OFFICIAL REPORT
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Finance and Public Administration Committee

Tuesday 29 April 2025

Session 6

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

14th Meeting 2025, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Michael Marra (North East Scotland) (Lab)

COMMITTEE MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)
Professor Francis Breedon (Scottish Fiscal Commission)
Dr Caroline Carney (Scottish Fiscal Commission)
Fiona Diggle (Audit Scotland)
Ivan McKee (Minister for Public Finance)
Claire Murdoch (Scottish Fiscal Commission)
Laura Parker (Scottish Government)
Professor Graeme Roy (Scottish Fiscal Commission)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 29 April 2025

[The Convener opened the meeting at 09:30]

Scottish Budget Process in Practice

The Convener (Kenneth Gibson): Good morning, and welcome to the 14th meeting in 2025 of the Finance and Public Administration Committee. We have received apologies from Michael Marra, who will not be attending the committee this morning. Ross Greer will participate, but he will not arrive before 10:15, so unfortunately he might not participate in this item.

The first item on our agenda is an evidence session on the Scottish budget process in practice. We are joined this morning by Stephen Boyle, Auditor General for Scotland, and Fiona Diggle, audit manager at Audit Scotland. I welcome you both to the meeting and I invite the Auditor General to make a brief opening statement.

Stephen Boyle (Auditor General for Scotland): Good morning, convener. I thank you and the committee for your invitation. I welcome the opportunity to speak with the committee as part of your inquiry into the Scottish budget process in practice.

In my response to your call for views, I highlighted a number of reports that I and my predecessor published on the Scottish budget process, together with wider fiscal issues, since the new budget process was introduced in 2017. Many of those reports highlight that the Scottish Government needs to improve its medium-term financial planning to ensure financial and fiscal sustainability in an uncertain world.

Since I submitted my response, we have seen some real-world examples of additional fiscal uncertainty. The international economic context has changed fundamentally as a result of the US Government's announcement of wide-ranging import tariffs and the impact that that has had on financial markets. We will see what that means for import and export arrangements across the United Kingdom and elsewhere. We think that it is probably too early to make definitive judgments, but it adds another layer of uncertainty to the fiscal arrangements that the UK and Scottish Governments will have to manage.

Looking forward to the publication of the Scottish Government's medium-term financial strategy and fiscal sustainability delivery plan next month, the current context highlights the importance of planning for a wide range of scenarios and understanding the risks for public funding and spending. In my response to the committee, I set out a number of issues that the Scottish Government should consider as part of its response through those outputs.

Fiona Diggle and I look forward to answering the committee's questions.

The Convener: Thank you very much. The first thing that I want to talk about is the significant difference of opinion between you and the Institute for Fiscal Studies. In your submission, you said that

"the Scottish Government should publish its financial and infrastructure medium-term strategies at the earliest opportunity."

However, in his evidence, David Phillips from the Institute for Fiscal Studies, said that

"the Scottish Parliament has welcomed and indeed pushed for this timing"

which is May 2025,

"as the earliest practical opportunity to publish an MTFS. In my view, this publication date is a mistake. I would have preferred to see the MTFS published after the summer recess, and after the UK government's multi-year Spending Review (set to be published less than two weeks after the MTFS, on June 11th)".

Why do you think that the MTFS should be published at the earliest opportunity when the IFS, which, unfortunately, is not giving evidence this morning, so we cannot ask it directly, thinks the opposite?

Stephen Boyle: Our position has been pretty clear for a while, convener. The on-going absence of a medium-term financial strategy is a barrier to effective scrutiny of and transparency around some of the difficult decisions that will have to be made, as I alluded to in my opening remarks. We have said in a number of our reports that the strategy is not just a one-item scenario. It requires multiple detailed, fleshed-out scenarios across the various themes that the Government is committed to delivering. The evidence that the former permanent secretary and his directors general gave to the Public Audit Committee in March set out examples of some of the areas that the Government is planning to include. We are keen to see what comes through next month. It will be pivotal for the Government's statement of how it intends to carry out medium-term financial planning to support parliamentary scrutiny of its spending plans.

To directly address the point made by the Institute for Fiscal Studies, I respect the institute's

position, but we are keen for the vacuum to be filled. For nearly two years now we have not seen an updated medium-term financial strategy. Over the intervening period, as you have probably seen, something has always been given as a reason not to publish, and I think that it will ever be thus. We now need an updated strategy from which to work, with a clear understanding of when that will be taken forward and what adjustments will be made.

The Convener: I do not doubt that the committee has a lot of sympathy for that. We pressed for the MTFS and we were disappointed that there was not one last year.

To reflect the point that David Phillips was trying to make, we have waited this long and, if we wait another few weeks, we might be able to get a more robust, more impactful MTFS. That is the position that I think he is taking. He is talking about what happens after the summer but, to me, that seems like a long time. The difficulty is that, if the strategy were to come out after 11 June, there would be difficulties with finding the time to scrutinise it before the autumn.

Stephen Boyle: As I say, I respect the position that the IFS takes on the matter. This is not an entirely contradictory view, but there needs to be clarity about when the documents will be published and about what circumstances may be agreed as leading to a deferral. Whether that is an economic crash, a Scottish Parliament election or a UK general election, it is a matter of having clarity around the process as to why a deferral will be taken. I am sure that the committee will wish to explore further the issue of the UK spending review but, in the round, my position remains unchanged: we think that the document should be published as soon as possible.

The Convener: Is the Government too easily put off course by events? It has talked about the general election. It seemed understandable to me, noting the advice that was given by the permanent secretary, that the Government should not publish the MTFS. I am not convinced that many of my constituents would have been influenced as to how to vote by the MTFS, to be honest. There is a difference between delaying something because of a general election and still waiting for it a year later. Even if there is an element of flexibility for certain events, should the arrangements be less flexible than they currently appear to be?

Stephen Boyle: There needs to be clarity on what circumstances will lead to a deferral of planned publications and on how long that deferral should last in the event of a delay.

I go back to what I said in my written submission and in response to an earlier question: two years is too long a gap to wait for an updated medium-term financial strategy. I absolutely accept the former permanent secretary's advice that, as we saw last year, the UK general election would not allow for the publication of a medium-term financial strategy in 2024, but it is necessary to have stronger, more detailed clarity about how the arrangements will be applied in order to develop a shared understanding.

The Convener: You have said that

"the planned Fiscal Sustainability Delivery Plan should be fully transparent about the scale of the risks to the affordability of public services and options for how the Scottish Government can manage them."

What concerns do you have that the plan will not be transparent?

Stephen Boyle: Next month feels really important, with the publication of the medium-term financial strategy and the fiscal sustainability delivery plan. In evidence to the Public Audit Committee, Government officials stated that they would be publishing a public service reform strategy, too. There is lots to go through next month, if all of that is delivered as stated. In our view, it is key to have a clear alignment between those publications.

I have not mentioned the programme for government, which will also be published—

The Convener: Next week.

Stephen Boyle: Absolutely—on 6 May.

The Convener: We have no idea what is in it, by the way.

Stephen Boyle: I have used the word a few times, but there is a need for real clarity on how the Government intends to deliver on its objectives. I refer the committee to evidence that was given to the Public Audit Committee, when the director general of the Scottish Exchequer advised that the fiscal sustainability delivery plan would make reference to the sustainability and reform of health and social care in Scotland; the nature of the investment in social security; public service reform arrangements and the Government's plans for prevention; and clarity on assumptions for the public sector workforce and pay. Those are all the right areas—of course they are. They are the areas that matter. I have no view and do not want to prejudge what might come through in the fiscal sustainability delivery plan, but I keep coming back to the word "alignment". There is a clear thread between the various documents.

The Convener: The Fraser of Allander Institute and other organisations have raised concerns about the fiscal sustainability delivery plan not being incorporated directly into the medium-term financial strategy. What is your view on that?

Stephen Boyle: I read the evidence that the committee has taken on that, some of which queried the need for an additional fiscal sustainability delivery plan alongside the medium-term financial strategy.

The Convener: The fewer, more integrated documents there are, the better, I would have thought.

Stephen Boyle: I will not judge it until I see it. I assume that Government officials really thought through why it is necessary to have a fiscal sustainability delivery plan in addition to a medium-term financial strategy. My position is that I look forward to reading them when they are published next month. The hook that I retain is what I have just outlined from the director general's evidence about what will be set out in the fiscal sustainability delivery plan. It is a new thing, so I am keen to see how the documents work in practice. I apologise for repeating myself, but it is really about the sense of alignment that must surely come through when they are published.

The Convener: You touched on the programme for government. Do the budget and the programme for government align strongly enough?

Stephen Boyle: Over the past few years, we have seen some evolution of the budget, notably last year's budget. For me, the alignment with evidence of impact and delivery is the bit that we have not touched on yet this morning: the evolution of the national performance framework, which the Deputy First Minister is committed to updating. I do not think that we have seen a timescale for when that will come through. There is alignment between the programme for government and the budget, but we also need the tracking through an evidence base of what has been achieved from Government plans and intentions, budget setting and, thereafter, performance reporting. There is still work to be done in those areas.

The Convener: There is a concern about how the outcomes tie in with what the Government professes to wish to deliver.

The MTFS is a significant part of your submission. You talk about improvements that have been made, such as in quantifying the projected fiscal gap over the medium term. What other significant improvements would you like to see in the medium-term financial strategy?

Stephen Boyle: That is fair, convener. In its 2023 medium-term financial strategy, the Government began to look at some of the drivers around spending. Fiona Diggle might want to say a wee bit more, so I will pass to her in a second. The impacts of pay and workforce are examples of the positive development of the MTFS. We are keen to see that improvement built on in the next iteration of the MTFS, with much more detailed scenarios.

I return to your opening question, convener. There is perhaps never a great time to produce a medium-term financial strategy, but whatever is produced allows for events: there is flexibility and clarity of intent for how the Government plans to deliver on its objectives. I will bring in Fiona to say a wee bit more.

09:45

Fiona Diggle (Audit Scotland): Good morning. In our report that was published in November, the Auditor General highlighted that the MTFS in 2023 included a three pillars strategy for working towards fiscal sustainability. We found that useful, and it was, broadly, a good direction of travel. However, it did not include specific details about how each area of activity would contribute to fiscal sustainability.

In recent years, across a number of outputs, the Auditor General has highlighted a couple of recommendations on what would improve the MTFS. He highlighted that there should be specific detail about how a projected spending gap might be closed. In the report on workforce in 2023, it was suggested that there could be specific elements on workforce costs, numbers and plans, projected changes in spending as a result of workforce and links between the MTFS and the medium-term financial framework for the health service.

The Convener: How closely has the Government stuck to the 2023 MTFS?

Stephen Boyle: There have been real challenges for the Government in the intervening period. Fiona mentioned her report from the tail end of last year, and our overall judgment in that was that the Government absolutely continues to deliver a balanced budget.

We have heard routinely that the Scottish Government has had an unqualified opinion on its financial statements for 19 or 20 years in succession, but in doing so—especially in recent years, as a result of some of the economic circumstances that it has been responding to—it has had to continue relying on short-term decisions to deliver fiscal balance.

The Convener: That is very clear in your document. You raised concerns about that.

Stephen Boyle: We have seen a theme of short-term focus and not moving on to some longer-term decisions. We touched on some of that in January, did we not?

The Convener: Is that because of the Government's approach to public sector pay? For example, this morning, the UK Government made it crystal clear that it will not increase its pay offer of an increase of 2.8 per cent to public sector workers. The UK Government has also taken a very strong line in response to the Birmingham strike that has been in the headlines for a number of weeks.

The Scottish Government set out an increase of 3 per cent a year for three years, but, because of what has happened in previous years, it seems like the trade unions are looking at that as a floor from which to negotiate. If that proves to be the case and we end up with rises above that—Scotland already pays on average £2,300 more per year for public sector workers than the UK does for their equivalents down south—is there a possibility that we could end up with yet another emergency statement in the autumn?

Stephen Boyle: I will not talk about the specifics of whether there will be an emergency statement. Before he finished his term in the role, the permanent secretary was pretty clear in his evidence that that is not his assumption.

The central role that workforce numbers and pay play in fiscal sustainability is clear. We have made a number of recommendations to that effect, about the need for clarity around spending on staff and what the Government's plans are for public service reform of the workforce. The minister mentioned the reform of the public body landscape.

During the next few weeks, a lot will come through about what the medium-term financial strategy will cover in relation to the workforce, what the Government's plans are to reform public services in Scotland to deliver its prevention agenda and how it will deliver that in a planned, affordable way that aligns with its priorities.

Our report at the end of last year said that we had seen clear steps to deliver financial balance through some of the emergency spending controls, but much less clarity about whether that fully aligned with the Government's pillars and intent for the longer term.

This feels like a very important moment for the Government's fiscal plans. May 2025 will encapsulate new strategies and plans for public service reform and how those will be taken forward. We will track that through our work.

The Convener: On the wider budget process and our call for evidence, we asked in question 4 how the MTFS is currently used by parliamentary committees. From your answer, which is quite detailed, it appears that you have completely body-swerved that part of the question.

Stephen Boyle: Forgive me, convener. When we respond to a call for views, we sometimes deploy some licence to address parts of the questions on which we think that we can make an effective contribution.

The Convener: That is a politician's answer.

Stephen Boyle: Our silence betrays the fact that we might have nothing additional to support our evidence or that would be useful to the committee. Having said that, a fairly topical example that I have already mentioned a few times is that the Public Audit Committee is taking a strong interest in fiscal sustainability in response to some of our reporting. Indeed, that committee had a very full evidence session with the former permanent secretary and his senior officials in March, in response to our report.

The Convener: One of the issues for this committee is that we want the committees to have a greater role in the budgets for their areas. From my perspective, I feel that committees sometimes think that budgets are just the job of the Finance and Public Administration Committee. As a result, I do not think that MSPs in the main have as sound a knowledge of the Parliament's budget and its intricacies as they perhaps should have. That is why we are asking that kind of question.

Stephen Boyle: Fiona Diggle might want to say a bit more about that. I think that there is increased appetite, but there needs to be additional appetite for that, especially as part of the pre-budget scrutiny arrangements across the parliamentary committees. Done properly, the medium-term financial strategy can be an incredibly helpful and powerful tool to support committees' programmes of work and scrutiny of Government. That space can undoubtedly be developed, and we can think carefully about how we might support that interest through our reporting.

Fiona Diggle: During the past four or five years, in the current parliamentary session, there has been a lot of variation in the MTFSs, so the bases on which committees might review them have varied a lot. As we set out, the 2023 MTFS was a step forward, but the time gap makes scrutiny harder.

The Convener: It is interesting that committees may be somewhat loth to look at the MTFS and how it affects them. Perhaps we should look at that in the future. I feel that, when the new MSPs come in next year, there should be an element of induction in some of those areas to let them know what we are talking about. There is not much point if only 10 or 20 per cent of the Parliament is debating those issues effectively.

On how effective current public engagement is, you say:

> "the Scottish Government has made some progress in making the budget process more transparent over the last four years but is still failing to reach standards considered adequate by international best practice and ... greater budget transparency is needed to realise human rights."

What country or countries would you say are the gold standard in that regard?

Stephen Boyle: Fiona Diggle might want to say something on that, but I think that you are referring to our work that draws on some of the judgments of the Scottish Human Rights Commission, which compared the openness of the budgetary process with that of more than 100 countries. If we have the detail of those that represent best practice, we will share that with you. The Scottish Government has made some progress with its transparency, but it is not yet reaching adequate standards.

The Convener: There is a difference between best practice and adequate standards. Describing something as adequate is like saying that it is struggling. Best practice is a different thing altogether—it means that you are trying to be the best. Are you saying that, in Scotland, we are below average in these areas?

Stephen Boyle: For absolute clarity, I note that that part of our submission draws on the judgments of the Scottish Human Rights Commission.

The Convener: I see that.

Stephen Boyle: The SHRC might be better placed to talk about the distinction between best practice and adequacy.

I will hand over to Fiona Diggle in a second, but what you said is interesting. My sense, based on some of the evidence that Scottish officials have given to parliamentary committees recently, is that they recognise that there is some additional work to do in this area. In particular, they drew attention to some of their equalities assessments, which they might factor into future budget submissions.

Fiona Diggle: We do not have the detail of the open budget survey report to hand, but we can share that with you.

It is worth flagging up that lots of interesting models are being talked about. The committee talked about the Finnish model with Professor David Bell and Professor Mairi Spowage last week, and there has been some discussion about the Dutch model for reviewing value for money between spending reviews, which was mentioned in the National Audit Office report on spending reviews. There are also some interesting examples in the Organisation for Economic Co-operation and Development report and the Scottish Fiscal Commission report. There are lots of interesting examples out there. However, all the points that the SHRC brought out in its report are quite sensible.

The Convener: I am going to challenge some of them in a minute, to be honest with you.

You are talking about bits and bobs from different countries. There is no real gold standard; there is not one country that does everything. We should not try to emulate anywhere 100 per cent. We cannot do that, because the Scottish Parliament is a devolved body whereas the countries that we are talking about are independent countries with different statuses, apart from anything else. I suppose that we could look at the land or estates or whatever. However, if we are talking about international best practice, it is important to tell us where that international best practice is, so that we can look at it.

Fiona Diggle: All models are different and all countries are different, but there are lots of rich ideas that can be drawn upon. We can provide more information on the OBS report.

The Convener: I said that I was going to challenge some things. The SHRC report recommends making budget publications available in an accessible, simplified format and in different languages with the participation of existing civil society groups. I understand what that means, but how would it work and what languages should the publications be available in? Who is going to want to read the Scottish budget in Hungarian, Urdu, Swahili or Spanish, for example? Surely that is just nonsense. Let us be honest: everybody in the country bar a small minority is pretty fluent in English, and I think that those who are not will have other priorities before reading the Scottish budget documents.

Stephen Boyle: I do not know that that is the case, actually. If the Government wants genuine participatory budgeting and engagement, and if English is not someone's first language—I am drawing on the work of the SHRC—why would it not want to do that if it means taking relatively small steps?

The Convener: Are they relatively small steps? It may be that only half a dozen people would read the document in those languages, and it would cost a huge amount—probably thousands of pounds—to translate it into one other language, never mind more. Do we know many languages are being proposed?

Stephen Boyle: That is perhaps a—

The Convener: It is just an empty statement, is it not? It means nothing unless the recommendations say what the languages are, how many there should be and what the cost implications would be. I find it frustrating when I

read things like that, to be honest. It is almost a throwaway line rather than a serious policy intent.

Stephen Boyle: I can understand your frustration, but the intent is reasonable, in my view. You made a comment earlier that some of your fellow members of the Parliament take the view that budgeting and budget scrutiny are matters only for the Finance and Public Administration Committee. If we extrapolate that outside the Parliament and you want people to be engaged in spending decisions—the national performance framework, by extension, is about how Scotland performs, and the Scottish Government's ambition is that people are engaged in the process—some steps might need to be taken.

Forgive me, but I do not have insight into what the translation costs would be or what usage there would be of a translated Scottish budget document. The SHRC might be able to offer the committee more insight into that. However, I do not think that making small, reasonable adjustments should be a barrier.

The Convener: I agree. I just do not think that they are particularly small, reasonable or appropriate.

You also say that the SHRC proposed that a citizen's version of each key document should be published. What does that mean?

10:00

Fiona Diggle: It means a document that is more accessible and understandable.

The Convener: In what way? How can you make the budget document more accessible?

Stephen Boyle: We get this challenge a lot—for example, when it comes to annual accounts.

The Convener: As an example, the Scottish Fiscal Commission's stuff is written in straightforward, plain English, with lots of explanations at the end of all the acronyms. How would you improve on that, if you feel that it is something that should be improved?

Fiona Diggle: That is something that we have been working on at Audit Scotland. We now produce easy-read versions of our reports, which have simple, limited text with some diagrams and explanations to make them as accessible to as many people as possible.

Stephen Boyle: There are communication standards around this, which, as Fiona mentioned, we have tried to adopt in our publications and on our website.

The Convener: Do you feel that the Government is not meeting those standards?

Stephen Boyle: It is for the Government to confirm that. It is to a degree inevitable that, with a medium-term financial strategy—as I said, none of us has seen a fiscal sustainability delivery plan yet, with the first one coming next month—there will be an assumption that the documents will be very technical and will be produced for only a small number of people, but if you are to encapsulate the ambition of having the populace engaged in the Parliament's activities, making small, reasonable changes feels an appropriate thing to do.

The Convener: I think that everybody wants the populace to be more engaged. We would like, on occasion, the people who gather in the public gallery at meetings of this committee to be more than just the people who will be giving evidence next or a couple of students who wander in and, five minutes later, decide to wander out again. We would all like more engagement, but it is about being realistic, practical and pragmatic.

The first group of people who need to be au fait with all the documents are probably elected representatives in this Parliament, in the UK Parliament and in local authorities, as well as the people in the third sector who deal with these issues. Sometimes, it can be quite unrealistic to talk about public buy-in, because people have priorities other than to look through a 140-page draft budget document and a 90-page sustainability document. Life really is too short for most people to do that.

Stephen Boyle: I recognise all of that. I sympathise with the SHRC's position because there will be clear responsibilities on public bodies to make documents accessible and available in easy-read formats and to ensure that their websites comply, with things being translated as necessary. Those responsibilities should not be barriers to making the process more open or removing some of the actual or perceived blockages or barriers to engagement.

The Convener: Okay. I open up the session to colleagues around the table.

John Mason (Glasgow Shettleston) (Ind): I may go over some of the ground that the convener has already been over. The assumption is that it is a good thing to have a medium-term financial strategy and plans for the future. For example, the Scottish Fiscal Commission and the Office for Budget Responsibility look 50 years ahead. As has been said, we must balance the budget every year, but unexpected issues can come up. An example is the UK Government giving public sector workers a higher pay increase, which we must follow. Are you convinced that there is value in having a five-year plan?

Stephen Boyle: Yes, I am—absolutely. I accept that there will be events, as you say, Mr Mason. There might be fiscal challenges, economic shocks, unanticipated elections or budget challenges—you name it. In my opening remarks, I alluded to the impact that tariffs might cause. However, rather than such events being a reason not to produce a medium-term financial strategy, for me, they reinforce why that is all the more necessary—and not just a financial strategy that involves a broad-brush recognition of scenarios, but one that will be useful in practice.

We might have spoken about this when I was last at the committee. The public sector in Scotland will be employing people for decades and there are public sector pension commitments that will last for decades. Notwithstanding some of the public service reform, the assets that we use will still need to be owned, managed and maintained into the future. Setting that out clearly provides transparency and supports effective decision making and scrutiny. I recognise the argument for why we should not have medium-term financial planning, but it is not as solid as the reasons to have it.

John Mason: Can you spell out the difference that it could have made if we had had better and more frequent medium-term financial strategies in the past few years? You mentioned capital projects and workforce planning. Where might it have made a difference to those things, as well as to other aspects in the future? There are many capital projects—we want to build more houses and dual the A9—but we will not know what the capital budget is, so can we plan ahead?

Stephen Boyle: If you will allow me to, I will make a distinction between capital and revenue. First, the Scottish Government does not intend to set out its infrastructure investment plans for capital until after the UK spending review. At the risk of contradicting my response to the convener's line of questioning, I note that it is reasonable for that to be the clearly stated plan. I say that because, in recent years, the capital budget has contracted, which the committee will be familiar with. However, although there can be a level of uncertainty when prioritising capital investment, that is not a reason not to do medium-term capital planning, for the reasons that we have discussed.

Secondly, on revenue, over many years, our reports have talked about the unsustainability of public spending in Scotland and the need for reform in how public services are delivered. Some examples of how the Scottish Government has responded to the challenges have already been alluded to, including emergency budget arrangements and spending decisions. Some of the detail of how the fiscal balance has been delivered each year has been a consequence of the lack of clarity around whether some of the decisions that were made were aligned with priorities, or whether some budgets were underspent that could have been amended more easily during the course of the year. The Government did not take a step back to set out what its response would be in the event of fiscal challenges. In recent years, there has been good evidence of how the Government has responded to shocks, but its response has not been aligned with the thinking around a longer-term plan for reform and sustainability.

John Mason: I still wonder whether it is possible to plan ahead. Does there need to be more political will in order to do that? For example, the plan for pay was to have a 3 per cent increase for one year with a 9 per cent increase over three years, yet I believe that, within a month or two of that decision, the national health service was offered a 4.25 per cent increase for this year. Are you saying that the Government should somehow be more tied in to the longer-term plan? That would mean that the Government would just say no to a short-term pay increase demand and that that would be that, even if there were strikes.

Stephen Boyle: Decisions about the pay award will be political decisions for the Government. If the base assumption changes, we would expect there to be an alternative assumption, with plans B, C and D. Typically, pay is baked in if it is not accompanied by reform arrangements, but if it consumes a larger proportion of the budget, we would want to see a plan for what would be deprioritised instead. We do not have that level of detail in order to be able to effectively scrutinise how those decisions align with the Government's spending pillars.

I remain optimistic that, on the basis of what we have already heard, we will begin to see more detail on that next month. However, at the moment, it feels as though those types of decisions are being made without there being longer-term clarity.

John Mason: As has been raised—and we will probably raise it in our next session as well—if you lay out a number of scenarios A, B, C and D, the media will go for the absolute worst of them. If we said that, if teachers get a pay increase, class sizes will have to increase to compensate, that would immediately become the headline. Politically, is it realistic to lay out options, some of which would be pretty unpalatable?

Stephen Boyle: I appreciate that the Minister for Public Finance is joining the committee later this morning. The Government has stated that it plans to reform public services in order to align them with its pillars and to support a preventative approach in public service delivery. It has also

stated that it intends—to use the Government's phrase, not mine—to right size the public service workforce. The detail of that has not been provided yet. Of course, there will be a response to it—we have seen that in the use of the Scottish Fiscal Commission's work. The SFC has set out some of the downside scenarios, which involve a gap of up to £2 billion, but it has provided clarity, understanding and the ability to scrutinise and challenge. A fear of how that information might be interpreted should not be a barrier. If anything, a virtue could be made of the fact that it provides real transparency about the scale of the decisions that still need to be made.

John Mason: Okay. On a slightly different subject, you are a bit sceptical about the committees doing year-round work if they do not have enough information from the Government to do it. Can you expand on that? I am keen on the idea that the committees do work throughout the year in relation to the budget. For example, the Education, Children and Young People Committee has been looking at the situation at Dundee university, which has become quite a challenge. I see that as part of that committee's budget work—it is not coming from the Government, it is coming from the circumstances and the situation around funding for universities. Do you not think that it is possible for the committees to do a lot of their budget work regardless of whether they get information from the Government?

Stephen Boyle: Yes, absolutely. To be clear, it is an important feature of the work of committees across the Parliament that they consider progress against spending and look not only towards next year but years into the future and perhaps over the duration of the parliamentary term. That should be embedded as part of their work programme. There is no disagreement from me on that point.

John Mason: Fair enough. The convener touched on the capacity of MSPs and committees. We have had the problem that committees seem to leave it to the Finance and Public Administration Committee to look after the budget. Do you think that we should be trying to change that scenario? If so, do you have any suggestions for how we can get the committees to look more at the finances?

Stephen Boyle: You should be looking to engage members from across the Parliament on matters of finance. If anything, I see a parallel with the Public Audit Committee—some members who are not on the Public Audit Committee are not terribly engaged with some of our work and our audit reports. We think that those reports are relevant, as they are an extension of the work on how public money has been spent and whether it has delivered as intended.

Through the work of the Finance and Public Administration Committee, the Scottish Parliamentary Corporate Body and Audit Scotland, we are very happy to play our part in that engagement. It might be optimistic to think that we will achieve it in this parliamentary term, but there is an opportunity in the next session for this committee and the Parliament itself to be clear about their ambition for the scrutiny of budget work and the roles that are to be played on that across the Parliament. Audit Scotland is keen to play a part in any induction arrangements that you may offer to new members when they join the Parliament next year.

John Mason: Thank you.

Craig Hoy (South Scotland) (Con): Good morning, Mr Boyle, and welcome to the committee.

We have talked about trying to be transparent and to put complex data and reports into more simplified language. You called for greater transparency in relation to budgetary information, to improve the effectiveness of the budget process. What would that greater transparency look like to a layman and how would you bring it about?

10:15

Stephen Boyle: Good morning, Mr Hoy. I will start, and then I will bring in Fiona to provide a bit more detail.

I go back to the discussion that we have had about the medium-term financial strategy, in which I am keen to see a level of detail that supports scrutiny, as well as more detailed scenarios. The Government has an opportunity with the documents that it intends to publish next month. As I mentioned in response to the convener, I am looking for there to be alignment between, and transparency in, the MTFS, the fiscal sustainability delivery plan and the public service reform strategy, all of which it is intended will be published next month. Those documents should be aligned and should provide clarity on how the Government will address the big challenges.

As we have heard from Government officials, the issues of health and social care reform and the investment that the Government intends to make in social security arrangements and wider public service reform, along with the significant issues that exist in relation to pay and the workforce, are fundamental to the delivery of the Scottish budget and the sustainability of public services for the rest of the decade. How the Government will address those issues must be set out with real clarity.

Fiona Diggle: There should also be a link with the outcomes and services that the Government hopes the spending will achieve.

Craig Hoy: In your submission—I think that you have also made this point elsewhere—you said:

> "the Scottish Government does not know where it can flex its budget easily to accommodate short-term fluctuations or longer-term commitments. A better understanding of its cost base would help develop its Spending Reviews".

When I ran a private sector business, I had a detailed understanding of the cost base, because every pound spent unnecessarily was a pound less in profit. Why would the Government not have a detailed understanding of its cost base?

Stephen Boyle: That is the judgment that we reached. In our publication in November, we set out that the Scottish Government was not clear enough about where there was flexibility in its spending plans that might enable it to address an event such as an economic shock. We found that the Government appeared to take a more opportunistic approach to reducing spending on certain areas of the approved budget than it did on others. We would expect the Government, rather than doing that, to provide clarity on which spending programmes are variable. It should set out publicly which areas of spending it would step back from in order to deliver fiscal balance.

I think that the Government recognised the need for that in some of the evidence that it gave to the Public Audit Committee, and we are looking to see what will come next. We want to find out which are the areas of variable expenditure and whether a suitable level of transparency accompanies that.

Craig Hoy: Would an example of that be the fact that, when the Government faced a shortfall in the recent budget, it took a scythe to housing and employability schemes, even though addressing those two areas is vital in eradicating poverty? Is that an example of the knee-jerk response that you are talking about?

Stephen Boyle: The other high-profile example is that some expenditure on mental health services was identified as an area from which funding could be taken to deliver fiscal balance.

We are unclear about whether those were areas in which the Government intended to reduce spending before the shock happened or whether those budgets were, for a variety of reasons, being underspent and were available to be used to deliver fiscal balance. Our recommendation was designed to address the need for upstream clarity.

Craig Hoy: Pejoratively, I would say that the Government makes it up as it goes along.

You have called for the medium-term financial strategy to have a greater focus on how the funding gap will be closed. If the Government does not focus on that, where will we end up in two, five or 10 years' time?

Stephen Boyle: In recent years, we have seen emergency interventions such as spending controls being used to deliver financial balance. As the Government has rightly pointed out, it has delivered financial balance every year. That has been more challenging in some years than in others. I think that the Government accepts that it needs to do work—it is doing work on public service reform, the strategy on which is awaited—so that it does not find itself in the position of having to make such interventions mid-year in order to deliver financial balance.

The reality, Mr Hoy, is that it will get harder without a clear programme of reform around workforce, the adoption of technology to deliver the preventative approach and clarity about how Scotland's public services will use their estate. We generally have an increment-based model of public services. Some people have called for a zero-based budgeting approach to public services. We do not quite get into that area, but it is about how public services will be reformed on a planned basis to deliver fiscal balance from one year to the next and into the medium term.

Craig Hoy: You have warned in reports about the long-term sustainability of the Scottish public finances, as have other bodies in front of this and other committees. However, some of the underlying trends—largely in the public sector workforce and social security—and recent experiences do not suggest that the Government is taking them seriously. For example, since 2016, there has been a 71 per cent rise in the civil service workforce. The number of senior civil servants at grades C1, C2 and C3 has tripled.

Those are recent trends, and there is no sign that the Scottish Government is turning the ship around. It says that it has had great success in reducing the size of the contingent workforce, but they seem to be leaving through the back door and potentially coming in through the front door as full-time civil servants. Is the Government taking those warnings seriously, or is it simply discounting them and saying that you are all wrong and that it is on a sustainable path?

Stephen Boyle: Next month's publications are important in providing clarity on the medium-term direction of travel for not just Scotland's public finances but service delivery models. As the permanent secretary advised the Public Audit Committee, there will be a public service reform strategy next month. The success of that will relate to alignment. There is a flow-through from the top-level medium-term financial strategy to the detailed scenarios and how it connects to the fiscal sustainability delivery plan and then to detail of plans to reform public services.

I do not doubt that that will be challenging and complicated, but, to go back to your previous

question, if Scotland does not do that, it will become harder to deliver public services with the models that we have. Indeed, we touched on some of the figures that you mention, Mr Hoy, in our briefing report on Scotland's public service workforce from a couple of years ago in relation to growth and the need for a plan around how the civil service will operate in the future.

Craig Hoy: Has any mandarin or senior minister explained to you why Scotland now needs three times more senior civil servants than it needed in 2016?

Stephen Boyle: I have not had that direct conversation, but it speaks to some of the points that have been raised this morning. Scotland's public sector workforce per capita is, in general, larger than that in the rest of the UK, and it is typically paid more. Based on potential UK Government decisions and how they would interact with Barnett consequentials, that will result in Scotland having to make alternative decisions around tax or spending to deliver fiscal balance. The publications next month will be looking for that clarity.

Craig Hoy: Super. Thanks very much.

Michelle Thomson (Falkirk East) (SNP): As is the nature of these things, many of the questions that I was going to ask have been covered, so I will just pick up on a couple of points.

Let us go back to the question about how effective current political engagement is. I know that there has been a discussion about that already, but I would like to gently challenge you on why you chose to refer to the Scottish Human Rights Commission's contribution instead of giving your own view as the Auditor General. Does that mean that you do not have a view, or is it that you just could not think of anything?

Stephen Boyle: As I mentioned, if we do not think that we have something to add to a call for views, we will leave a particular section blank. Our assessment of the Scottish Human Rights Commission's contribution was that it was a rounded assessment and contribution and that there were reasonable parallels to some of our own judgments and reports in recent times about the need for transparency, particularly around the Scottish budget and the need to link it to the national performance framework.

We are in the third or fourth iteration of the national performance framework, but it has still not quite had the impact or traction that was originally envisaged in setting out how public services are being delivered. Part of that is about people being engaged—not just electorally, but through having a real sense of how public spending has delivered for them.

Our assessment was that the commission provided a reasonable suite of views, which we would not look to deviate from or present as our own.

Michelle Thomson: A lot of this has been covered, but—I do not want to put words in your mouth—you view the national performance framework as the most accessible way in which ordinary members of the public can grasp the thematics of this and what that means for them. Is that correct?

Stephen Boyle: If it is done properly, yes. There is a gap, though.

Michelle Thomson: I agree. I ask that question because one of the challenges is the complexity of the fiscal framework. I try to explain it to people. They ask a straight question and I desperately try not to sound like a politician by saying, "It depends." I then need to explain in a simple way why it depends, by which point I have inevitably lost them. I would like to hear your comments on that.

The Scottish Fiscal Commission is doing considerably more work now, and it is welcome to point out the issues with the UK's fiscal sustainability. If you understand anything about the fiscal framework, you will understand that there is a critical dependency on the UK's fiscal sustainability. What thought have you given to that? If you understand the fiscal framework and fiscal sustainability, you will understand that you cannot have one without the other. I appreciate that you provide the audit and that that is different—I get that—but I would like to hear some reflections on what consideration you are giving to the wider economic environment.

Stephen Boyle: I am very happy to comment on that. I do not disagree with what you have set out, Ms Thomson, especially with regard to the fiscal framework. People ask me about it and I say that it is complicated.

Michelle Thomson: I suspect that that is a better explanation than mine.

Stephen Boyle: I appreciate that we are now in the second iteration of the fiscal framework between the two Governments, and I accept that, by necessity, some of it will be technical and complicated. You have not asked about this directly, but, to get to the question of whether we can make it understandable for people, that is a challenge to which we have to rise.

To bridge into your second question, you are right in saying that there is clearly a connection between the UK's economic situation and the Scottish Government's performance and income expenditure. We are thinking very carefully about that. Towards the end of this year, we will produce

our report on Scotland's tax and fiscal sustainability, which will build on some of the reporting that we did at the end of last year.

I also refer the committee to the annual report that I produce on the operation of Scottish income tax to support the Public Audit Committee's scrutiny of the National Audit Office's audit of the tax. That is the tail end of how these matters operate. In the most recent report, which we produced in January, we sought to bring some insight to the application of the fiscal framework and the application of tax policy in Scotland. Again, we are drawing on the work of colleagues in the Scottish Fiscal Commission on the economic performance gap and some of those factors. We approach that from an audit perspective, and our next report on how that tax is operating will be at the end of this year.

Michelle Thomson: I notice that the Scottish Fiscal Commission has slightly rephrased its terminology, probably to recognise that critical dependency.

Let us return to the question that Craig Hoy asked about people having a better understanding of the Scottish Government's cost base. Does the Government have an understanding of its cost base? To go back to the point that John Mason made earlier, it is politically unpalatable to reflect an understanding of that cost base, so it probably seems better to keep schtum. Are you just being kind by saying that the Government does not have an understanding of its cost base?

10:30

Stephen Boyle: That goes back to the scenarios. If an intervention is required, it needs to be based on an alignment between Government priorities rather than on which budgets are being underspent, for whatever reasons. I do not think that we have seen enough evidence that that is the case yet. Decisions to deliver financial balance in challenging periods have been made on the basis of budgets being underspent rather than the Government setting out that it intended to deprioritise a particular area of policy implementation.

Michelle Thomson: Okay. I have a final question to finish off this topic. We have covered the gamut of all the various documents. It is incredibly complex and difficult to align all of those. We also have the UK spending review, as you correctly commented. Based on your experience thus far, how confident are you that, particularly with future projections in these really challenging times, things can be brought into line with the clarity and purpose that we are all seeking?

Stephen Boyle: I will reserve judgment. In recent times, we have seen fluctuation in the depth, content and quality of medium-term financial strategies in particular. However, I still believe that it is essential that, if Government intends to produce a suite of reports about how it will deliver public services and fiscal sustainability, there needs to be a clear thread between them. Without that, you are left wondering why the Government should bother producing a stand-alone report if that does do not interact with its spending intentions, how it will respond to challenging circumstances and, ultimately, what it is delivering through the national performance framework.

Liz Smith (Mid Scotland and Fife) (Con): Last week, we had some very interesting conversations with the OBR about some of the challenges that forecasters are facing. I suspect that we might have similar discussions with the Scottish Fiscal Commission in the evidence session this morning. I raise that because the OBR expressed considerable frustration about the recent spring statement, as its projections on welfare spending were based on policy commitments that the UK Government had made but that were no longer the case. The statement made short-term and late adjustments, creating considerable frustration and difficulties for the OBR. In Scotland, the Scottish Fiscal Commission expressed its concerns that the mitigation of the two-child cap came very late in the day.

I know that you cannot comment on policy or on whether the right policy is in place, but do you think that Governments making very late announcements is creating genuine challenges and difficulties for forecasters and, therefore, for people like yourself, who are having to audit what is happening? Is that causing greater difficulty?

Stephen Boyle: That is probably not the easiest area for me to get into, but recognising and respecting the evidence that you heard from the OBR and, indeed, the Scottish Fiscal Commission's view on that, I think that, in the round, it speaks to some of the judgments that we have been making about transparency and the need for clarity around when things will be published and when publications will be produced in the event that something else happens. For example, if there is an economic shock or an election, we need to know what the delay period for things will be. In that way, everybody will know the rules of the game, as it were; forecasters will have the information; and auditors like me will be clear about when documents will be produced. All of that additional transparency would certainly help, Ms Smith.

Liz Smith: There have been issues when short-term planning has taken over from longer-term planning. As you rightly said, that tends to happen in difficult economic circumstances, because quick

adjustments are having to be made, particularly if something happens internationally. Sometimes, an exogenous shock affects the UK. Do you feel that that is an issue? When we look at the transparency of this, is having to make adjustments on a short-term basis very quickly creating some challenges for medium-term and longer-term financial planning?

Stephen Boyle: As I mentioned to Mr Hoy, we saw examples in which the Scottish Government had to intervene. As the committee knows, the Government has no choice other than to deliver financial balance, given how devolved finances and the UK Government operate. The Scottish Government has some mechanisms that it can deploy through the fiscal framework to borrow for economic shocks, but those are generally fairly limited.

In that context, it goes back to—as is set out in our submission—the need for a clear direction of travel for sustainability in public service reform, including scenarios that allow for events in the medium term and a really detailed scenario for how, in the event of a particular shock, the Government would respond in-year to identify priorities and areas to be deprioritised. We are optimistic that we will see that clarity next month.

Liz Smith: That is very helpful. Thank you.

The Convener: I have another couple of questions.

Last week, Professor David Bell said that further improvements can be made, including to provide clarity around regular in-year transfers in the Scottish budget. When we look at the spring and autumn revisions, my colleagues and I often raise the issue that, every year, we get the same transfer of resources from one budget line to another. We have speculated about the reason for that, but what is your view?

Stephen Boyle: Fiona Diggle might want to come in as well.

I think that there is a need for transparency when there is a transfer from one budget line to another, including through setting out the reason for it, and the ability to track performance against the original budget. I was an accountant earlier in my career, and, in the organisations that I was in, the budget remained the budget and performance against the original budget was reported. In a parliamentary context, that might or might not be appropriate, but that approach provided real clarity, because you could see what was spent against the original budget line. However, I recognise that spring and autumn budget revisions are part of the fabric of how public spending operates, so, if a mechanism needs to be found to track changes more clearly, I am sympathetic to that.

The Convener: In your evidence earlier, you raised the issue of technology. You talked about reform and how technology can help to reduce costs for the Scottish Government. On page 55 of the Scottish Fiscal Commission's sustainability document, on health, the SFC assumes that healthcare costs will increase by 1 per cent every year for the next half century, and it talks about the Baumol effect, due to healthcare being labour intensive, and long-term conditions. It also says that 0.13 percentage points of that cumulative increase in annual spend over 50 years—which is clearly a lot—

"captures the effect of technological advancements on healthcare costs."

The SFC also says:

"Developments in medical devices, techniques, and procedures tend to push up costs, or where costs are reduced, can result in the expansion of treatments."

Therefore, is it the case that technology does not always deliver the savings that one might look for?

Stephen Boyle: Yes—that is a very reasonable statement to make.

The Convener: The SFC witnesses are sitting right behind you, so I am glad that you are saying that.

Stephen Boyle: It is about getting a level of clarity, but, as you go much further out, you can only make assumptions. There is a pressing need for public service reform, and the Government has stated that one part of its public service reform is greater use of technology, whether that is artificial intelligence or machine learning. However, the accompanying detail is important. It should be a case not of making general statements that technology will provide a way to reduce the cost base or to change how public services are delivered, but of looking to see what can be done and when.

The Convener: Are there any examples that the Scottish Government can copy? Last year, we visited Estonia and looked at the incredible X-Road system, for example. Is there anything that you would recommend?

Stephen Boyle: The last time that I was at the committee, Registers of Scotland was on the panel. That organisation, together with Disclosure Scotland and many other public sector organisations in Scotland, is adopting technology to fundamentally change traditional models of public service delivery.

Your point, I think, is that, when it comes to the adoption of technology, although there are a number of factors related to the quality of service delivery and the ease with which the public can access the service, at some point real consideration must be given to what that means

for the model internally in delivering the service. For example, we might need to consider whether we still need a building. Is it still being used? We might need to ask whether we need as many people or whether we need a different skill set to deliver the service. It is that level of thinking and planning in the round that we are looking to see with the adoption of technology.

The Convener: Thank you very much. Are there any final points that you feel we have not touched on or that you would like to make to the committee before we wind up the session?

Stephen Boyle: Not from me, convener. Thank you very much for your invitation to come along this morning.

The Convener: Thank you very much for your evidence. I will make sure that I speak to Kate Forbes and demand that she produce a Gaelic translation of the budget next year, if she is not too busy.

We will have a five-minute break before the next session.

10:40

Meeting suspended.

10:46

On resuming—

Scottish Fiscal Commission (Fiscal Sustainability Report)

The Convener: The next item on our agenda is to take evidence on the Scottish Fiscal Commission's "Fiscal Sustainability Report", which was published on 8 April 2025, and which has a particular focus on health.

I welcome to the meeting, from the Scottish Fiscal Commission, Professor Graeme Roy, chair; Professor Francis Breedon, commissioner; Dr Caroline Carney, senior analyst; and Claire Murdoch, head of fiscal sustainability and public funding.

Before we move to questions, I invite Professor Roy to make a brief opening statement.

Professor Graeme Roy (Scottish Fiscal Commission): Good morning. Thank you for having us here today. Two years ago, we published our first fiscal sustainability report focusing on demographics. The report that we are looking at today extends that analysis, but with a particular focus on health.

Demographic change is still central to our projections. You will remember that, two years ago, we projected that Scotland's population would decline. Because of the number of deaths exceeding the number of births, that is projected to continue. However, our updated analysis now includes a higher level of migration that is consistent with higher levels of net inflows of people into Scotland. As a result, Scotland's overall population is now expected to grow slightly in the next 25 years, before it plateaus. Crucially, however, Scotland's share of the UK population is projected to continue to decline, falling from 7.9 per cent in 2029-30 to 7.2 per cent in 2074-75.

What also matters for the public finances is how those projections look for different age groups. The population in Scotland aged 16 to 64—those who have traditionally been most likely to be working in the labour force—is projected to fall in the next 50 years. In contrast, we see an increase in the elderly population. As an example of that, the number of people aged over 85 is projected to double in the next 50 years. We see a similar trend of an ageing population across the UK, but Scotland's population is projected to age earlier. Indeed, in the next 25 years, Scotland's share of the UK's over-75 and over-85 populations is projected to increase, even though our overall share of the UK population will fall.

All of that has implications for public finances. As we show in our report, demand for key public services, such as health and social care, typically increases with age. Other pressures, including the rising cost of service delivery, add additional pressures to health budgets over time. Assuming that policy remains unchanged and projecting devolved spending and funding based on demographic change and trends in health spending alongside society becoming wealthier over time, we see a gap opening up between funding and spending. In our analysis, we highlight how much of that gap emerges because of funding pressures at the UK level, but we also highlight how some of it is driven by pressures that are specific to Scotland, which, because of our demographic profile, will be more acute in the next 25 years.

We combine the trends that we have projected for Scottish funding and spending with an OBR scenario for returning UK debt to a more sustainable path. Under that scenario, Scottish spending will now exceed funding by an average of 11.1 per cent in the next 50 years. That gap starts relatively small but it grows over time.

Finally, we also took a look at health as the projected biggest and fastest growing area of Scottish Government spending. We produced two scenarios in our report to illustrate the potential links between the health of the population and public finances.

Our better health scenario shows that, if the Scottish population were healthier and if people in Scotland lived as long as their counterparts in England, that would help to mitigate some but not all of the projected annual budget gap. If the health of the Scottish population were to worsen, it would make the annual budget gap more negative. We concluded that the Scottish Government needs to plan to manage those pressures. We welcome its decision to publish the fiscal sustainability delivery plan at the end of next month, which we hope will set out plans to address those fiscal challenges.

The Convener: Thank you for that very helpful opening statement. The comments next to the very first graph on page 3 of the report sum the situation up: although health spending stands at 36 per cent of the Scottish budget now, it could grow to around 40 per cent by 2029-30 and to an astonishing 55 per cent in 2074-75. There has to be real concern about that, and we have to look at how we can possibly change it.

I do not want to steal John Mason's thunder, as he always comments on our ability to project things 50 years into the future when there are so many changes, but, in the last two years, the Scottish Fiscal Commission has changed its projections of the Scottish population by 15 per cent, which is pretty drastic. You now predict that there will be 800,000 more people in Scotland than you had predicted a couple of years ago. One is understandably concerned about how projections within such a short period can be so hugely different.

Professor Roy: We rely on the Office for National Statistics's population projections, so we use its updates to population numbers. Those updates happen on a regular basis. The population projections shown in the report will change marginally when the next iteration of population projections comes around. You may remember that, in one of our conversations, you thought that it would be useful for us to prepare more regular updates because the population projections could change and it would be useful to see how much the story might change with differences in the population.

It is important not to lose sight of the fact that the fundamental drivers of what is happening to our population—deaths exceeding births and population ageing—have not changed. It is the ONS's assumptions about migration that have changed; crucially, it is much more optimistic about migration into the UK over the next few years, with Scotland essentially getting its share of that. That is the big change between the two projections. It is not really a massive change in the structure or ageing of the population but a change in migration. Although that number seems big, it is relatively marginal in terms of the overall story and what it means for public finances. That story is that our population is ageing and doing so earlier than in the UK. That will be a particularly acute issue over the next 25 years and will have big implications for public finances.

The Convener: I do not know whether "optimistic" is the right word to use if you are talking about the UK population being projected to grow to around 82 million people—that is around 15 million more than it is already. Large chunks of England are already pretty much concreted over, so I am not convinced that people will necessarily welcome that. You are suggesting that, on average, a net 20,000 migrants a year will come to Scotland, in addition to 10,000 from other parts of the UK. Given that most political parties—certainly at Westminster—are trying to reduce migration levels, how confident are you that those figures will be maintained?

Professor Roy: There is always a risk around that, which we set out in our assumptions. We rely on the assumptions of the ONS, which looks at recent trends and projects them forward, but those projections can change. In our "Scotland's Economic and Fiscal Forecasts" report, back in December, we highlighted that there was a risk around the migration forecast—if migration falls

across the UK and Scotland takes a similar share of it, that will potentially have an impact on the economy and on tax revenues. When we update the committee on this in two years' time, we might say, "Well, actually, if you look at recent trends, there has been a cutback on migration to the UK, and the overall population projection for Scotland is now less positive—or rather, it is growing less than it was when we were sitting here two years ago." The key point is that it would not change the underlying story, which is that Scotland's share of the UK population is projected to decline and that its population is ageing. Those two factors are the biggest issues for public finances.

The Convener: I was going to ask about that next, but you have answered my question. You say that

"Projected Scottish devolved public spending is unsustainable"

because

"it will exceed funding by 1.2 per cent on average over the projection. Accounting for a possible UK Government response to its fiscal sustainability pressures widens this gap to an average of 11.1 per cent."

Could you talk us through that, because it is a fundamental issue that you touch on several times in the report?

Professor Roy: There are a couple of things to say about that. We might come on to the issue of how robust our projections and forecasts over 50 years are, but the process is largely one of arithmetic. If we look at the cost of delivering public services across different age profiles—there is a good chart on page 54 of our report that looks at resource health spending by age—we can see that, on average, it increases as people get older. For people between the ages of 16 and 60, the average spend on health is, roughly, between £2,000 and £4,000 per person. Once we get to people in the 85-plus bracket, it is about £14,000 per person. Simple arithmetic tells us that, if we have more people above 75 and 85 in the future, more money will have to go on delivering exactly the same spending commitment. We might get into some of the implications of that for the economy more generally.

That demographic element is really important, but the key point is that it is not unique to Scotland. All high-income economies around the world face an ageing population. Before I forget, I should put this point on the record: the fact that we are ageing as a population is a really good thing. It reflects great progress in society, healthcare, the economy and so on, but it comes with a fiscal cost.

That is a challenge at the UK level. Crucially, the block grant is still the biggest element of the Scottish budget. Therefore, what happens at the UK level as regards how the UK Government responds to its ageing population has implications for future block grants. In the report, we say quite a bit about the driver of how the UK Government might respond to its ageing population and how that will have an impact on the block grant.

We also highlight the unique challenges in Scotland. There is an interesting demographic dynamic that we have tried to pull out to a greater extent than we have done previously. Over the next 25 years, our share of the elderly population in the UK is going to increase. That means that, over the next two to three sessions of the Parliament, the pressure on public spending will be more acute in Scotland than it is in England, simply because we will have a higher share of the elderly population.

The Convener: Yes, but there is an element of rebalancing later on in the forecasts.

Professor Roy: Exactly—the rest of the UK will catch up with Scotland's population.

The Convener: The issue is not only how long we live, but how long we live in good health. That is a major issue, certainly in the area that I represent, where the average age at which people go out of good health is as low as 56—in other words, people can live in ill health for 15 to 20 years. That is a major issue for the individuals concerned, never mind for budgetary considerations.

I am keen to look at what you say about the annual budget gaps. You say:

"We also assume the UK Government does not take action to address its own fiscal sustainability challenges."

Why would it not do that?

Professor Roy: We have two types of results here. To build up our analysis, we assume that Government policy will not change—in other words, we assume that it will continue to fund spending on health and social care, and so on, as normal. We then get the first assessment, which is the bit that is the unique challenge to Scotland: that budget gap. That gap would never exist, because the Government cannot borrow, so it has to adjust for that, but it is an illustration of where we think that funding will lag behind spending. We do that assessment assuming that Government policy does not change. That gives us our first set of results, where we talk about there being an average gap between funding and spending of about 1.2 per cent over the next 50 years. That obviously assumes that UK Government policy will not change, but that is not sustainable. The OBR has been very clear about the fact that the UK Government's current trajectory on its fiscal policy is not sustainable over the long run.

11:00

We then ask what the implications of the UK becoming sustainable might be and we take one of the OBR scenarios about coming back down to a certain debt level, and we assume that that adjustment is split between spending and revenue. That is where the additional budget gap comes from. Ultimately, the biggest driver of the budget gap over the next few decades is the fact that both the UK's and Scotland's populations are ageing. How the Governments respond to that will be their biggest pressure.

The Convener: It is interesting that, in paragraph 29, you say that

"Under a scenario of worse population health, we project the annual budget gap to reach minus 4.0 per cent by the end of the projection",

but if the gap

"is improved by better population health,"

it could be a "positive 6.2 per cent."

Professor Roy: Yes. That is one of the key points that we try to highlight in the report. To be clear, the comparisons are based on the unique Scotland element. There is still the additional bit on the UK, so at the end of the report we talk about how the overall budget gap will be impacted between the better and worse scenarios. That is why I was saying that a better scenario helps you to address that but it does not solve everything.

The better health scenario is interesting because it gets to your point about what happens if we improve healthy life expectancy. That would lead not just to less demand on public services but more participation in the labour market and a greater set of tax revenues flowing in. In a worst-case scenario, that potentially becomes worse: the spending goes up and the economy becomes more negative.

The key thing that we are trying to say in our report is that health does not follow the public finances: health is one of the big drivers of the public finances over the long run. If you can improve the health of Scotland's population, that will be good for individuals and society, and it will save the Government significant money over the medium to long term.

Professor Francis Breedon (Scottish Fiscal Commission): It is worth emphasising that the fiscal gains are really coming from healthy life expectancy. Having people in good health for longer reduces your spend per head. If we were to put on only our fiscal hats, how to improve healthy life expectancy is the thing that we would focus on.

The Convener: One of our concerns, when we see that potentially up to 55 per cent of the Scottish budget will be spent on health by 2075, all else being equal, is the fall in productivity in healthcare.

As you say in the report, productivity in manufacturing, for example, through technological innovation and so on, is a lot easier to increase than productivity in areas that are labour intensive, such as healthcare. We have seen a quite substantial reduction in the productivity of the health service across the UK since the pandemic. What impact has that had on your projections, and do you expect that reversal to be turned around over the next five or 10 years?

Professor Roy: I would say a couple of things on that. There are two issues that it is important to separate out.

There are the unique elements of what has been happening since the pandemic, where we have seen a significant fall in UK productivity in the health service—I think that it is 10 per cent down relative to during the pandemic. That is causing significant challenges in terms of outcomes, which we see across all the key measures of health outcomes in Scotland.

On its own, that issue means that the challenge of addressing the budget gap, at least if the policy is to keep people's outcomes neutral, will become more difficult over the long term. Essentially, in order to have the same quality of outcomes, if you cannot get productivity up, you will have to spend even more. That makes the challenge worse.

The Convener: That is what is happening now. We are spending more on the NHS, but there are fewer operations than there were before the pandemic.

Professor Roy: The second bit that is really important in health is covered in our report where we say that, even if we assume that you can address that first issue, there are other challenges around improving productivity in healthcare over the long run, which we know based on experience. That comes down to the things that you were talking to the Auditor General about—technological improvements, for example, can help a lot.

Ultimately, however, getting productivity gains in health is quite difficult, because it depends on caring and people being looked after, and on the high-quality delivery of that service. There is, therefore, an underlying challenge in health as an area of the public sector in that it is difficult to get productivity improvements at the same scale as in the wider economy. On top of that, there are the particular challenges that we have faced post-pandemic regarding the fall in productivity in the NHS.

The Convener: What impact will that have on treatments? I chair the cross-party group on life

sciences, and we had a presentation from the chief executive of Moderna, who came all the way from Texas for the meeting. He was talking about messenger RNA being used for individual cancer patients so that a cure is developed based on someone's specific DNA, as opposed to anyone else's. It costs an absolute fortune—although he did not put a price on it, of course, because it is still at the development stage. However, it looks very promising, particularly for people who have cancer that is at a very advanced stage.

We also have things such as Ozempic, which could have a cost benefit. It might cost £1,500 a year, but if it prevents heart attacks and strokes, it could potentially save a lot of money in the long run. How do we balance those types of developments through a cost benefit analysis? As another example, a new cure for sickle-cell anaemia has been developed out in Roslin—apparently it costs £1.6 million per patient.

Some treatments will be very cost beneficial, and there are also quality-of-life issues; we are talking about individual human beings. Nevertheless, from an economic point of view, when you are forecasting in an area that is as complex as health, how do you balance the costs and benefits of those different innovations?

Professor Roy: I will have a first shot and then go to Caroline Carney and Claire Murdoch on the specifics. Francis Breedon may also want to come in with some general comments, because that aspect is important.

In our report, we rely a lot on the OBR's analysis, partly because it has done a lot of work on that area and partly because we want to start with the same assumptions, so that we are not telling you something different and then, when you unpick it, you find that it is simply because we have used different assumptions from the OBR. We draw a lot on the evidence on historical trends with regard to productivity rates in the health service and the average technological cost increases.

You are right—some things might provide a cost saving, as there might be a relatively small cost for a drug or innovation that can then have lasting impacts over time, but against that there are things that can be really expensive and will generate more modest benefits, or which might be an improvement that could potentially lead to more expenditure further down the line. It may mean that we are able to catch things earlier, but there is then an increase in operations and demand and so on.

We look at all the evidence and we take an average of all of that. Again, we can play around with slightly different numbers, but we will say, "Look—there will be a cost in here that will grow over time, which is what we will have to account for and address."

Caroline Carney may want to expand on what we do in that regard.

Dr Caroline Carney (Scottish Fiscal Commission): I do not have much to add, except to say that the approach that we take with the additional 1 per cent that you mentioned earlier includes the Baumol effect, technological advancements and long-term chronic disease. That is based on the long-term trend in the UK and in other countries. It is an approach that is used by other independent financial institutions that make these types of projections.

The convener made a point about the cost of £1.6 million for a sickle-cell anaemia cure gets to the point about technological advancements eventually coming down in price and being rolled out to more patients. That is the kind of thing—

The Convener: The number of patients in that case is so small that that may not happen. It is not like the situation where a video recorder used to cost a thousand quid and, five years later, it was 20 quid. I am not convinced that that will always happen in certain areas where rare, or relatively rare, conditions are involved.

Dr Carney: No, maybe not, but some of those advancements—we spoke about cataract surgery, for example—are rolled out to more people.

I go back to back to the way in which we project health spending, which we do on the UK side as well as the Scotland side. What is different for Scotland is the demographics and that is how we get the Scotland-specific risk. We approach those changes in the same way on the funding and the spending side.

Professor Breedon: Fundamentally, health productivity is a very slippery concept, so you are right to highlight the issue, convener. The measures that we use, such as how long people wait for operations, are straightforward, but there are other issues such as the value of a screening programme compared with the cost of later interventions. Working that out becomes harder because, although we can say how effective such things are, it is difficult not only economically but morally to get into the world of measuring how much money those things are worth. Normally, with health productivity, we compare health interventions and say which ones are worth doing compared with the ones that we already do. However, you are right that, more broadly, health productivity is a very slippery concept.

The Convener: A couple of years ago, when I spoke to the chief executive of my local health board, they said that, prior to the pandemic, on average, four operations were carried out in a

theatre per day, but the figure is now three. When I asked them why that is the case, they said that there is now a thorough deep clean in between operations, and I thought, "Did you not do that before?" That represents a 25 per cent reduction, which will be really impactful.

Professor Breedon: That is the interesting comparison to make. All the controls that had to be implemented during Covid saved a huge number of lives, so you could argue that those were incredibly productive interventions. A huge number of lives were saved as a result of people wearing masks or gloves, washing their hands carefully and so on. Those interventions had a pretty low cost, but they delivered a great outcome. However, officially, those interventions are measured as reductions in productivity, because the queues for operations lengthen. Such comparisons are always very complicated.

The Convener: In relation to the funding overview, figure 3.1 in your report and the detail underneath it show that funding for the Scottish Parliament will grow in real terms from £65 billion in 2029-30 to £159 billion in 2074-75 but that its expenditure will grow from £65 billion to £160 billion, so there will be a difference of only £1 billion, even though expenditure will increase astronomically—it will more than double—during that time. You have spoken about people having higher expectations in relation to the quality of services, but how can we possibly deliver that massive increase in spending and revenue if we do not have productivity growth over the next 50 years?

Professor Roy: I want to be clear about what we are talking about in relation to that funding. In part, we are saying that the huge increase in funding and expenditure that is needed is not sustainable. That is where we stray into the work that the OBR has done. If the country continues to do what it is doing at the moment, its debt levels will continue to increase—

The Convener: To well over 270 per cent, according to—

Professor Roy: Yes. If we want to get back to having a balance, we have to address some of those numbers. We end our report—and this is where we pass it over to the policy makers and politicians—by saying that improving health is about not just health but how we improve the public finances and make that structural change. That is fundamentally important. There is also an element about how we grow the economy and support the tax revenues that will, ultimately, deliver all of that.

At the end of the day, it comes down to a really difficult decision. Public services have been built on the basis of projections of the population including large numbers of people in the workforce, with a relatively small number of elderly people being supported through the tax system. Once that pyramid is flipped over, there are fundamental questions about how we prioritise public services, which public services we prioritise and how we fund them. As I said earlier, a lot of this involves arithmetic—if we want to continue to deliver the same level of service and if that costs more as we age, the level of spending to maintain that level of service will need to increase.

11:15

The Convener: In paragraph 4.9 of your report, you say that

"There has been a decline in Scottish healthy life expectancy since 2014-16."

That was based on the 2019 to 2021 figures, and Covid may have had an impact on those figures. Given that, for example, smoking has decreased and younger people are not the boozers that people in your generation were, Graeme, why is that happening? Think of the rubbish that we used to get fed in the 1960s and 1970s, compared with the quality food that we have now. The air is also cleaner, and all the rest of it. Is it because of mental health or other issues? Why is it that the healthy life expectancy has not continued to improve? Poverty is also lower than it was a few years ago.

Professor Roy: We spent a bit of time speaking to public health academics and public health officials on that. I will give a quick answer, then Caroline and Claire might want to come in.

You are right that there were significant improvements in healthy life expectancy for a long period. A lot of that was from doing basic stuff—making improvements in the quality of housing, in air quality and in health treatment. That knowledge has helped to improve healthy life expectancy. Some people think that it was always going to tail off slightly and become more difficult to get additional improvements in life expectancy—a lot of work is now coming out on that. Some of it is related to the pandemic—it is clear that the pandemic has had an impact—but a lot of this stuff is arising in relation to so-called deaths of despair and the effects of that.

Again, this is not just a Scottish thing; it is also a broader UK thing. There is declining mental health and rising drug abuse, and the effects of poverty feed through to life expectancy. That is a big thing in the US, and we see those trends in the UK as well. We cite a couple of studies that are looking into that issue.

We are seeing a general decline in overall wellbeing in society, and people are beginning to say, "Hold on a minute—this is highly correlated

with healthy life expectancy. Are those effects leading to one another?" That is the more interesting bit. We may come on to some of the stuff around increasing things such as disability payments. We are seeing a big inflow of that. Is that an early warning signal of things that might be coming further down the line in relation to healthy life expectancy?

Dr Carney, do you want to expand on the conversations that you have had with colleagues?

Dr Carney: On healthy life expectancy, the measure is a combination of life expectancy and self-reported data from people on their health. We can see a trend in life expectancy, which has plateaued in recent years and had a small blip during Covid. Then there is how people report their own level of health, which has come down in Scotland in the past couple of years.

As you say, convener, there have been improvements in many health measures such as smoking, but other things, such as mental health and wellbeing and obesity, have got worse. That trend worsened with Covid, but it was there before that.

From our conversations, there is no consensus on exactly why that has happened, but there is a consensus on it being a real trend. As was mentioned, the trend is UK wide, and it is also happening outside the UK. There have been recent papers on a change in the level of wellbeing and happiness across countries. The stagnation in life expectancy is happening beyond the UK—not everywhere, but it is happening in other contexts, too.

The Convener: Let us go back to the issue of productivity. Paragraph 4.34 talks about the increase in expenditure. It says:

"Despite increased funding and staffing levels and initiatives to improve productivity and outcomes for patients, these are not yet making progress."

Is there progress in Scotland in any area? For example, health boards that are struggling could look to other health boards in Scotland or, indeed, those outwith Scotland to see what they are doing well and how they can exchange best practice and take things forward.

Professor Roy: That is not something that we have done. It kind of strays out of our remit. You are right—

The Convener: I was not sure whether that would be the case.

Professor Roy: Part of what we are trying to do is say to people, "If we can improve health, that is a public finance saving." You are right. It is a question of how we can improve productivity in the health service. How can we learn from other places? How can we learn from each other? How can we improve people's healthy life expectancies for a relatively low cost? Some of that is about wellbeing and some of it is about improving obesity rates and other elements. For example, how can we tackle things like premature drug deaths? There is a whole host of things that have really important social, health and economic arguments for them. We are trying to say that those things have public finance implications as well. It is crucial to think about tackling them as an investment in long-term fiscal saving.

The Convener: I realise that I have been asking questions for quite a while now—I apologise to colleagues for that. I will ask one more and then I will let everyone else in. There is another really interesting but depressing statistic in paragraph 4.48 in the report:

"Disability prevalence has risen from 19 per cent of the UK population in 2002-03 to 27 per cent of the population by 2022-23."

Do your projections expect that trend to continue, to stay the same or to reverse?

Professor Roy: I will maybe hand over to Claire and Caroline to speak about what we do, particularly in our report. Broadly speaking, we take the prevalence at the moment and push it forward and change it by age. We do not make a judgment call, which is what we would normally do in our SEFF, where we think about whether the rate will increase or not over the next five years. We take the prevalence and then change the demographics. The disability rate will increase over time, because once it is embedded in the population, the number will rise. We do not make a judgment call about whether disability is going to get worse or whether the rate of self-reporting will get bigger or smaller. However, the disability rate will increase, because there will be a higher proportion in the population.

The Convener: Thanks very much.

Liz Smith: Thank you for all the excellent work that you do. I want to ask about the challenge of trying to measure the effect of putting more money into something to improve outcomes against measures that are not related to money. The reason I ask this is that, some years back—it was probably about 10 or 12 years ago—Reform Scotland did an interesting study on the considerable increase in the amount of money that had gone into education in Scotland in the context of declining outcomes in literacy, numeracy and some other issues.

Building on what the convener said, more and more money is being put into health—that is what has happened in Scotland. Some of the outcomes are not encouraging at all, while others are. How easy is it to get a handle on the effectiveness of

measures that are financial—that is, measures that are down to more money being put in—against other measures that are having a positive effect but have nothing to do with money?

Professor Roy: That is a great question. The answer is that it is very difficult. We have been talking about this for a long time. You mentioned Reform Scotland. The Christie commission talked about it—was it 12, 13 or 14 years ago?

Liz Smith: It was more than that—it was about 15 or 16 years ago.

Professor Roy: It was 2010 or 2011. We have been talking about effectiveness for a long time. Our work is trying to provide more evidence that that needs to happen. If we do not do it, we will not improve the budget gap that we have been talking about. We will instead have to cut spending or increase taxes, which will result in poorer outcomes. It has a real impact, and we need to address that.

This starts to stray from where we would have a significant role, but there is a broader comment to be made on what you were discussing earlier with the Auditor General, which is the value of things like the medium-term financial strategy or the long-term fiscal sustainability report, beyond simple trends. We can give evidence about the trends and what needs to happen. However, where is the evidence about the impact that the policies are having? Where is the policy evaluation? Where is the rigour in good policy making? There needs to be the courage to say, "We tried something but it has not had the impact that it might have done and we have the evidence for that. Where can we get the evidence that other policies will work?"

I would not underestimate how difficult that is, because things have long lags before effects come in. You are right that we could look at the value of regulation or guidance versus spending or taxation, and that is always quite tricky to do. The point is to have a robust framework for how you do that, so that you can start to evaluate, run pilots, test the effects, and look at how people's behaviours change. Perhaps the bit that is missing is that hard-nosed edge of evidence informing policy.

Liz Smith: That is helpful. The other side of the coin, but very much a related point, is the fact that there is an increasing imbalance between the working population and the dependent population, which is what you have been flagging up. If we are going to close some of the fiscal gap, the other part of the policy has to ensure that the working population is able and willing to work, apart from anything else, and that it is also able to widen the tax base and return the revenues that we need in order to fill some of the gap.

There is lots of discussion at the moment about the working population and how we attract more people back into the workforce. Again, I do not want you to comment on the policy, because I know that you will not do that, but how easy is it to measure the effectiveness of those policies for getting more people who can work and should work back into the labour market?

Professor Roy: Again, that is challenging, but it is not impossible. What I would add is that it is not just about getting people into work but into high-quality jobs. It is not just about creating jobs, but creating high-value jobs that, under our fiscal framework, really matter for income tax. It is about thinking about the sectors that we are looking to attract and the investment that we want to get into them. It is entirely possible to do that sort of thing and look at how a policy might be evaluated.

In the work that I used to do when I was in the Fraser of Allander Institute, we evaluated the small business bonus, research and development grants from Scottish Enterprise and so on. You could look at whether you were actually getting the outcomes that you wanted for your spend. To be fair, that is generally where the UK—not just Scotland—is well behind the best countries in the world in doing rigorous policy evaluation and analysis of the best effects of the policy. Are you collecting the data from day one that can show whether the policy is having the desired impact and then evidence that? If it is working, you can put more money into it or incentivise it a bit more. If it is not, you can stop and move on to something else.

Professor Breedon: There is a potential political cost to evaluating a policy after it has been implemented. Policy evaluation before a policy is implemented is good practice, but evaluating it after it has been implemented is always slightly tricky. There is a tendency not to do as much as could be done.

Liz Smith: The OECD's recent analysis of the pre-pandemic and post-pandemic working population is also interesting, because it flags up that the UK does not come out of it very well and that we have not recovered to our pre-pandemic levels, either in the UK or in Scotland, whereas a lot of other countries have. Do you have any ideas about why that has happened?

Professor Roy: That is something that we can look into; I do not think that we have looked into it specifically.

I am not dodging the question, but my one caveat is that I am always slightly nervous about the data that we have on the UK labour market at the moment. As you know, there have been on-going issues with the labour force survey and levels of inactivity, so we are slightly cautious

about that. We can take that away and have a look at it.

Liz Smith: It is just that it was quite striking that the OECD report showed that we are not doing very well in relation to other countries. There must be lessons in the fact that we are not getting enough people back into the workforce for whatever reason. We cannot set the policy until we know why people are not coming back into the labour market in the ways that we would like. Anyway, thank you for that.

11:30

Craig Hoy: Good morning, Professor Roy. I read your report at the weekend and it hardly cheered me up. I was not full of beans afterwards. The picture is quite depressing, not just for us but for quite a number of Western economies. How can we make the labour market more productive in Scotland? Also, how can we effectively increase productivity on a per capita basis?

In that respect, it strikes me that there are three or four different key triggers: lifelong learning; skills; and people working longer, both into their older age and in terms of hours. Indeed, there is a debate taking place in Scotland about the length of the working week, and we have heard the discussion about scaling the public sector working week back from five days to four. What potential impact could Scotland working fewer hours have on our productivity?

Professor Roy: That is not something that we look at in our report, but I can give you some general thoughts on the matter.

There are two different views on what the effects could be. The first is that reducing the length of the working week, supporting greater flexibility and so on could have a positive impact on people's productivity, because it could improve wellbeing, tackle presenteeism and absenteeism and make people more dynamic when in work. Therefore, it could have a positive impact. The other argument is "No, no—it might have a negative impact," because it could reduce engagement with staff, impact on workload and have different, broader implications for the structure of the labour market. There is a positive and a negative in that respect.

For us, the key point, purely from an economic perspective, is that if we are pulling out labour input, we will need a pretty big increase in productivity to compensate for such an improvement. Even a small improvement in productivity will have to be significant in order to offset, say, a 20 per cent drop in labour input if we go from five days to four.

It is probably a really good example, because the answer to it will lie in trying it out, evaluating it and then seeing what the effect is. I can tell you a good story about it—indeed, I am sure that everyone here will have a great story to tell about its having a positive impact on the economy and its being good—but, really, we will not know until we evaluate it robustly.

Professor Breedon: The intriguing thing is that, in France and Germany, where people work fewer hours, there is much higher productivity per hour. Of course, that does not mean that the causality runs from fewer hours leading to greater productivity; it might run from there being greater productivity, so fewer hours are required. That is the question that it is important to establish.

Craig Hoy: Another issue is people working longer into their retirement. Anecdotally, people seem, post-Covid, to want to retire and scale back earlier. The graph of productivity by age is sort of humped, with those in the middle—say, those from 40 to 50—probably the most productive, because as you get older, you have skills obsolescence, a lack of reskilling and so on. What more can we do to ensure that those who are older maintain their productivity, so that, even if they are not working longer when they get into their 50s and 60s, they are perhaps still as productive as those in their 40s?

Professor Roy: That is a really good question. Quite a bit of work is being done, particularly in the academic community, to look at the reforms that are needed to deal not with an ageing population but with a workforce that is potentially going to be longer in work. Part of it is thinking about policies—by which I mean not Government policies, but policies for businesses to support people to extend their working life.

Again, I am thinking about retraining opportunities, which might not be the norm for those in their late 50s or early 60s, as the presumption is that they have only a few more years before they retire. Perhaps businesses need to move towards thinking much more about skills and education—to come back to your point—through all the different aspects of the age profile.

Secondly—and I know that colleagues are looking at this, too—there is the question of how you support healthy ageing in a workforce that is getting older. How do you help businesses to put in place supportive structures to enable people of that age to remain in the labour market and work for them?

Ultimately, I guess that this is where flexibility kicks in. When you get into your late 60s or early 70s, you might not want to work five days a week, but you might be thinking about how you can continue to work flexibly in order to add value with

regard to younger people as a result of your skills and experience. We need to think more about our labour market being much more dynamic and flexible as people get towards retirement age, rather than thinking that people hit retirement age and that is it.

Professor Breedon: That is correct. Most of the academic evidence, although it is early-stage evidence, is that there is huge potential benefit in the labour force from that group. However, that requires a change of mindset, so that we do not say, "This person is coming to the end of the line, so what is the point of training them or reassigning them?" All of that stuff that has not historically happened needs to start. There is evidence that it is starting to happen, and that we are starting to think of the labour force as something much more flexible that does not have a sell-by date that therefore restricts it. Although we are delivering a lot of bad news, there is a potential positive from using that longevity to raise productivity among higher age groups.

Craig Hoy: One critical driver of productivity on a per capita basis is encouraging innovation and entrepreneurship. We know that people who are involved in that are most impactful in terms of their productivity when they are around 45—I think that that is the average age. What more could we do through public policy, be that through tax or other incentives, to get people in that age bracket to start thinking that, rather than work for somebody, they should go out there, take risks and become the entrepreneurs who will drive economic growth?

Professor Roy: Again, that is a great question, and it is one that we have come back to repeatedly. Ever since devolution, we have gone back to look at how we encourage entrepreneurship and innovation. We chat about that and have policy initiatives, but have we really turned the dial in a significant way? My general response would be: do we genuinely know the evidence? Have we evaluated? We have lots of schemes to encourage spin-outs from university or to encourage more people to set up their own business, but do we rigorously evaluate and take the time to look at what works over time?

There is a UK-wide initiative called the Productivity Institute, which looks at those sorts of things, and a lot of the evidence that it finds shows that it is actually more of the smaller-scale elements that are absolutely crucial. We think that there is a big lever that we can pull, but what tends to work are things such as mentorship, support for businesses starting out at the first scale and peer-to-peer learning. That is where, as the population ages, older people can provide real value. How can people who have set up and run their own businesses support new entrepreneurs coming through? How do we create an effective incubating structure that self-supports innovation and entrepreneurship? You are right that, ultimately, productivity is one of the key elements to help to tackle the situation.

Craig Hoy: I want to briefly raise two more issues before I close. Inward migration is often seen as a panacea, but the OECD has pointed out one fundamental flaw in that, which is that the migrant population is ageing. Also, in the countries from where we would draw skilled talent, wage growth means that wages are catching up with wages here. There is also the moral dimension as to whether we should be recruiting qualified doctors from developing countries where they are needed.

Migration might help to sustain us over a period, but, if we look forward a decade or so, there could then be a change in the underlying migration patterns. Are we leaning too heavily on migration as the solution to our structural demographic problem?

Professor Roy: We do not comment on those specifics or go into that issue too much in the current fiscal sustainability report, but we did so in our previous one a couple of years ago. On the plus side, migration is potentially positive when it comes to things such as filling the skills gap and helping to boost productivity. However, with higher migration, there is higher public spending. From a fiscal perspective, there is that effect, too.

There is a subtle point. I will maybe not go into this, because we would be talking about it for the next 20 minutes, and I heard Michelle Thomson's earlier point about explaining the fiscal framework. Interestingly, because of our fiscal framework and the net tax position, we are protected from weaker population growth—that is why we set up the indexed deduction per capita. Because the approach is based on tax per capita, we therefore do not get a massive gain if we have a higher population. We can have a big increase in the population, but what matters is taxation per capita. It is about the ratio of how our taxes grow relative to our population. Because of the fiscal framework, migration is not a panacea that will suddenly massively improve Scotland's fiscal position.

Craig Hoy: Use of artificial intelligence, robotics and other technology can also drive productivity. Yesterday, when I was looking at a graph that showed countries that have significant demographic issues and ageing populations—I could not find Scotland or the UK on it—Korea was far up at the top in relation to its use of robotics, which is another way to generate economic growth. Where are Scotland and the UK with using that alternative route to prosperity by bringing in the robots?

Professor Roy: You could get robots to do Fiscal Commission forecasts for you. [*Laughter*.]

I do not know the comparison, but we could look into how Scotland is doing in that regard.

I will provide a couple of caveats. On the broader point, you alluded to the fact that, although skills investment and working longer matter in relation to productivity, the sectors that we have are also important. We need to think carefully about high-quality growth sectors that can generate high-value jobs over time. For example, we know that the energy and financial services sectors are really important. Tech is another sector that can produce relatively high growth and higher returns from relatively limited human input, so there is a clear opportunity in that regard.

There are also ways that public services could be delivered much more efficiently through the use of digital technology and AI, although there is a big caveat in relation to the health sector. As we said earlier, many of the improvements in the health sector could lead to increases in demand, which would increase costs, so the health sector is not like some other public services or business services in which the introduction of AI or robotics would automatically lead to a significant reduction in costs—in many cases, it might actually lead to increased costs. That is not a bad thing, because outcomes would improve, but there would not be automatic savings for the public finances.

Michelle Thomson: Thank you for joining us. I have only a few questions.

First, you observed that your spending projections are based on current policies and do not take account of an additional main challenge—climate change. It would be useful to understand why your projections do not include any consideration of mitigations or adaptations. I am sure that there are several very good reasons for that. What would need to happen in order for you to give at least some consideration of climate change mitigation, given the significant anticipated public sector spend in that area?

Professor Roy: The first reason for that is that, last year, we produced a report that focused on climate change, including adaptations and mitigations, and we carefully considered the possible effects of the transition to net zero. Our reports highlight key themes. Last year, we focused on climate change; this year, we have focused on health; and we might look at another theme next year. Our decision to isolate key themes is tactical, so that we can be clear about specific points, and, regarding what Craig Hoy said, we do not want to make people's weekend reading too negative, although we do want to highlight the issues.

Next, we might look at how the themes interact. In our report, we started to speculate—tactically, we have focused on climate change, health and demographics in isolation, but, when we start to think about it, we find that those themes are heavily connected. With a climate emergency or climate disaster, there could be many effects on the health sector and on demand for other public services. We have not looked at that in great detail, other than to start to speculate about where those channels would be. We probably need to do more work and get more evidence on that, so we might pick up that theme in the future.

Michelle Thomson: That is very helpful. I totally appreciate the complexity. The issue is not just about trying not to make people depressed; your reports could easily become as long as "War and Peace".

Professor Roy: Exactly. It is about trying to isolate the big issues. We need to get people to think about the health of the population and the effect of that on public finances, and we need to think about climate change. When we have been chatting with the committee, we have spoken about other topics and themes that we might look at, such as child poverty or poverty and inequality. It will be useful to have further conversations about what themes we might pick up in our future fiscal sustainability reports.

11:45

Michelle Thomson: I have a couple of little compliments for you, which I want you to enjoy, because it does not happen very often. I was pleased to note that you say that the annual budget gap

"can be thought of as the Scottish-specific fiscal sustainability challenge."

That terminology is considerably more helpful. You will know that I have passed comment previously on some of the terminology used because it frames Scotland as part of the wider context, including some of the issues relating to the UK economy and fiscal sustainability.

My other observation is that the development of age-sex spending profiles will be really helpful for us in getting greater clarity. That is the nice bit over.

I want to pick up on fiscal sustainability generally in the light of the earlier conversation with the Auditor General, which you will have heard. I think that we all agree that we want more resolute forward planning via the MTFS. However, regarding the debt to gross domestic product ratio, the projection that debt will be 274 per cent of GDP by 2070 is utterly astounding and re-emphasises my point that the Scottish economy

and the fiscal framework must be mindful of the position.

How on earth do you and the Government start to fairly reflect the significant implications of that position, which is clearly not sustainable? We will see the UK spending review, but if we are on a whole different trajectory—assuming all things are equal, with the same focus on economic policy, although that could change—I would appreciate your reflections on how on earth you will present that position with meaning to this committee at least, if not to the wider public.

Professor Roy: That is a really important question. We can set up the issue, but it is then for the Parliament and the Government to pick up the ball and run with and push it, including through the committee's inquiry. You are right that the position is not sustainable.

In our report, the key point is that the budget gap will not exist. It is not that there will be a gap of 11.1 per cent of spending; what will happen is that spending will be cut or taxes will rise, because the Government will have to balance its budget, and, before we know it, we will see outcomes being badly impacted.

It goes back to my point that, whatever scepticism we have about forecasts and projections, a large part of it is just arithmetic and involves saying, "This is what will happen as our population ages because of the costs that we have." We need policy makers and politicians to front up to that by looking not at what will happen next year but at what will happen over the long term.

When you look at the chart that shows the effects on fiscal sustainability in the UK, you will note a subtle point—they start off small and build up, so the risk is that you keep kicking the can down the road, thinking that you will just balance the budget this year, do a spending review that will last for a couple of years and then adjust things at the end. However, in doing that, before you get to perhaps not the next parliamentary session but the one after that, health outcomes might start to look radically different, simply because things are unaffordable.

It goes back to my answer to Liz Smith's question. We have been talking about this stuff for a long time, but the population is now ageing, which is already having an impact on public service demand.

Michelle Thomson: I have a last wee question. The convener mentioned disability prevalence. Do you have any sense as to why there is that prevalence? The issue has come up in the committee previously, but the projected increase seems quite astounding.

Professor Roy: Claire Murdoch or Caroline Carney might want to expand on my answer, but I will mention a couple of things. Caroline answered the earlier question really well—there is consensus that there is that trend, but there is a question about what is driving it. There are links to social media, and some countries are making more aggressive interventions on the use of social media by young people. The pandemic has also had an impact.

Part of the reason might be that there has been a decrease in stigma about people saying that they have a potential mental health issue and therefore accessing support, whereas, in the past, people would not have raised such issues.

There are quite a few areas of speculation, but Caroline or Claire might want to expand on what we track.

Claire Murdoch (Scottish Fiscal Commission): In our analysis, we show that there has been an increase in disability prevalence, partly because we have an ageing population and a lot of conditions worsen with age, so there will be more claims.

However, one of the changes is that, at the moment, there are higher prevalence levels among children and young people. We assume not that that will translate to a constantly increasing prevalence rate among young people, but that that cohort of young people will move into receiving working-age disability payments as they age. That slightly pushes up the prevalence.

It is very hard to say why that is happening. We can tell you only what we see and how we project that. However, from a public finance point of view, that is concerning. If the increase in prevalence is predominantly related to mental health and mental illness, we do not want to see that, as a society. If it is to do with a reduction in stigma, that is positive, but there are implications.

The Convener: When I was watching the news this morning, I found out that I have a mental illness. It was said that hoarding is apparently some kind of mental illness. I have a huge library because I have been collecting books since I was at school, so does that mean that I am a hoarder? One wonders how realistic these definitions are. The definitions might be impactful for individuals, but we have to consider the wider societal impact of how we define some of these things.

John Mason: Michelle Thomson mentioned debt. That seems to be a difference between the UK's sustainability—or lack of it—and Scotland's, because debt is not an issue for us; we have only to cut our spending.

The stark figures show that, at the moment, the UK's public debt is 98 per cent of GDP and that it

will potentially go up to 274 per cent. Is there a psychological level at which the UK Government will have to do something? I would have thought that 100 per cent of GDP would have quite a psychological impact and that getting to 100 per cent is quite a big deal. Can you forecast—or does the OBR forecast—that when we get to, say, 150 per cent, the UK will suddenly change direction? Is it a gradual thing?

Professor Roy: The optimal level of debt is quite a controversial topic in the economics community. It is some people's view that we could have a much higher level of debt, and some people would argue that we could not, because that would mean that we were paying debt interest, which would mean that we were taking money away from public services. Given that it is controversial, I will ask Francis to answer that question.

Professor Breedon: There are two things. First, economists do not have a number to put on it. We often talk about fiscal sustainability by simply asking, "Can I keep my debt stable?" but we do not say what number is required to keep it stable. We just say that, if you can keep it stable, you are sustainable.

However, you are right. It is a bit like thinking about a firm that is on the verge of bankruptcy, in that there is a point at which it gets into financial distress, its credit rating goes down and its best people leave because they are worried about the nature of the firm's economy. Trouble does not kick in at once, but then, suddenly, we hit the moment. It is a very slow and steady progression.

That highlights why discussion of this sort is important, because this is the time to address the issue. It gets increasingly difficult to resolve the issue the longer it is left. The point is that it will gradually creep up on you. Financial distress will hit you, grow and grow, and then make the spiral even worse. Dealing with it early is always better.

John Mason: It is clear from all your papers that if the UK makes a major change in the way that it is doing things—and borrows less, presumably—that will have a big impact on Scotland. I am picking up that you do not know when that might happen and that it is very difficult to predict when that might happen.

Professor Breedon: The way that the current UK Government thinks about it is that it says, "If we can get a bit more growth, that will solve the problem in the most painless way possible," and I guess that that is true. If you can do it that way, that is the way to do it.

Professor Roy: To illustrate that, one thing that we highlight in the report is the interaction between the UK Government and the Scottish Government and how the outlook for the Scottish Government depends on what happens at the UK level.

You are right that debt is one issue, because there is the question of what a future UK Government might do to consolidate debt. However, what matters is that it would then have a decision to make about whether to change—or at least make adjustments to—reserved areas or devolved areas. For example, if it decided to save a lot of money by reducing pensions, that would have an impact on people in Scotland but it would not have an impact on the Scottish Government's budget. If, instead, the UK Government decided to keep pensions at a relatively high level but to cut health spending, that would have an impact on the Scottish budget. Similarly, there would be a balance in relation to whether the UK taxed more or whether the changes were more on the spending side. Our report is neutral and we provide a scenario that shows you that, under any plausible circumstances, whatever a future UK Government might do will have a big effect on the Scottish Government's budget.

John Mason: In chapter 4 of the report, in the section on the determinants of health spending, you refer to demographics and other cost pressures. I was particularly interested in what you refer to as "the income effect", which seems to say that, as people get wealthier, their expectations increase and therefore their demand for healthcare increases. You can tell me whether that is a correct summary. Earlier, we heard the idea, which would seem obvious, that, if people's health improves, we will not need to spend so much on the health service. However, this seems to say the opposite—in other words, that, as people get better off, their health might improve in some ways, but, in other ways, we need to spend more money.

Professor Roy: We talk about a number of effects. We focus on aspects such as productivity and health and the detail around that and technology and long-term conditions. On the point about income effects and how the economy changes the impacts on health, there are two important elements. First, there is a general trend that, as people become wealthier and economies grow, people value health as one of the most important aspects of a more prosperous economy. That naturally leads to health expenditure increasing, because people are willing to put some of that growth into health.

The second, more technical element is that we assume, as we do for a lot of public spending elements, that, as the economy grows, that puts pressure on wages in that sector to grow in order to maintain that level. If we did not do that, we would, in essence, have wages in the health service declining relative to every other wage that

was going up. Therefore, we assume that we will have to have pay growth for doctors, nurses, health workers and so on, because we have a growing economy and in order to keep pace with every other worker who has to have increased pay, and that leads to a pressure on the health service. That is not an additional pressure, because the economy is, in essence, paying for it, but it is still something that we have to account for with regard to what might drive spending over time.

John Mason: Being a little bit pessimistic, as I think that some of my colleagues are, too, today, it seems to me that, however well we do, however much we spend and however healthy the population becomes, the demand for health services will just grow and grow and grow. We will never be able to meet the demand; there will never be a time when supply equals demand. You can absolutely disagree with me. We have already mentioned mental health and obesity, which, when I was younger, were not talked about as much or were not there. Something else will turn up. If we sort obesity and mental health, it will be something else tomorrow, will it not?

Professor Roy: In part, this is a trend. If you look over time, you will see that, in most high-income economies, more and more money is going into health, because that is the trend in healthcare. On the demographics, it goes back to my earlier point: in essence, you had a pyramid, with large numbers of people in the working-age population funding relatively expensive healthcare for a smaller or elderly population, particularly in Scotland. Over the next 25 years, the pyramid will look quite different, because you will have fewer people in the working-age population and a higher proportion of people who are demanding healthcare as they get older. That will open up conversations, because, if the demand for healthcare is going to increase and it is going to run ahead of funding, there will be questions about how to manage the increase. That is partly about healthy life expectancy, for example, but that will not be everything.

There are then questions about taxation and whether we need more funding going into the health service, which involves potentially difficult choices about what elements we would have to spend less on.

Without going into detail, we take account of the need to have a balance. We are not just saying that, because of demographics, spending always increases. For example, we think that demographic issues will cause spending on education to fall, so there will be some savings in that context.

12:00

John Mason: I just think that spending on health will keep going up.

Professor Breedon: The concept of healthy life expectancy points to potential savings in health spending. This might sound a bit morbid but, if people are healthy longer and have only a very short period of illness at the end of their lives, that would reduce health spending significantly, because it is those long periods of illness that are costly to the health service.

John Mason: I imagine that the Health, Social Care and Sport Committee looks at that issue, so I will leave that there just now.

What can we learn from other countries? There is some uncertainty about why life expectancy has not kept increasing here but, as you said, has increased in Japan. From an article that I read recently, it seems that Poland has an even worse problem than we do with regard to its ageing population and the fact that people are leaving the country, and it will not have enough people for its army. The situation is similar in Germany and Russia. Where are we in the whole scheme of things, and are there lessons that we should be learning from other countries, such as Japan?

Professor Roy: That is a great question. I do not know whether the Health, Social Care and Sport Committee and others have conducted significant inquiries into how Scotland compares with other countries, but I think that we make it quite clear at the start of our report that all high-income economies are facing the issue of an ageing population and that there are some countries that face an even more significant problem in that regard than we do. We mention South Korea as an example of that. One of the reasons why South Korea is so heavily into technology and artificial intelligence is that its population is projected to decline quite rapidly over the next few years and decades. It is ahead of us, in a way, in the scheme of things.

In the European context, you are right to say that Poland and other countries also have an ageing population, so the issue is not unique to Scotland. Those countries are in the same boat, and we should think about what we can learn from how other countries are dealing with that. We can look, for example, at what happened three or four years ago in France, when the Government's plans to increase the pension age led to protests, with the result that those plans had to be rolled back.

Of course, the fact that the issue is not unique to Scotland does not make our situation any easier. We are still faced with the problem.

John Mason: Would I be right in saying that, despite financial incentives, no country has succeeded in increasing the birth rate?

Professor Roy: I do not know. We can perhaps look into that for you.

John Mason: I think that Finland tried to give people an incentive—

Professor Roy: It is very difficult to increase the birth rate, given the demographics of the population.

Professor Breedon: There are two aspects to the issue of the ageing population. One involves the big bulge of baby boomers, such as myself, who will inevitably raise the average age as we travel through the system. The other aspect concerns the birth and death rates of the population in general, which will change the population structure. However, the key issue that is driving the ageing population at the moment is the baby-boomer bulge.

John Mason: I want to touch on one final area. I do not see much in the report about preventative spend. In one sense, all health spending is preventative, because spending on health improves people's health, which prevents illness. However, is there an issue with how we spend the health money? If we put more into general practice and primary care and cut the money going to hospitals a bit, would that have a benefit in the long run? Have you considered that sort of issue?

Professor Roy: We do not go into the detail of that, other than to say that certain things could be done. That is where the issue is more in the hands of Government, and I know that it has plans to do much more over the summer with regard to its long-term strategy around health. However, your question comes back to the point that we made about evaluating what works and what does not work, and the fact that, if you can prove that doing something improves healthy life expectancy, that has a public finance implication.

One subtle point that might be useful for your thinking is that a lot of what we talk about with regard to prevention involves investment at a very early age. Our report notes that, over the next 25 years, that is an acute issue for Scotland. However, alongside the issue of investing in prevention at an early age, there is also a question about what we can do with the population that is already in the workforce to make sure that they improve their healthy life expectancy. We need to improve the healthy life expectancy of 20-year-olds, 30-year-olds and 40-year-olds because, on the current projections, they will be the ones who will be demanding more healthcare.

John Mason: You are talking about things like alcohol, tobacco and all of that.

Professor Roy: Yes.

The Convener: Natalist policies have increased the birth rate in Denmark, but not to replacement level. The only developed countries with birth rates above replacement level are the Faroes and Israel, as far as I am aware. Incidentally, Hungary has said that any woman who has two children before the age of 30 will not have to pay tax for the rest of her life. Who knows whether that will have an impact?

Ross Greer (West Scotland) (Green): I have a few questions that have not been covered, although the first one is on disability prevalence, which goes back to our earlier discussion. I understand entirely the difficulty with making presumptions about changes. However, as the convener pointed out, we have already seen a significant increase in disability in the past two decades or so. To what extent have you looked into what is underlying that? Have more people been disabled?

Covid would be the obvious reason. As a result of the pandemic, more people are now disabled because of long Covid. The other story, which we have touched on, is mental health. A lot of people were disabled but had not been diagnosed or recognised. Depending on which of those it is, that has a significant economic effect, particularly on productivity. A lot of people in the workforce were disabled but were not diagnosed or recognised and therefore were not receiving support, so they were probably less productive than they otherwise would have been.

There are two potentials there. If the rate continues to increase because we are diagnosing existing disabilities, we could increase productivity by providing people with the support that they need. Alternatively, if people are becoming more disabled than they were previously, productivity could go in the opposite direction. Have you looked into what the underlying data suggests about the past 20 years?

Professor Roy: Claire will explain a bit about what we did, and then I will come in with a general comment.

Claire Murdoch: How we project that is based largely on what we see right now, rather than historical trends. The trends of the past 20 years are partly also to do with the ageing population that we have seen in the past 20 years, which, to a large extent, is a UK-wide phenomenon. The OBR has published numerous reports on the effect on disability payments of the welfare reforms that the UK Government has introduced. Those reforms have usually resulted in increases in spending on disability payments, but there is a consistent upward trajectory across the UK in the prevalence of disability benefits and payments. What the

reason is for that is a very good question, and I do not think that we can say with any certainty whether it is either of those two reasons.

Professor Breedon: It is worth saying that, because the phenomenon is widespread, it is hard to say that it is related to policies in a single country. It feels as though there is something more underlying it.

Professor Roy: The general comment that I would make comes back to the point about evidence gathering and evaluation. You are right to question whether we are improving the ability to access the right payments, so that people can access them easily, and so on, and whether that can have an impact on productivity in the long term. We need to know that, because it is important and Governments should be able to evaluate it.

Similarly, we know that there is at least potentially a logical argument that investing in tackling child poverty might lead to improved economic, health and social outcomes in the long term. It is a logical argument that I might say makes sense, but does it? What is the scale of it and what is the relative pay-off? Having an evidence base to make that case is really important.

Ross Greer: It is particularly relevant at the moment, given that the UK Government has framed the changes and cuts to the personal independence payment as being about getting people back into work, when that payment is not premised on people being out of work. Indeed, a lot of people who have PIP are already in work; it cannot get people into work if they are already there. If they are not there, it is not necessarily for reasons related to that payment. That UK Government decision has an effect on Scotland's public finance decisions on social security, as you say.

Professor Roy: It does, yes. As we have spoken about recently, the first few years of social security were always about the Scottish Government essentially doing a bit more to add to the block grant adjustments from Westminster. However, if the UK Government is going to seek to decrease expenditure or change things such as PIP and things like that—we saw that with winter fuel payments—that will have a direct impact on Scotland's public finances via the fiscal framework.

Ross Greer: My final question is about the extent to which you looked into the urban-rural divide, because I did not see that issue coming out in the report as much as I expected it to come out. We have talked about depopulation, which is a much sharper issue in rural parts of Scotland. It is also more of a west coast issue, so it affects some urban communities on the west coast—Inverclyde is probably the area that is worst affected—but, in general, depopulation is a much sharper issue in rural areas than it is in urban areas.

The provision of health and social care in rural areas is already more expensive. Depopulation makes the situation harder, because it is generally working-age people who are leaving, so it becomes harder to provide social care packages and so on. However, we are probably heading towards a tipping point at which depopulation in rural areas will also start to involve older people, because they will simply have to move to get the care that they need. We should not be getting to that point—it is not a good thing. How much does that issue factor into your thinking?

At the moment, depopulation is pushing up the cost of health and social care provision in rural areas, because working-age people are leaving. However, if we reach the tipping point at which older people, who are more in need of those services, are forced to leave—I am not saying that that will be a good thing, because it will not—that will bring down the cost of provision, because people will have to move to urban areas where provision exists.

Professor Roy: You are right that we have not gone into detail on the urban-rural split. However, we have done some analysis of population trends that might impact health boards and of where the effects might be. Given that we look at the national picture, we do not delve into that issue in detail.

I do not disagree that the things that you have said could be really important, because you are right that some savings might be made in some areas because of a lower population, but it is not a like-for-like situation, because there are not the economies of scale. The situation is similar with education. If there is a small decline in a rural population but people still want to keep the school open, that will have a potential impact. However, we have not delved into those issues.

I will broaden out the question by mentioning social care, which is quite an interesting element that we highlight in the report, although we do not go into much detail. We focus on health, but it is interesting to consider exactly those issues in relation to social care. We assume that the policy will stay the same as it is at the moment, so we implicitly assume that, as the population ages, the same proportion of people will provide informal care or care outside the system. That is quite a big assumption to make, but we make it for transparency when we focus on health. What would happen if things started to change? What would happen if there were not a latent labour market that could support such care, particularly in rural areas? That would be another fiscal risk that we would have to explore.

If there were interest in that issue, we could consider whether to explore it when we think about what we should do next.

Ross Greer: Thank you.

The Convener: Ross Greer makes a good point. For example, 37 per cent of universal credit recipients are in work, which is perhaps not talked about as much as it should be.

Earlier, Professor Breedon and Professor Roy talked about the importance of debt and whether the 98 per cent of GDP level could go up to 150 per cent. We can think about the impact on debt interest, because the UK already pays six times more in debt interest than it spends on the NHS in Scotland in a year. Obviously, if debt goes up, interest payments go up, and it is likely that the level of interest will go up because our rating will decline. That is quite an important point.

I have a final question. Michelle Thomson touched on climate change, but your report states:

"This report does not integrate the effects of climate change or the Scottish Government's climate change response into our projections because the data is currently unavailable.

Climate change has been deemed the most important health threat of the century."

It goes on to talk about the impact on society and individuals of

"wetter winters, hotter, drier summers ... temperature extremes ... and frequent flooding"

and about the effects on health and wellbeing.

What discussions have you had with the Scottish Government and, perhaps through the OBR, with the UK Government to try to secure that data? In the presentation that you gave last year, you said that it would cost £186 billion, at last year's prices, in combined funding from the public and private sectors, to deal with the climate crisis. That figure has stuck in my mind. Where are you with all of that?

Professor Roy: There are a couple of things to say. First, we have asked for data on climate change, because we need specific information from the Government about its climate change plans, what is in the budget and so on, and my understanding is that that work is on-going. We have sent a data request to the Government. When we review our data request, we will see how much evidence has been provided on that. At the moment, the information that we have is not detailed enough to enable to us to comment on the progress that is being made towards achieving net zero.

12:15

We have also highlighted the adaptation piece and the risk piece. To be fair to the Government, that is a much broader question, which will involve collecting and understanding the data in a different way. That is another area in which improvement is necessary. The issue is partly about our existing data ask and partly about the need to obtain a detailed understanding of where climate risks might impact on health. The evidence base on that is slightly less clear. That is not just a Scotland thing—it is a wider issue.

The Convener: Despite that, there seems to be less focus on that issue than there has been in recent years.

Are there any further issues that we have not covered that you want to emphasise?

Professor Roy: No, I do not think so. The committee pushed us quite hard to deliver fiscal sustainability reports, and it wanted an update on demographics. In many ways, that has been helpful. I hope that the report will help to move the discussion on a bit.

We will be in touch with the committee on what we do next. It will be important, not just for next year but as we look to the future, to think about what more we can do to provide more information and greater clarity on fiscal sustainability.

The Convener: The Scottish Government has given a commitment to hold an annual fiscal sustainability debate, and I am sure that your report will make a significant contribution to our deliberations. Thank you for your evidence. You certainly came mob-handed.

I will wind up the session with a wee advert for tomorrow morning's event on the report, which has been organised by the Scottish Parliament information centre. It will start at half past 8 in the Holyrood room. Everyone is welcome. Apparently, it will be chaired by a young, dynamic and outrageously handsome MSP, so it will be worth attending for that alone. Bacon rolls will also be provided, which I know is always a big draw. I realise that some members of the committee—Liz Smith is one—will not be able to come along, as they have other committee meetings tomorrow, but I hope that those of you who can, will do so. There will be an opportunity to ask further questions about what is a really important report.

We will have a two-minute break to allow broadcasting and official report staff to leave.

12:17

Meeting suspended.

12:20

On resuming—

Subordinate Legislation

Land and Buildings Transaction Tax (Group Relief and Sub-sale Development Relief Modifications) (Scotland) Order 2025 [Draft]

The Convener: The next agenda item is an evidence session with the Minister for Public Finance on the draft Land and Buildings Transaction Tax (Group Relief and Sub-sale Development Relief Modifications) (Scotland) Order 2025. The minister is joined by the Scottish Government official Laura Parker, LBTT policy lead in the directorate for tax and revenues. I welcome our witnesses and I invite the minister to make a short opening statement.

The Minister for Public Finance (Ivan McKee): Good afternoon, convener and committee. The draft order provides for amendments to schedules 10 and 10A to the Land and Buildings Transaction Tax (Scotland) Act 2013.

Schedule 10 is amended to ensure that group relief is available in instances of non-partition demergers. The effect is that group relief will be available in company reconstructions where ultimate ownership of relevant land or property has not changed.

Schedule 10A is amended to clarify the point at which the relevant five-year development period commences in respect of sub-sale development relief. That is important, as relief may be withdrawn where significant development does not take place within that period. The amendment provides clarity for relevant stakeholders, making it clear that the relevant period commences from the effective date of the sub-sale transaction.

The Scottish Fiscal Commission considered the financial impact of those amendments in its December 2024 forecasts and deemed them to have an “immaterial” and “negligible” impact, respectively. The draft order was developed following engagement with stakeholders as part of the Aggregates Tax and Devolved Taxes Administration (Scotland) Bill process. Members will recall that the amendments were considered by the committee at stage 2 of the bill process. Although the amendments were deemed out of scope at stage 3, the Scottish Government nevertheless recognises the need for the changes to be made.

I welcome the contributions from stakeholders in developing the contents of the draft order, and I look forward to taking questions.

The Convener: Thank you for that statement. I do not have any questions, so I will open up the discussion to members of the committee. At the moment, the only member who wants to ask a question is Ross Greer.

Ross Greer: Good afternoon, minister. My question is not on the specific issue; it is about the wider approach to dealing with anomalies in the additional dwelling supplement and LBTT. Is the way that we have been going about that not a bit fragmented? I recognise what you say about amendments being out of scope for bills. However, we have had the ADS review work by your predecessor, Tom Arthur, which dealt with some anomalies, and there is wider LBTT review work under way, so it feels as though we are dealing with this piecemeal. We could have recognised a few years ago that there are a variety of anomalies that everybody agrees need to be resolved, and we could have taken a more holistic approach to addressing all of those across LBTT and ADS.

Ivan McKee: Over the time for which the ADS measures have been in place, a number of issues have arisen that were not foreseen when we brought in the legislation. Changes had to be made because of specific complicated circumstances that occurred, which gave rise to a need for clarity or changes in the provisions.

With the specific measures that we are considering today, we have not had any examples of people saying that there has been a problem with the transactions that they are seeking to take forward or have taken forward, but there has been a call from stakeholders that we clarify the law, just to be absolutely sure that investors and others are clear on it.

This is very much a tidying-up exercise, which obviously happens with all legislation. I do not know whether we would have taken a different approach. Clearly, if other examples were to arise whereby stakeholders felt that there was a need for clarification or a tidying-up of technical points, as can happen with any legislation, we would seek to respond to those.

Ross Greer: I accept all of that. My question arises out of a frustration about some issues—to be fair, they are more about ADS than about LBTT. Some are related to catching people who are in the process of family separation or divorce. I have also written to you about disabled people and someone else purchasing a home on their behalf, and we have talked about that. Those issues have been around for a while. The review was a good few years ago—maybe four years ago. It feels as though we are dealing with the

issues in a fragmented manner, rather than taking a holistic approach in which we look at all the anomalies across the system, collectively agree that nobody ever intended those to be the case, and then set out how we will address them.

I have had correspondence from people who have been caught by various anomalies and who find it hard to get an understanding of the Government's approach to dealing with those. I have heard from people who feel that the anomaly they were caught by is something that the Government indicated a few years ago that it was going to address but that that has still not happened. They find it hard—as do I—even to get an understanding of a timeline from the Government about how it is addressing all those issues.

Ivan McKee: Is that in regard to outstanding issues that have not been resolved yet?

Ross Greer: Yes—some of them.

Ivan McKee: I am happy for you to write to me, and we will respond with regard to the timeline for resolution. Clearly, the review that is coming on LBTT will catch those and other issues—it is intended to sweep those up. I understand the point that you are making, and I commit to giving more certainty on the timescales for resolution of those issues.

Ross Greer: Thank you.

The Convener: As members have no further questions, we turn to agenda item 4, which is formal consideration of the motion on the instrument.

Motion moved,

That the Finance and Public Administration Committee recommends that the Land and Buildings Transaction Tax (Group Relief and Sub-sale Development Relief Modifications) (Scotland) Order 2025 [draft] be approved.—[*Ivan McKee*]

Motion agreed to.

The Convener: I thank the minister and Ms Parker for attending to give evidence. We will publish a short report to the Parliament setting out our decision on the instrument.

As that was the last item on the public agenda, I now close this meeting.

Meeting closed at 12:27.

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