—and I know that

you do, too—about multiyear funding. We hear about it from third sector and public sector organisations. Can you outline what will be in the budget around that? Are you targeting that? Will you aim for there to be multiyear funding for certain third sector organisations or for parts of the public sector more broadly, or will you not be able to achieve that in this budget? What should we look for in relation to multiyear funding?

Ivan McKee: I am of the view that it is hugely important for third sector organisations. I see that every week in my constituency. It is also hugely important for the preventative agenda and for investment at that level. Witnesses have said that to the committee and it is hard to disagree with them when I see in my constituency every week that that money has a significant impact and gives important stability.

Through the fairer funding arrangement work that the Cabinet Secretary for Social Justice and Housing, Shirley-Anne Somerville, is taking forward, there is extensive engagement with the third sector in order to take that forward.

10:30

Regarding what you will see in the budget, the Deputy First Minister will pull the budget together, and the extent of what we are able to do will depend on a number of factors. However, I absolutely recognise its importance and the importance of being able to identify where it is happening and quantifying it.

Another piece of work that the Government is taking forward involves looking at all the grant funding schemes that come from different bits of Government and go to third sector organisations, because there is currently a siloed approach to that. Every portfolio has its own schemes, which are run on very different application forms, with different monitoring systems, and so on. We are starting to gather the information for the first time on a database, so that we can understand what is out there and then have conversations about how we can simplify it and make it more streamlined for third sector organisations and more efficient for the Government to administer. That piece of work is ongoing.

Lorna Slater: Do you have strategic priorities for this budget? It sounds as though you sympathise with third sector organisations, so presumably you have asked the Deputy First Minister about them. What about public sector organisations? We also hear from the Scottish Fire and Rescue Service and others that they need multiyear funding, too. What priorities have you gone to the Deputy First Minister with? Are public sector organisations on your list, and what should we look out for?

Ivan McKee: From my perspective, it is about the budget process for the shift to prevention. It is also about the budget process for visibility on digital spend and on wider procurement spend. We have indicated that more than £300 million has been saved, but that is a relatively small percentage of the total procurement spend, because much of it is not managed in a way that allows for the most effective opportunities. On the third sector, it is about understanding the extent of grant funding and seeking to simplify that process.

This is just one portfolio. In the budget for 2026-27, in the social justice and housing portfolio, more than £45 million of third sector funding was subject to multiyear agreement. It is not as though that is not happening, but I absolutely accept that doing more of it is a good thing.

More generally, the Scottish Government does not benefit from multiyear funding, so it is very hard to give such a commitment. To be honest, having been inside the process, I know that the goalposts move throughout the year, depending on what consequentials are flowing through, based on UK Government announcements and other things. That is always a moving target, even in year, never mind over a multiyear period. We would all like to be in a place where we have multiyear budgets, but we seek to give as much commitment and certainty as we can.

Lorna Slater: That is clearly true, but it does not seem like there is a strategic approach. You are not saying to me that, first, because there is a housing emergency, you will look at the housing sector and make sure that all those third sector organisations have multiyear funding, and that in future years, you will maybe look at the SFRS, and after that, you will look at other areas. There does not seem to be a strategic approach to rolling out multiyear funding. It seems that you are saying, "We are trying our best, but we do not have enough money," instead of saying, "This is the desired endgame. We know that there are some real priority areas, which we will focus on, and you will see in this budget that we are putting in place multiyear funding for those high priorities".

Ivan McKee: I do not think that that is true. You mentioned housing. We committed to investing £4.9 billion over this parliamentary session in affordable housing programmes. There are areas in which we have laid out what the spend will be over a five-year period. However, that does not get us away from the fact that, although we could lay out a plan to roll out multiyear funding, if we do not know what our budget is throughout the course of the year, due to consequentials and other impacts, we would clearly not be in a position to deliver that. We could make that commitment, but the reality is that, if we do not get the money that we are expecting, for whatever reason, the commitment

would not be able to be fulfilled, because we would not have the budget that we were relying on.

I will let Cathy Sumner talk about some of the more technical aspects of this.

Cathy Sumner: On the multiyear aspects, in January, we published the Scottish spending review for resource and capital, which set out multiyear spending plans—three years for resource and four years for capital investment. The capital pipeline was published in some detail. It has all the projects and programmes, funded over four years, that we are committed to delivering. That gives transparency over the capital investment pipeline.

For resource, a different level of granularity and detail was published; it sometimes went down to public body level, but sometimes it did not. That is the best indication that we have right now of multiyear spending plans. The document itself sets out various multiyear commitments, including on housing, for example, and there are other areas in which there are multiyear commitments through the spending review. However, at the minute, that is probably the best visibility of the high-level multiyear priorities that the Government chose to fund at the spending review.

Michelle Campbell (Renfrewshire North and Cardonald) (SNP): I am going to eat a little into a thread that I keep hearing about in the narrative that we have heard so far. It is about the words “granular” and “silos”, and, obviously, the budget in portfolios for public bodies. I note a registered interest as a nurse in the NHS and as a local councillor in Renfrewshire.

I want to understand from a budgetary perspective the changes that the Government is focused on making, such as combining delivery services with regulatory and oversight bodies. Do you understand the concern about the level of conflict that that could potentially mean in terms of demands on budget?

In the feedback that we have heard today, you have said that some decisions have been made at a granular level. I understand that that is because the aim is to build the foundations of the changes, and then, over the years after that point, achieve positive change. However, if such decisions are taken in a siloed way, which is how it has been done in the past, that can cause miscommunication. There is the potential for people to have vested interests, because they look to protect their own instead of embracing public sector reform and changes. What impact might it have on the budget if there is change in the communication and language around how an organisation works, but, actually, there is no real change? It would not be the first time that that has happened.

I am concerned about how the changes will take place as PSR develops. Do you recognise the concerns about how the delivery on the ground of the ambitions around—I will just make sure that I get the correct wording—invest to save, prevention and digital spend will impact the focuses of the budget?

Ivan McKee: If I get you right, you are asking how we will make sure that the public service reform levers that we are pulling are reflected in the budget, but you need to look at it the other way round. On the budget allocation process, as I said, once you have the tax number and the consequentials number, the spend allocations take place within that fixed envelope. A lot of things inform that, many of which will be things that we have talked about today, such as workforce trajectories and opportunities for future cost savings.

The question is not so much how PSR gets reflected in the budget; it is the other way round, because it is about how PSR supports public bodies and portfolios to deliver on their budgets. If you have a tight budget allocation but you have opportunities for digitisation, reducing your procurement spend, streamlining processes or reducing head count over a period of time, those measures are all there in the toolkit to support you to meet your budget.

Michelle Campbell: On the different note of managing fiscal challenges while seeking better outcomes for people, do you understand the hesitancy and concern about being able to achieve that balance and deliver on both? You have just mentioned how PSR can support budgets. In your role as cabinet secretary, how do you see that balance developing in the Government, and how do you see it delivering within the budget towards the outcome of managing the fiscal challenges? I appreciate that some of it is about hope, the drive for it, leadership towards it and determination for it, and that you do not necessarily have the outcome at this second in time, but how are you looking at the balance of the fiscal challenges and seeking better outcomes for people?

Ivan McKee: Those things absolutely go hand in hand. We have just had one example: if we are not sending out letters, costing hundreds of millions of pounds, and we do that digitally, that does both things—it makes a better service for people and it saves a lot of money. There are many examples of that right through the system. Indeed, the whole integration and joining-up-services agenda that lies at the core of the strategy will do both. People find that interaction with public services is more supportive and more impactful; at the same time, it is more efficient, as people are not having to duplicate stuff across the various strands of public services.

At the core of what we are seeking to do is to deliver on both those aspects together, as they complement each other. It is very clear, right at the start of the public service reform strategy, that it is not about cuts; it is about efficiency. The difference is that cuts are about doing less with less, and efficiency is about doing the same or doing more with less, because you are doing it more efficiently, making the money go further and getting it to the right place. That is at the core of what we are trying to do.

On the interaction as we take the strategy forward, it is important to recognise that we need to move—as I have said previously—from the traditional way in which we have done budgeting and the traditional way in which we have done financial accountability towards adopting an approach that provides us with visibility across areas of spend. For digital, the money goes into the portfolio, classically, and into the public body. We do not then look at what the money gets spent on, but if we want to leverage savings across the billions of pounds that we spend on digital, we need visibility on what is happening at the granular level.

We are moving into a space where there is a very different way of operating. It is a culture change in how we do budgets. It is not just that we discuss who is getting what, we give them it and they do what they want; it is much more about how that money gets spent, how we ensure that things are joined up further down the track, and how we look for efficiencies across the whole piece that, by necessity, cannot be delivered within an individual silo.

This also involves accountability. That is a difficult challenge, because the whole public sector finance system is built on individuals being accountable for their budgets. If we want to move to a space that involves moving beyond that, and if we are to share pots of money to deliver front-line services more effectively and efficiently, people will have to look across the whole system and not just at their own silo when it comes to what they are spending money on. That takes us into a different place. I am not pretending that that is easy, but it is necessary.

Michelle Campbell: Just to press you slightly further, do you have a timeframe in your mind for the ambition to achieve that aim for the budgetary processes? Are you expecting something in this budget to provide a foundation point for that change and shift to happen?

I appreciate what you have said about the budget being the Deputy First Minister's responsibility but, in the work that you are focused on around that, what can we potentially expect to be the focus, going into the budget?

Ivan McKee: From a PSR perspective, visibility on preventative spend is important. We are moving to having more visibility on some of the cross-cutting spend items. We have talked about digital procurement, where there are significant savings on what is a very limited amount of leverage across procurement spend. If there was more visibility on that, it would allow us to leverage more savings.

Another issue is having more visibility on what happens at individual public body level and beyond that; it is often the portfolio level that is used. We have visibility on some public bodies, but it all happens at different layers within the level structure of the budget presentation. That is important to note. The more challenging cultural issues around how we monitor things post-budget, and around the accountable officer structure, are difficult.

To answer your question, there is much that we can do this year, but that absolutely will not be the end of the story. By the nature of this strategy, we will be learning as we go on.

Joe Fagan (South Scotland) (Lab): Before I ask about the restructuring proposals, I have a couple of other quick questions, one of which follows from some of the previous questions. You talked about a piece of work on drivers of demand. Will that be published and shared when it is concluded? Is there a way for you to share that?

Ivan McKee: There is a lot of stuff happening in the preventative space. A lot of that will be in the budget, and there will be a lot of other stuff as well. We can talk that through.

Cathy Sumner: You will not see the drivers of demand work in the budget document but, in the same way as the prevention unit published the outcome of its pilot on tagging the spend, it will publish information on the prevention investment framework, which I mentioned, and, down the line, on the drivers of demand work as well. However, you will not see that in this year's budget publication.

10:45

Joe Fagan: When that becomes available, it would be useful for the committee to see it.

My next question is about engagement with the workforce. I do not want to go over the ground that Murdo Fraser covered, but the importance of engaging with the workforce has been a theme in the chamber and in much of our committee evidence. We heard from Liam Davenport of PCS that, although there has been engagement at the more senior level, and with our witnesses today, there is

"no genuine discussion about how to do the work efficiently

without having a negative impact on the service or on the workers."—[*Official Report, Public Service Reform Committee*, 17 September 2026; c 34.]

I do not think that he was talking about discussion at the senior level; he was talking about a level below that. As part of the process, how are you engaging and how do you plan to engage with workers so that they are co-designing public service reform?

Ivan McKee: That is a great question. I have been clear throughout, from the very start of the work on PSR last year and before then, that the empowerment piece needs to have a very central space. A core part of that is how you engage with employees to enable them to come forward with suggestions on how things can be made easier for them and more effective for service users. People in the workforce will see in their day-to-day work where there is huge scope for improvement, and they will often know that better than the senior people in an organisation—not always, but in many cases that can be true. That core principle of empowerment is absolutely critical.

It is not easy to do that across a system that has close on half a million people working in it. Clearly, I am not going to go round and talk to them all. As signalled in the Government's corporate plan, we are rolling out in the Government something that is called, very simply, the suggestion scheme. That is about opportunities for employees to come forward and say, "This could be better—we can do this differently. This is how we can deliver things based on what I am seeing in my day-to-day workplace." I am keen that we take that as best practice and roll it out across all public bodies. That will dip into culture change, because that will not be the way in which managers in some parts of the system typically run things but, frankly, that culture change needs to be dealt with. Our work to de-layer and take out layers of management is important for supporting the empowerment agenda, because the multiple layers of hierarchy in organisations absolutely stifle innovation and empowerment at the grass roots.

To answer your question, we will continue to work with trade unions on that. I am keen that we work together on taking that forward, and I am always open to ideas about how I and others can engage more effectively on that.

Joe Fagan: I remind members of my entry in the register of interests, which shows that I am a serving councillor, and I turn to the restructuring proposals. I am curious about the years when you are targeting change. A huge amount of work is potentially coming through the system. Health boards have had the greatest visibility, but I am also thinking about public bodies, integration joint boards and now the three-month engagement on local government. Are there particular years when you are targeting savings or the investment that is needed to make those happen? How much of that is likely to be reflected in the coming year's budget?

Ivan McKee: As I have said, different bits will happen on different timelines. Even in the public body work, we have everything from the environment agency, which is one of the first, and then we have Transport Scotland and others that are further down the path. There are others that are very much at the investigation stage. This is not a big bang. It will continue through a number of years, as we develop further proposals. Frankly, the more we do, the more we will learn and the more opportunities we will identify.

On your question about next year, that will depend on the proposals that are furthest along the track. The health boards are the ones that are furthest along in that regard. Ms Constance is working through the detail on the shape of that and the timeline. Today, it is too early to say. As we move into the budget discussions, clearly, that issue will be central.

Joe Fagan: I will turn to the local government proposals that have been shared. There is a three-month process of intense engagement, but it is not a conventional consultation, as I understand it. What is the nature of that consultation? It is not live on the Government website, so if communities and the workforce were going to play a part in that, how would they engage? Right now, it seems to be a conversation with stakeholders, so I am curious about what that consultation engagement looks like.

Ivan McKee: It is important to recognise what it is. The wording in the programme for government is quite clear: from memory, it is a three-month period of intensive engagement to get a shared direction on the future of local governance in Scotland. I think that that is the wording, but we can correct it if it is not precisely that. The intention is not to have all the details thrashed out in that time period; it is to start the conversation.

In the past few days, the Deputy First Minister and I have been talking to officials about how we seek to expand that engagement more widely. There are a number of options for us to do that, including online opportunities for anyone. I am keen that everyone who is involved—be it community organisations, the third sector, individuals or community councils—should be able to pitch in and say what they think we should be looking at. We are giving a lot of thought to an online process for that and to whether there is a need for more structured follow-up work as proposals start to firm up. At some point, we will get to the point where there will be something a bit sharper, once we have given everyone time to

engage over these few weeks, which we can then shape up into more of a formal process.

Joe Fagan: You can see that some of the concern is that there is a budget imperative just now around the fiscal challenge that the Government faces. However, as you heard in the chamber, a number of us think that such dramatic changes to local government would take time to work through and, certainly, to deliver. If I am following you right, we are not expecting to get to the end of the three months and have a new local government map for Scotland proposed. There will be further engagement at the end of that three-month period.

Ivan McKee: Yes, but I would have to go back and read the precise wording in the programme for government.

Joe Fagan: In your earlier remarks, you also said that there is no financial modelling underpinning the local government work, because you do not know what the outcome of that will be.

Ivan McKee: Exactly.

Joe Fagan: Okay. From the First Minister's answer in the chamber, it is my understanding that the Government's first stab at local government reform was shared after meeting Convention of Scottish Local Authorities leaders. If the committee were minded to request a similar first stab or a similar view that the Government might have as to where we are going with IJBs, would you be willing to share that? That seems like the next trickiest bit after reforming health boards.

Ivan McKee: Yes. To talk back through that process, we signalled in the programme for government that it was something that, as a Government, we intended to look at. There was an initial engagement with COSLA, and the ask from COSLA was, "Tell us something so that we can start to talk about specifics," and that is what we have done. Clearly, there is more detail to work out on a whole range of things—such as what the funding flow will look like, where the powers will sit and what the shape of it will be. There are clearly more suggestions as to what the shape might look like, which we can start to work through.

On the IJB point specifically, and on the future of social care at the moment, we are looking at options for what that could look like. Obviously, Ms Constance is leading on that, and I do not want to prejudge timings or process, but you are right to say that one of the next significant bits of work will be a conceptual view on what the future of social care will look like.

Joe Fagan: Does the Government have a conceptual view just now as to what that will look like, and is it able to share that in the way that it shared the local government proposals?

Ivan McKee: A number of options are being looked at. As you would expect, there is a whole range of things that we could do, and everybody would be able to write down what the range of options could be, but those are being considered. At some point, the Government is going to suggest a potential option, or a couple of options, that we need to debate.

Joe Fagan: While that has been happening, the independent education adviser has also reported with a proposal that local school authorities should be established. That is another dramatic change in local government. The First Minister said that his preference is for the health service to lead on health and social care, which is another dramatic change. There are also the proposals that were shared the other week. That is all taking us to a place where there is not a lot left for local government as we know it to do, so its share of the budget would be substantially reduced. Is the Government comfortable with that?

Given the focus on invest to save, the focus on prevention and the shift in how public services are working, why does the Scottish Government believe that governance is so pivotal to driving outcomes when the feedback from stakeholders is very much that the structures follow from driving outcomes? Does the Government believe that structures are such a big part of the problem that we need to invest all this time in reorganisation, or is it your view that we just have a very inefficient public sector? Is it all about efficiency, or is governance part of the problem?

Ivan McKee: If you take a step back and look at the data on public participation, on the public perception of services more widely, on participation in elections and on how connected individuals feel to their local communities, you may find that it will influence things, and people may conclude, "That data ain't good. Things are going in the wrong direction." We can compare the data with the data from other countries—the Nordics, for example.

Joe Fagan: They fund local government better.

Ivan McKee: Hannah Mary Goodlad and I had a conversation with the Norwegian Minister of Local Government and Regional Development last week, and it was interesting to understand how the Norwegians go about things. There are valid points there. We are clearly in a place where things could be better—I do not think that anybody would deny that.

On structural change more generally, across the whole piece, the public service reform strategy is one workstream out of 18, but, for obvious reasons, it is the one that gets the most attention. I might make a speech about the simplification of back-office processes, which is one workstream,

or I might make a speech about empowerment—and trying to get folk engaged in that discussion has been hard. When we start talking about structure, however, everybody gets engaged. It has been as much about the response; it is a thing that people want to talk about, as opposed to the accountable officer structure—which is also very important. People do not want to get engaged as much with that. That is part of the reason why the structures are seen as being a huge part of the strategy, although I have been at pains to stress that they are only part of it.

Referring to some of the examples that we have heard about today, having fewer structural silos helps to overcome barriers to the redeployment of staff. We have talked about how money flows around the system, and having fewer structural silos helps with that, too, as well as with joining up services on the front line.

Joe Fagan: Does treating a local school authority like that really help to break down silos?

Ivan McKee: I will come back to that. Around all of that, having fewer structural barriers is helpful.

There is also an issue with the relationship between structure and culture. Cultural change is the most important thing; it is more important than structure. When we start to talk about structural change, however, people start to pay attention, and that gives us more scope to address some cultural issues, too, including the empowerment agenda.

The piece of work led by John Wilson in education has been going on for quite a while; it was started under a previous Cabinet Secretary for Education and Skills. I will let Ms McAllan speak to that rather than talk about the specifics of it myself, but it is safe to say that the Government will look at the piece of work that John Wilson has pulled together rather than something that has come from Government.

Max Bannerman (Highlands and Islands) (Reform): Good morning, cabinet secretary. I want to discuss the update that you gave us on 7 September—the amber and red-tracked actions. We had a brief exchange about this at the end of my main question, and I note that, in your letter to the convener on 30 September, you provided a fairly comprehensive update on the transformation of digital resourcing. I want to focus more specifically on artificial intelligence. Two actions on AI in that table were rated red. Where do you see that work going, and what action have you taken since the last meeting?

11:00

Ivan McKee: The last meeting was two or three weeks ago. Give me a minute, because we will need to pull up the specifics. Can you remind me of the two specific actions?

Max Bannerman: Funding capacity for AI and automation was constrained, and the market has moved during AI procurement. Those are the two specific points, but I just want a broad overview of what you are considering in that area, particularly in reference to the budget. I will then go into some specifics on the evidence that we have heard from witnesses on the benefits of AI.

Ivan McKee: On the resourcing piece, a significant amount of the invest to save fund is going into that space. There is ongoing investment, and we have a whole team in Government that works on that. There is a recognition that, if that team was bigger, it would be able to deliver more. It has delivered 140 projects already, with many more in the pipeline, and that is across many public bodies, not just in Government. There is ongoing consideration of how we best resource and support that, because we recognise that it is important, but, obviously, there are budget constraints right across the piece.

I have been very clear on the core Government resource. If you have a 6 per cent attrition rate and a 4 per cent reduction rate, you have 2 per cent to play with, in effect. I have been very clear on the prioritisation of that when the permanent secretary makes those decisions. I have been very clear that that digital resource and talent within Government is hugely important for us in taking forward that agenda.

What was the specific issue on procurement?

Max Bannerman: It was that the market has moved during initial procurement.

Ivan McKee: I will have to pull that one up.

Max Bannerman: You can come back to me on that point.

Ivan McKee: I will get back to you on the specifics.

Max Bannerman: We heard last week from Scottish Borders Council about an AI tool that cuts a social worker's reporting time by a third. I am sure you would accept that that is clearly a huge cost saving and a huge efficiency saving. That is one model, and I am sure there are many others that we have not heard of yet. What will it take in the budget to scale that kind of thing up nationally?

Obviously, that is proactive use of AI, which is one aspect. I will come on to demand for AI shortly, but could you answer that question first?

Ivan McKee: Your procurement point was that the market is moving, so you need to be careful about what to buy. You do not want to buy the wrong thing today, and the right thing today might

be the wrong thing tomorrow. Understanding that was a challenge, and it is a challenge that everybody faces.

I am delighted that you raise that opportunity, because that is another great example of where we can improve service delivery and reduce costs at the same time. Such examples from around the public sector are welcome. We have obviously set up what we call AI Scotland, which is the organisation that is working on AI adoption more generally from an economic and deployment perspective.

To go back to digital spend, part of the reason why we want to see digital spend across the whole piece is that we want to be able to corral all of that and deploy it most effectively. A situation in which there are 134 different digital budgets all working independently of each other is clearly not an optimal solution. The first step in that is to understand what the resources are; then we will be able to better deploy them to the technologies that will be most impactful and share the learning, rather than everybody doing it in their own silo and trying to deploy what they think is best.

There are other great examples. I know that Scottish Enterprise's deployment of Microsoft Copilot has led to significant efficiencies there, and it is one of the organisations that has delivered head-count reductions over time. Rolling out a mechanism whereby we can take that best practice and deploy it elsewhere is an important part of the consideration.

Do officials have anything to say in addition to that?

Simon Mair (Scottish Government): The update that was sent a few weeks ago, which showed the amber/red ratings, recognised, particularly for procurement, that there is a need to keep up and have capacity in Government to make the best use of the opportunities. The register shows that, at this point, we need to be sure that we have the capacities or are building those capacities. We went on to give updates on how the various uses of the intelligent automation centre of excellence are delivering cost avoidance and supporting a number of public sector bodies. As the situation develops in real time, it is about building capacity in Government to make the best possible use of all those opportunities. That is the need that is being highlighted, and how we will do that.

Max Bannerman: That is a good point. AI is coming on stream very quickly, and more and more members of the public are using it. One thing that came to mind when I was looking into the issue is AI-generated freedom of information requests. I am sure that those will be swamping various Government departments, public bodies and agencies—dare I say it, some of our researchers in Parliament might be doing that as we speak.

Ivan McKee: They have been.

Max Bannerman: That is the demand pressure. In terms of a resilience strategy, but also an efficiency and cost-saving strategy, are you confident that what you are doing now is taking into account how that will impact on the public sector? On the budget, which is what we are specifically looking at today, are you confident or satisfied that what your department is producing can go into the Deputy First Minister's decision-making process? Clearly, this will require a bit of up-front cash to do something for the future.

Ivan McKee: Do you mean on digital spend?

Max Bannerman: Yes.

Ivan McKee: The first step is to understand what we are spending on digital across the piece, and we then need to consider how we maximise that spend strategically across the public sector so that we get the most impact from the funding. That allows us to use existing resources, so it is really important.

Beyond that, there are always conversations in budget allocation about where to deploy digital spend. Historically, a lot of that has been on replacing legacy systems and so on—there is a whole register of projects that are being taken forward. However, you are right that technology is moving at pace, so it is important that we are across that as well. I am happy to answer questions on the issue, but I would also be happy to come back at some point with digital officials, so that we can do more of a deep dive into the specifics.

On FOI requests, that is an issue, and the response to that is also an issue. The intelligent automation centre of excellence has an automated solution using generative AI to identify potential personal information, mark documents for review, support case handlers and so on. That has already been deployed in the response on FOI, for example. The planning system is another area where there is potential for AI-generated submissions or applications—indeed, that is almost certainly happening already—and the deployment of AI to address those at scale is absolutely part of the solution.

Yes, we are conscious of the issue; yes, work is happening on it; yes, we recognise that it is important to get the right investment in the right place to support it; yes, there are good examples of that; and, absolutely, yes, there will be a lot more to do on this as we move forward.

Max Bannerman: With the convener's permission, I will follow up with the cabinet secretary directly, but it would be good to take you up on that offer to come in with digital officials, because, as you say, it is a challenge but an opportunity as well. It is about balancing those, which will be important to your department's work going forward.

Ivan McKee: Thank you very much.

The Convener: You absolutely should follow up on that, Mr Bannerman, and, if it is of interest to the committee, you should share it more widely. I am sure that colleagues will be interested in that, but it is absolutely appropriate that you do that.

Cabinet secretary, before we close this evidence session, I was looking through our previous evidence sessions and found that a theme that kept coming up was the eagerness of the third sector to be involved. That is not always about a demand for additional resource; it is the sector's firm belief that existing resources can be used more efficiently—in the correct meaning of the word—in order to be flexible on the ground and deliver better outcomes for people.

That reminded me of a previous Scottish Government measure that I had to double-check. I have previously mentioned the change fund for reshaping care for older people, which dates back to 2011 and ran for a number of years. I mention that because it has a budgetary aspect. The fund was substantial, but the money could be spent on redesigning services only if that was signed off by councils, the NHS and the third sector, and there were mechanisms for that.

I am not saying that we should turn back the clock and go back to that, although I would be open to that. My point is more about how we ensure that, when we are redesigning services for public service reform, the third sector has a voice as local authorities, health boards and others reduce head count and workforce. If they move services to the third sector without full cost recovery, that would not be service redesign; it would just be cost shunting to the third sector.

Can you give the third sector any reassurances? Given that this is budget scrutiny, how can we make budgets promote that vital work, so that third sector organisations are seen as equal partners at the table and help with the innovation for public service reform?

Ivan McKee: I reiterate the point, which I have made today and many times before, that the third sector is absolutely key to this—that is why the process is called public service reform and not public sector reform. As I have said, every week in my constituency I see—as, I am sure, all members do—the great work that is done and the challenges that third sector organisations face. We have talked about the grant funding schemes and how we want to make the process more streamlined, efficient and effective.

Thank you for raising that example. It predates my time in Government, but it is really important that we learn from past examples about what worked and what did not work. That takes us into the space that we talked about earlier about how to join up pots of money where they will make the most difference, and having mechanisms that allow us to step beyond the single accountable officer structure and enable pots of money to be jointly deployed where that makes sense and where the relevant organisations agree that that is the direction of travel.

I am interested in exploring the model that you mention and the lessons learned from it in a bit more detail.

The Convener: That would be helpful. It was a long time ago, and I have to say that I have not looked at it in detail either. One concern at the time—we heard this in evidence from Helen Malo from Hospice UK—was that, as that reform took place, the financial benefits accrued to the acute sector but the spend was in the social care sector. We had not joined up the budget lines to get the best efficiencies. When that programme ended, many of the projects were not mainstreamed and a lot of that learning was possibly lost.

We might go back and look at the issue as a committee—I do not know. However, my appeal is that we all look back, not to lament what has happened but to learn the lessons of previous efforts to do some of this to ensure that the process is as good as it can be.

Ivan McKee: You are absolutely right. I do not know whether this is just a function of my age, but looking back at history is often very instructive. We have looked at local government reform dating back to at least 1890, and there have been six or seven reforms since then. That is always instructive.

The Convener: Thank you, cabinet secretary. I believe that the Darien venture got a mention in Parliament yesterday as well, but we will perhaps not go there.

Moving swiftly on, I thank you, cabinet secretary, and your officials for joining us—we greatly appreciate it.

That concludes our evidence session. Before we move into private, I highlight that, at our next meeting, on 8 October, the committee will hear evidence from stakeholders with experience of public service reform in practice.

11:13

Meeting continued in private until 11:44.

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