



OFFICIAL REPORT
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Finance and Public Administration Committee

Tuesday 28 March 2023

Session 6



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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

9th Meeting 2023, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)

*Douglas Lumsden (North East Scotland) (Con)

*John Mason (Glasgow Shettleston) (SNP)

*Liz Smith (Mid Scotland and Fife) (Con)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

James Black (Fraser of Allander Institute)

John Ireland (Scottish Fiscal Commission)

Professor Graeme Roy (Scottish Fiscal Commission)

Mark Taylor (Audit Scotland)

Ben Thurman (Carnegie UK)

Professor David Ulph (Scottish Fiscal Commission)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 28 March 2023

[The Convener opened the meeting at 09:30]

Effective Scottish Government Decision Making

The Convener (Kenneth Gibson): Good morning, and welcome to the ninth meeting in 2023 of the Finance and Public Administration Committee. Our first agenda item is an evidence session on our inquiry into effective Scottish Government decision making. Before I welcome our witnesses, I thank the civil servants who met us last Tuesday and shared with us their experiences of decision making in the Government. We will publish a summary of the discussions on our website in due course.

I welcome to the meeting Mark Taylor, audit director, Audit Scotland; Ben Thurman, senior policy and development officer, Carnegie UK; and James Black, fellow, Fraser of Allander Institute. Good morning, gentlemen. I will move straight to questions. I want this morning's meeting to be free flowing. We have already taken huge amounts of evidence from former ministers and civil servants and from our adviser, Professor Cairney, so I will ask some opening questions and I want you to feel able to contribute as much or as little as you wish in response to them.

In the meeting with civil servants, there was an emphasis on key areas, such as the need for strong ministerial leadership; clarity of purpose; the capacity and capability of departments to deliver; civil servants not being micromanaged and having space to work; and clear lines of accountability. All those areas might seem pretty obvious, but do you feel that those aims are delivered in practice—in part or, perhaps, fully? Who would like to kick off?

Mark Taylor (Audit Scotland): I am happy to get us going, convener. Good morning, everybody.

From engaging with the Scottish Government over a long period, I certainly recognise that list of areas and the thinking behind it, and I would not contest any of those things being important to the mix. I will pick out two or three areas from the list and offer some comments.

In our paper, you will see the points that we make about accountability, which is a strong feature of how Government works. It is in the

legislation and all the guidance, and it is also very apparent when we engage with Government. Accountability—and the importance that the Government attaches to it—brings strengths around manageability and clarity about who is held to appear in front of you and other committees. However, it also brings challenges for ways of working, and that is illustrated by some of the challenges that we have in our work. Often, when we go to speak about a thing that does not land neatly in somebody's area of accountability, we need to speak to several different people in order to piece together the pattern. That provides challenges for us, as I am sure that it also does for colleagues, but it also illustrates the challenge that the Government has in trying, with such a strong sense of accountability, to deal with some of the cross-cutting issues, such as equalities and climate change. Our experience was dealing with how money was directed during the pandemic. Again, we engaged with lots of different parts of the Government to uncover that, because nobody had an overall sense of how that matters. Of course, the important thing in there is that, for a Government that aspires to deliver outcomes, there also need to be mechanisms for that accountability to be shared, so that there is joint accountability for delivering on cross-cutting issues. Perhaps we will delve into that a wee bit more.

I am happy to comment on all the areas, but I will pick up on one other area now. As we mention in our submission, there is a real sense of the importance of clarity of purpose—not only at the high level but in relation to the kind of impact that policies are intended to have. How will we know what is going to change, beyond money being spent on a thing in order to change the inputs? How will we measure that change? An important theme of our submission—and of the audits that we have worked on over the years—is that Government does less well in having clarity about what is to be achieved and how we will know when we have achieved it. That is important not just in order to assess the individual policy but in order to learn from it and to think, "Well, actually, these things work and those things do not work, so we need to continue to do more of these things, and we need to dial those things back a wee bit." Those are two areas that I have picked out, just to get us going.

Ben Thurman (Carnegie UK): My comments would be quite similar to those that Mark Taylor has made. In our submission, we focus on the ambition to shift towards an outcomes-based approach. That picks up on the question of what we are being accountable for.

I will also pick up on some of the things that Mark mentioned regarding horizontal integration across policy areas and working in a collaborative,

joined-up way across Government, as well as about the shift towards a longer-term, prevention-based approach to decision making. In our submission, we pick up the point that we are very good at being accountable to particular targets and outcomes but perhaps less so on the process of getting there.

What are our ways of working, and how do we hold ourselves accountable to the principles that underpin the way we make decisions? As we also mentioned in our submission, other Governments have been able to do that. In Wales, under the five ways of working, the Government is held accountable for the way it makes decisions as well as for the outcomes that flow from them. That feels like an important thing in the conversation about accountability.

James Black (Fraser of Allander Institute): Good morning. As part of the research into the joint budget review and climate change, I spoke to a number of civil servants in different areas across the Scottish Government. Much of that research was not particularly climate focused at the start; it tried to establish what processes occur, where rules and responsibility lie and so on, so as to understand the policy-making process across those different parts of Government.

One of the key words that I would bring up is “challenge”, which speaks to a number of the items that were listed earlier—both internal challenge and external challenge, and both informal challenge and more formal challenge. That speaks to much of the above, as leadership sets the tone of challenge. There needs to be clarity around what sorts of challenge should be expected—formally within policy-making processes, but with an informal tone, too. There needs to be capacity in order for civil servants to ensure that anything that they do will stand up to the scrutiny of challenge. There needs to be accountability for who is actually undertaking the challenge. For me, “challenge” is the key word. It speaks to many of the factors that we are discussing.

The Convener: Thanks very much for that. I certainly feel that the committee has a role to challenge, certainly in our scrutiny function, so that is very much something that I would agree with.

I do not know how in-depth your individual experiences are but, in your experience of the civil service, do civil servants feel that they can challenge ministers? Clearly, individual relationships make a huge difference, and there will be different personalities and leadership styles. We are not trying to say that people should be in a certain box. Do you think that there is an ability to talk truth to power? Do you think that it is limited? Do you think that there should be more of

that? What is the relationship of civil servants with that?

James Black: From my experience, relationships are generally pretty positive. Usually, the difficulty or the challenge comes from what challenge is made to the civil servants in appraising different project options. It is also a matter of ensuring a culture where things can be said and got wrong, and where it is accepted as part of the process that not everything will be correct.

From the perspective of internal challenge, to what degree are processes actually being followed, and to what degree are they being followed well? In my view, that is part of the gap where challenge is not always being undertaken to the intended level.

The Convener: Mark Taylor, you talked about what goes well and what does not go so well. Do you think that it is because of politics that the emphasis is on what goes wrong, rather than on trying to bolster what is, perhaps, going well and working fairly smoothly in the Government? I am talking not necessarily about the party-political aspect but about what happens in departments and the Government as a coherent unit.

Mark Taylor: Government works over different timeframes. Of course, there is always firefighting to be done and, at the same time, Government looks to the future, to make innovation and longer-term change and transformation. Capacity was on your list of key areas, and part of the issue is prioritisation. Rather than being a choice between those different considerations, it is about how the right balance is reached between each aspect. Often, the balance is against the here and now, which speaks to the root of your question about whether, because of internal politics, departments need to be seen to be doing well and making a difference—in some cases, immediately and quickly. Often, the balance tips towards that area. When there is more investment in innovation and transformation, in particular, our experience has had two aspects. One aspect has been that the investment has not been thought through or articulated as well as it might have been, not just in relation to the impact on people, equalities and different groups, but in relation to what we are trying to achieve and what the impact will be, beyond the headline of the change that is being looked for.

Also, as I said before, it is about how we will know what we want to happen at the front end, how we will measure the impact at the back end and what data we will collect around that. The Auditor General has spoken about the implementation gap. Our experience is that the lack of clarity of thinking at the front end, the lack of data collection, the lack of understanding of how

things will be measured and the lack of priority being given to that all contribute towards the gap. The Government is dealing with a complex set of issues. My overall reflection is that, often, the here and now trumps the longer-term innovation and change.

The Convener: One of the things that the civil servants said often frustrated them about their departmental remit was the lack of capacity—in terms of expertise and numbers of people—to deliver some of the things that the Government wants and, indeed, the public and other bodies demand.

You also touched on prevention, and Ben Thurman talked about horizontal working. This committee and the Scottish Government have wrestled with that for well over a decade. As Mark Taylor said, because people are looking for instant results, it is very difficult for Government to persuade organisations to disinvest in one area in order to invest in another that might have more effective results in the long term. How do we square that circle in a situation where resources are not increasing?

Ben Thurman: That is a really good question and, as you said, we have been grappling with that at least since the Christie commission. Part of the answer is around scrutiny and how we scrutinise decisions. We did a lot of work off the back of the Sturrock inquiry into bullying and harassment in NHS Highland, which looked at values in the healthcare system and documented a link between the quite narrow performance targets that are published on a weekly basis with quite a high level of public and media scrutiny around them and the impact that that can have on decision making in a service delivery context, the pressure that it can create within a service and the values and behaviours that it can encourage in certain situations. There is a question about the way we scrutinise performance in different contexts, and also a question about values, which was one of the questions in the committee's call for evidence.

On the flip side of that, it was quite positive to read in Audit Scotland's report about how values have been effectively embedded into Social Security Scotland and across everything that it does. There might therefore be a question about how we can more consistently integrate values across the piece and how we could use that approach in the way we scrutinise decisions so that we do not create perverse incentives that can skew us towards instant results instead of longer-term goals.

09:45

The Convener: Another argument between siloed and horizontal working is accountability,

which Mark Taylor talked about. Who ultimately is accountable when people are working across departments?

Ben Thurman: It is collective accountability, which is a much more complex thing to achieve across a big Government. The point that we tried to make in our submission is that we are getting diminishing returns from an approach that tries to treat complex social issues such as health, poverty and education in silos. A lot of the key indicators that we are trying to shift are flatlining, and the way to improve people's lives is through finding points of connection across different policy areas.

There is definitely a question about how we achieve accountability in that context. We would argue that it is about shared accountability for outcomes and also for principles or the way in which we deliver those outcomes. How can different parts of Government be held to account on the things that they are doing to collaborate with other departments, to integrate policy areas and to embed long-termism and prevention into the decisions that they are making. It is about accountability for our shared outcomes and the processes through which we get there.

The Convener: James Black, the Scottish Government interacts with a lot of organisations outside the Scottish Parliament. From speaking to a former minister, I understand that there is a sense of great weariness among some of those organisations that they are consulted almost to death but do not necessarily see the Government taking forward what they want within the timeframe they are asking for. That weariness perhaps comes from feeling a lack of real participation. Is that something that you have found? How can it be improved?

James Black: I can understand that feeling. Part of that weariness arises not from being approached, which is always very welcome, but because there is sometimes a lack of feedback about how anything has actually changed or, if something did not change, why it did not. Because of that, it can sometimes feel as though we are being consulted to tick a box rather than as a serious form of consultation. Of course, when an organisation has limited capacity, it can start to question the public value of some of these consultations. Perhaps the weariness is unwarranted because the interventions are useful, but perhaps some feedback from the Government about when and how those interventions actually help would help to address that weariness.

The Convener: Do you think that, when the Scottish Government communicates with organisations that are looking for funding, it does so in as straightforward manner as it should? For example, one of my constituency organisations

had a significant funding bid turned down and, when it asked why, it was told that the fund was heavily oversubscribed. That might have been true, but does that mean that the application was excellent but others were better? Was it just a poor application, or would it not have been an effective use of resources? It seems that organisations are not really told that. They might be told it on some occasions, but certainly on that occasion the organisation was not really told why it did not get the funding other than the fact that that was the size of the pot, this was the number of bids, and it was just not among the lucky ones that were selected. Do you think that such feedback could be improved?

James Black: I cannot speak directly to that situation, but I would say that sometimes there is no clarity over feedback. We have seen that not just in the Scottish Government but in the UK Government's levelling up funding, for instance. There is not always clarity as to what would help an applicant to achieve that funding. There is also a bit of an industry around how you prepare applications for funding, so the question is how we can ensure that such funding is allocated fairly rather than purely on the basis of who is most up to speed on making applications.

The Convener: When I was in Glasgow City Council, if people wanted to apply for a grant, they were much more likely to get it if they put the word "workshop" somewhere in their application. Communication is key.

If you could implement one improvement to Government decision making, what would it be?

James Black: Unsurprisingly, I go back to the work on climate change. Part of the interest in that was to do with the fact that it affected the whole of Government but it was a challenge, given the siloed nature of Government. Therefore, how we introduce change across Government was the question.

We kept coming up against the question of whether a given issue was a challenge. It appeared at times that no one was responsible for some aspects, such as querying value for money in terms of socioeconomic impacts or climate impacts. If no one queried that situation, under time pressure, the matter was often not addressed in the first place. That led us to realise that the different parts of Government are at different stages of their journey in policy development. Some areas are a lot further ahead than others. Sometimes that is due to the nature of what they do, whereas, at other times, it feels as though other areas simply do not realise that they are far behind in the progress of their policy development.

One issue that I saw was that there seems to be no centralised view of which areas' processes are

performing better than others. I am thinking not about policies that they are producing, but simply about process efficiency. When such different areas in Government are working to their own standards, there is continuous divergence across time. The question is how that can be brought together not so that everything has to be done the same way, but so that a certain standard is expected.

The Convener: Do you not think that the national performance framework has a role to play in that?

James Black: The question is about how that drives through into individual policies so that standards for assessing socioeconomic impacts make sure that the policies are acceptable, that the money that is spent has clear objectives tied to it and that those objectives are not simply to spend money. The national performance framework sets out a useful way of viewing outcomes that are intended to be achieved, but it does not address how policy is made in the first place.

Ben Thurman: Thanks for teeing up the national performance framework, because that was my response.

One of the more consistent themes through all the written submissions was the need for a kind of overarching decision-making tool for coherent decision making across Government. Carnegie UK thinks that the national performance framework is that tool and that the outcomes-based approach is a way to manage Government resources effectively and efficiently.

Our observation, which we have talked about in other settings, is that we have done the outcomes bit fairly well but not really thought about what sits underneath that. That is the guidance. How do we support decision makers to shift towards an outcomes-based approach and the skills and capabilities that are needed to do that? As we said, other Governments have done that, so there is international learning on what it would take to make that shift.

If we were to make one recommendation for change to embed effective decision making, it would be to introduce guidance telling people how to make the shift towards an outcomes-based approach to decision making.

Mark Taylor: You asked for one improvement, convener. I am tempted to go with prioritisation, which is important.

A broader question, which stitches together the themes that we have talked about so far, is how does the Government—and how do we, as the scrutineers—measure and identify success, and how do the accountability arrangements, including the scrutiny that we all do and the accountability

arrangements within Government, support that? It almost speaks to incentives in the system—what people respond to in the system—and how we can shift those so that the responses help to deliver the changes and improvement that Christie set out and that we would all want to see in how Government works. Right at the heart of that is radically rethinking how we measure success and making sure that we hold to account those who are spending money and making those decisions for their performance in the wider sense.

There is a lot behind that, and the national performance framework plays a part. From our perspective, it is about dropping down a level from that and saying, “Put your money where your mouth is.” It is about where money is going, what you are looking to achieve with that money and how those things have contributed to the overall outcomes and measures. It is about shifting the way in which we all look at that and what we value in the system. That speaks to the short to longer-term tension and balance.

The Convener: Thank you. I will open up the session. The first colleague to ask questions will be Daniel Johnson, to be followed by Michelle Thomson.

Daniel Johnson (Edinburgh Southern) (Lab): I think that my line of questioning will touch on some of the issues that the convener has already mentioned. Broadly, based on the conversation that we have been having to date, I have questions around how people in Government understand the categories of decisions, how consistently those are approached and whether there are consistent methodologies.

On that first point, it struck me that, when we are asking people in Government—be they former ministers or officials—about how they understand decisions, they almost automatically and exclusively talk about policy. If pushed, they might start talking about financial decision making, and, if really pushed, they will start talking about delivery. I think that the focus is very much in that order, and what they are not volunteering at all, which is quite striking given recent events, is anything around commercial decision making.

Does that chime with your understanding of the focus, and do you think that there needs to be a recalibration of the different types? Are they the right categories, or are there others that we should be asking about? I ask Mark Taylor to respond first, because the question feels quite Audit Scotland-y.

Mark Taylor: I will start by agreeing with your analysis that, alongside the big, high-level ministerial policy decisions—it is clear that, within Government, ministers decide policy, which is a mantra and a practical way of operating in

Government—there are lots of decisions around delivery and the implementation of policy, which often condition how the policy happens in practice, which makes a big difference.

Government has different ways of dealing with that. Where it recognises something as a programme or project of significance, formal governance arrangements will be set up and challenge processes built in. For things that are seen as much more operational, an individual person will take decisions. That all matters to how policy lands and how financial decisions land with regard to the allocation of resources.

A lot of the impact of those policy decisions comes from the way in which that functions, and there is a real variety in how it functions. I think that we said in our submission—it has certainly been our experience—that, when we look at the rules and guidance, we see all the right stuff; where things fall down is the way in which the rules and guidance have been applied in practice throughout the process.

On your second point, which we will, no doubt, come back to, there has to be flexibility in the system. I would not deny that you cannot have the same level of investment in decision making for every level but, equally, a clearer expectation, incentive and signal in Government that it really matters that you do those things well more consistently across Government would help a wee bit.

I will briefly pick up on one of the earlier questions around challenge and scrutiny, which features here as well. I have no aspirations to be a minister—I will never be one—but, if I were a minister or a director general, I would want to know that there had been a challenge process as part of decision making at the lower level. When I got advice, I would want people to tell me that that had happened, whether there were any gaps and how issues had been resolved. As well as that needing to happen, it needs to be packaged in a way that supports decision making at the top table.

10:00

Daniel Johnson: I will come back to that issue, but I am interested in hearing from James Black. Does the Government have sufficient clarity on its categories of decision making?

James Black: That should be a joined-up process, too. There should be an understanding that policy should, of course, lead to delivery, and there needs to be the ability to see that through.

I do not know the degree to which there is clarity in relation to having clear separation. From what I have seen, the processes sometimes feel quite policy led. We should understand that it is about

not just doing these things but doing them well. Some aspects of the processes involving policy making, financial decisions and delivery might turn into tick-box exercises if they are not treated seriously. At that point, they might not be achieving what was intended. Of course, if they become tick-box exercises, things will become rather bureaucratic, which would not be the original intention.

If people focus overly on policy, they might not consider at the forefront of their minds that policies might not go as intended and that they might have to monitor and evaluate them. We see fairly consistently that, when Scottish Government policy gets to the evaluation stage, the data that would enable proper evaluation of the policy does not exist. That comes down to preparing in advance. At the business case stage, there is a need to set out how the policy will be monitored and evaluated. Without that foresight, you will be left in a difficult situation in relation to understanding what works.

Daniel Johnson: The point about business cases is exactly what I want to come to next. In its report highlighting the issues relating to Ferguson Marine, Audit Scotland said:

“It is not clear what discussions took place between Scottish ministers and Transport Scotland about the contract award. There is no documented evidence to confirm why ... ministers were willing to accept the risks of awarding the contract”.

In its submission, the Fraser of Allander Institute says:

“our first priority was therefore to understand how policy is currently made in the Scottish Government.

We expected to find a structured framework of processes which we could build from. We found no such framework. This concerning finding led to us unravelling the various processes and practices currently occurring across different parts of the Government.”

It goes on to say that, often,

“Business cases were performed to the minimum standard”.

We have heard, time and again, that, although these things happen, they happen in very different ways in different portfolio areas. I have no desire to talk about the details of Ferguson Marine—we will leave it to other committees to do that—but it strikes me that, although there might be rules, as Mark Taylor said, there are no consistent methodologies or standards for how appraisals, whether they relate to business cases or commercial decisions, are made from portfolio to portfolio, or even from decision to decision. Is that a fair conclusion to draw? If we were to do one thing, would it be to take a more robust approach to business case development and scrutiny? Would that be pivotal? James Black is nodding his head most vigorously, so I will go to him first.

James Black: I broadly agree with that conclusion. Inconsistency in specific ways is okay; it is absolutely fine to use different methodologies to achieve the same outcomes. I would expect individual processes to differ across different parts of Government simply because they deal with projects that have very different characteristics. However, you would expect there to be an overall framework in which challenge happens throughout the process. You would expect an assessment of the inputs to and the outcomes of projects. You would expect the Government to set out objectives and what is to be achieved with the money, as well as some sort of assessment of the socioeconomic and climate impacts.

Of course, that has to be proportionate. There is a world where it can become disproportionate—I have heard of cases in other Governments where civil servants have had to create business cases simply to get access to software, which would obviously be going too far the other way. However, there are projects on which relatively significant amounts of money are being spent but that do not have clear objectives—the Government is simply spending money and does not understand the socioeconomic or climate impacts, even in cases where those are very relevant to the project. That does not seem like an efficient way to make policy.

Daniel Johnson: I will come back to Ben Thurman, because I would like to put the question to him in a particular way. First, I ask Mark Taylor whether he has anything to add to that or any insights from his work at Audit Scotland.

Mark Taylor: I start with the recognition that there is, of course, a framework—we describe it in our submission, starting from paragraph 31. However, I would not contest what James Black has said, in that there is flexibility in the framework and the application of it is variable—so much so that it is sometimes hard to see how the framework is generally applied.

It is worth saying that the framework is sometimes applied well, so we are not saying that the Government never does this stuff. Actually, we have seen some areas where it is being done really well, and we give examples of that in our submission. There were good ways of working in relation to the Forth replacement crossing and social security devolution—those areas were recognised and identified as specific projects, and they had the infrastructure put around them. I recognise that other projects are smaller and more operational, and perhaps somebody thinking about the issue for half an hour and then making a recommendation around that is the right way to go.

It is in the middle ground where the question arises of how much of this happens routinely. I point to two aspects that are important in that

regard. One is the process. We have talked about the scrutiny and challenge process on a number of occasions—that is about who within the organisation is saying, “Show me your business case.” The thing that goes alongside that is a culture in the organisation that values these things and sees them as important. I would not challenge for a second the view that every single civil servant understands that the process is important when money is being spent and when policies are being implemented that impact on people’s lives. However, it is about the priority that is given to that in the moment and the importance that is given to investing time in working through the options, working out what the impact will be and working out how that is going to be measured. When it falls down, that is where it falls down.

Daniel Johnson: Ben, I wonder whether the point ties to what you said about the national performance framework, in that it exists and is the right thing but, actually, there is a need to think about how to systematically weave it in, and a good business case methodology would be one way of doing that. Is that a fair reflection?

Ben Thurman: From listening to the conversation, it feels as if there is a bit of a distinction between projects and project management and more complex social policy areas. The approach to policy design, delivery and evaluation would be the third bit that I would add to your different steps—that is maybe a little different, depending on the level of granularity in the policy that we are talking about.

The national performance framework and the national outcomes are useful at that more macro social policy level, where we can think about, for example, all the policy interventions that try to improve children’s wellbeing so that we all grow up loved and happy and able to fulfil our potential and whatnot. Essentially, that will enable us to understand whether all the separate policy interventions are making a difference and providing the outcomes that we want to achieve. That is where the national performance framework and national outcomes, and the ability to build the evidence around that, have a lot of value.

Daniel Johnson: I have one final question. Consistency in approach is one thing that needs to be examined. You have all discussed challenge, but I wonder whether it is being conceived of and captured in the right way. In our discussions with officials, it struck me that, when we asked them about it, they pointed towards the use of external people on programme boards. That sounded to me very much like challenge at a policy level rather than necessarily challenge at the level of granular assumptions.

That is certainly the case in comparison with my experience of the commercial world, where you

build in challenge at that more granular level in order to ensure that the assumptions are correct, because, ultimately, that is what ensures that you have a robust business case. Is that a fair reflection? Is that backed up by your experience of looking at those situations in detail?

Mark Taylor: I absolutely recognise the value of that. There are two things to say. There is a cohort of non-executive directors in the Scottish Government who play an important and valuable role and help to provide that challenge process. We see evidence of that at a number of levels, including in the overall director general areas in relation to how risk management and that sort of thing is going.

That challenge happens and we see it. Through those individuals’ involvement and cross-organisational involvement in particular high-profile high-investment projects or programmes, an infrastructure will be built that allows challenge. When there is criticism from Audit Scotland about those sorts of things, it is often about the way in which that infrastructure has been constructed, set up and operated, rather than the intent to have that infrastructure. That is built in there, and it gets down to quite specific programme and project-level challenge.

To give you reassurance at one level, that challenge is often focused on delivery; there is perhaps less challenge around the front end of asking, “Why are we doing this thing and what we are trying to do?” Once we get past the infrastructure set-up, there is a sense that policy decisions are tablets of stone that come from ministers and that, “They have decided, so we need to be doing this stuff.” There is less of that infrastructure around that side of the business.

Ben Thurman: I will pick up on the front-end point. Speaking from the perspective of Carnegie UK and civil society more broadly, there is a question about where in the process we are invited to engage and provide that critical challenging. We have experienced being invited on to working groups and advisory groups to later find that the thing that we were advocating for was not on the table or within the scope of the conversation. The decision had been made much further upstream and we had not had sight of that process.

There is a question around how to be clear about why people are being invited to be involved in the decision-making process, and there is a question around having full sight of the process from policy design to delivery and being able to have challenge at different parts of the process. It is often the case that we are able to be involved in particular parts of the process but do not have the oversight of what is happening throughout the policy process.

Daniel Johnson: What are James Black's reflections? To put a different spin on it, is there a need to go beyond challenge and make sure that the approach translates down to a more granular level? That might not be challenge, but perhaps just testing as we go on. We could be challenging at the macro level, but should we continue to test at a more detailed level?

James Black: One of the important questions around challenge is what we are challenging, because some aspects of challenge are done well and comprehensively. For example, from what I saw, accountable officer templates are an area of documentation that is done really well and taken seriously across the whole of Scottish Government. That came at the start of the process, or at least it was undertaken at the time that was intended.

There is a what there. What is being challenged? The financial side appeared to be challenged fairly well, but I got the feeling that challenge is very patchy across Government in relation to value for money for society and wider impacts.

Some parts of Government—Transport Scotland, for instance—seemed to have a much more robust way of informally and perhaps even formally challenging some of the more technical or specific details, whereas other areas did not seem to have that culture of challenge within them in relation to looking at the socioeconomic impacts or other impacts.

10:15

There is the what and there is also the when. When does challenge take place? If challenge takes place too late and the project already has a set direction, there is an incentive to not want to overly challenge it. It is very difficult to realign a project if it is challenged very late on. It comes down a bit to who is doing the challenge and whether they have sufficient clout to make sure that it is understood to be important.

Daniel Johnson: Thank you very much. I had better leave it there.

Michelle Thomson (Falkirk East) (SNP): Good morning, and thanks for attending the meeting.

Following on from the area of challenge that James Black highlighted, I am interested in reflections on culture. The Audit Scotland submission referenced issues around the early learning and childcare policy. It set out that there was not a proper options analysis of the potential impact against cost, no evidence of improved outcomes, and so on. That is the what, but I want to explore why and to what extent those particular issues were related to that programme or

divisional culture and, in general terms, how culture affects decision making. I will start off with Mark Taylor.

Mark Taylor: I will confess to not having hands-on experience of that particular audit around early learning and childcare, but I am certainly aware of the broader issues. Without commenting on that particular policy—because, as I say, I am not sighted on it—there can be a clearly understood desire to have a particular policy implemented, and the focus can be on implementation rather than thinking through questions around what comes with that policy in the round and what contribution the implementation of that policy aims to make in the round.

In that case, it was about investment in the number of hours of pre-school care. That was a significant project and a significant investment—incidentally, we will soon be reporting an update on the process around that. In that particular case, the focus was on the number of hours, and we found that there was less working through of what that increase in hours would actually mean and what the Government was trying to achieve through that. We highlighted in our paper that there is sometimes a tension in that. Is it about getting parents back to work, more flexibility and their contribution to the economy, and/or is it about quality of care, early learning and early years intervention, and support for children? Where is the focus? What is the Government trying to achieve?

There was absolute clarity about hours and timescales, and there were lots of questions about implementation, what that meant for the market and so on, but there was less focus on where the policy would impact. I will use the shorthand of referring to the outcomes in the national performance framework more generally. How does that contribute to those outcomes specifically? We all get the motherhood and apple pie aspects of the policy but, specifically, it is about asking, "What are we doing with this decision and this policy, what are we trying to do, and how will we know when we have done it?" and looking beyond the headline hours, investment and spend.

That is a great illustration of the challenge for Government around such decisions and of where we often feel that the analysis and the thinking fall down. James Black used the phrase "value for money". From our perspective, it is really hard for a Government to demonstrate value for money at the end of a process if it has not worked out exactly what it is trying to achieve and how that will be measured alongside the spend, so that it can demonstrate the balance between the spend that has been put in place and the impact and outcomes.

It is really important that, at the front end, culturally—that is the root of your question—there is the sense of the Government understanding the value for money proposition in the round and being able to follow through on that to make sure that it is delivered. That has to move up the priority set in relation to the cultural ways of working in the organisation.

Michelle Thomson: James Black and Ben Thurman, what are your reflections on how the culture within a programme or policy development affects outcomes?

James Black: As part of the research into joint budget reviews on matters relating to climate change, it became pretty clear, some way into the projects, that a process was going to have to be introduced. Of course, when you are thinking about introducing any processes, you have to make sure that the processes are actually going to be undertaken, that they will not become bureaucratic overheads, and that they will actually achieve what they are intended to achieve. We spoke to quite a lot of civil servants about their policy-making processes, and it became clear pretty quickly that they had a lack of capacity not only to take on new processes but to achieve the processes that they were already meant to be to be undertaking.

Part of that comes down to a culture around speed of policy making. A lot of civil servants fed back that they felt that the prioritisation was to deliver policy quickly and that there is less prioritisation of the extent to which processes should be fully thought through, or that, perhaps, the culture of speed led to that second choice being made. I think that speed of policy making is a big part of the culture that has been set out. There are questions around the extent to which things such as impact assessments are done and are taken seriously and the extent to which monitoring and evaluation is being taken seriously. It is obvious that civil servants feel that those elements are not the priority right now.

Another aspect of the culture issue concerns the extent to which culture is set by governance and leadership. Currently, the Scottish Government has a structure in which it does not have a Treasury. That model is quite different from those that other Governments have. There are some cultural benefits to that, such as the fact that there is a lot more collaboration in terms of openness in the Scottish Government than there is in some other Governments. However, there is also a drawback in terms of the oversight of some of the processes. How those advantages and disadvantages can be married together in a way that addresses the disadvantages will have an implication for the whole of the Government's culture.

Ben Thurman: It is hard to speak to the specific example that you gave but, more broadly, it is quite hard to comment on why there are those kinds of differences in culture and the ways that decisions are made across different Government departments. However, we can say that that is something that we have definitely observed in our work.

In the evidence that we gave to the committee during its inquiry into the national performance framework, we said that we found that the ways that people use national outcomes to direct policy and the ways that people gather evidence to understand whether they are making a difference are inconsistent across different departments—often, they applied after the fact, rather than being used to make decisions in the first place. Similarly, the extent to which the values in the national performance framework are embedded in the culture of departments and directorates is inconsistent. From our perspective, until there is clarity about what is being used as a decision-making tool to ensure that there is a strategic and collaborative approach across Government, you will see those kinds of inconsistencies in the way that people work towards outcomes and the cultures that develop in different departments.

Michelle Thomson: You have quite naturally led me on to the next area that I wanted to explore. I noted that your submission says:

“Despite the rhetoric on wellbeing, there is work to be done to put the National Outcomes at the centre of decision making.”

In your experience, how are risk and uncertainty managed? I wonder whether the cross-cutting nature of the national performance framework makes the outcomes less certain. Where there is greater risk, that can often be an inhibitor. It is easier to make decisions about a tiny wee bit of something than it is to do so across the piece. How do risk and uncertainty impede effective decision making?

My question is for everyone, but Ben Thurman can go first.

Ben Thurman: That is a really important issue. We picked out a couple of things in our response, such as the risk of path dependency—continuing down the same path and ending up with diminishing returns—which we have talked about a little. There is also the risk of incurring future costs. How do we get the balance right between policies that try to mitigate immediate harms and those that are more prevention focused?

For us, it is not entirely clear how those things are being considered in a lot of decision-making processes. We were quite explicit in our written submission that we do not see a transparent approach to appraising risk in the way that

decisions are made. Our broader concern is that immediate costs appear to take precedence over longer-term impacts, and that precludes a longer-term, prevention-based approach. That is linked to the short-term decision-making cycle, which has been talked about in the committee. However, it is really difficult for us as an external organisation to understand how that has been brought into decision making without having transparency.

Michelle Thomson: Does Mark Taylor want to come in on that?

Mark Taylor: I always enjoy talking about risk.

Michelle Thomson: I knew that you would.

Mark Taylor: I will start with the recognition that nothing that the Government does is risk free. Even if there is a risk-free option, there is an opportunity cost for things that are not done. Decision making is about balancing those risks and, when a decision has been taken and has been implemented, there are risks to manage. Sometimes they can be mitigated, but sometimes we have to live with them in what is being implemented. If the Government aspires to more innovation and transformation, it needs to take risks.

I recognise the way that Ben Thurman has characterised things, and I will develop what he said a wee bit.

I have worked with Government for a long time—longer than I care to remember—and I have seen a significant improvement in risk management as a discipline and a way of working throughout that period. Increasingly, discussions, scrutiny and decision making are framed in terms of risk. However, the focus is often at the implementation end rather than at the front end. People say, “We’ve decided to do this thing. What are the risks that will get in the way of doing it?” rather than “What is the balance of risk that we are taking on?”

The best example of that is the Government’s intervention when companies get into difficulty—I will use the shorthand of industrial strategy. The previous Auditor General for Scotland and the current Auditor General for Scotland have reported and made recommendations on the framework for the risk that Government takes on and what Government is trying to do when it intervenes in companies, and how it frames those decisions. That is an example of how Government does not do front-end risk balancing very well or, if it does it, it does not do it very transparently in a way that is understandable and well articulated. That is what Ben Thurman was talking about. The Government does not ask, “What are our longer-term trade-offs here? What risks are we running by not doing things or by doing things this way?” Trying to

assess and use the language of risk at the front end is done less well.

Michelle Thomson: Before I bring in James Black, I have a quick question for you. How much evidence do you see of proper risk management in terms of disaggregation and risk probability outcomes and so on, from an academic perspective? Do you see that being done routinely? I have come across examples when speaking to ministers where there does not appear to be any awareness of how to disaggregate risk. I do not know whether that is something that you have seen.

Mark Taylor: I cannot speak to what ministers are involved in and are not involved in, other than that I have seen examples of where ministers are reassured that appropriate risk management processes are in place—full stop. On your point about disaggregation, I can give you the assurance that it is routine within Government to have risk registers that assess probability and impact and to manage them actively. That is built in as part of the system. Where we criticise risk management, we do not criticise it in a general way by pointing out that there is none; we criticise the application of it and how well it is working in practice in a particular setting. I will give you the reassurance that that approach to risk is inherent in how the Scottish Government does business.

The question is, how granular do you get? We see the top level—the project level—of that and we understand that that is fed by discussions at a managerial level. What is less clear is whether the middle management really care about that stuff or whether it is more of a process, but I can give you that reassurance that that is the Government’s way of working.

10:30

Michelle Thomson: I am aware of time, convener, but perhaps James Black can just finish off with any comments on risk and uncertainty in general.

James Black: There are lots of different types of risks and uncertainties in what the Government does. There are risks and uncertainty in terms of delivery, where first of all, there is a need for a strong business case that sets out the potential for those risks to occur and what would happen in those situations. There are also risks and uncertainties that are considered in an economic appraisal. We look at risks and uncertainties around whether or not something is going to deliver the expected impacts. That also relies on having an overarching business case framework. Finally, there are methodological risks. In my submission, I pointed out the risk around peatland

emissions, where it could potentially have a much larger impact than simply on just one policy.

My sense is that there was not always that joined-up thinking, for example, in respect of peatland emissions, in asking how it might impact on Government targets in aggregate. We might see the climate change plan as a vehicle for doing that, when we have a costed plan in the next round. However, for other social or economic impacts for which the Government may have targets, it is not clear to me that there is an accurate understanding of what those risks and uncertainties may impact. That is always being assessed.

Michelle Thomson: Thank you.

Liz Smith (Mid Scotland and Fife) (Con): I want to ask about data. It was put to us by two former ministers and one civil servant last week that, when it comes to good-quality decision making in the Government, it is essential that good-quality data is available—if the Government chooses to ignore it, that is another matter. Having such data available is critical to good-quality decision making. Are there gaps in the data that it is necessary to put before Government ministers? Is there anything that we can do to improve that?

Mark Taylor: The absence of data is one of the big themes of our reporting over the medium term and in the recent past. It functions on two levels. One relates to the front end and one to the back end and what evidence there is of delivery. I make a connection between the two levels. In a learning Government, once we have delivered the policies and gathered and established data about implementation, we should consider what we take from that and how we feed it back in at the front end around the next decisions that come along, either in the same area or more generally.

There are data gaps and the absence of data is an issue that comes up regularly. As a wee side bar, perhaps more can be made of the data that is available. I hesitate to use the word “excuse”, but sometimes that is one explanation why there are gaps, whereas a broader look at the data might be more helpful.

On the question about what we do about it, I am strongly of the view that, as decisions are taken, they need to be informed by available data but also that at the outset, we should build a sensible plan around how we are going to capture data around a policy so that we know that the things that we say that the policy is going to do are in place. We have to put systems and processes in place to do that. That will have benefit in a particular area but will also contribute to that wider sum of knowledge to inform future ministerial decisions.

Liz Smith: I will come to other two gentlemen, but first, when you say that there is a case for making better use of the existing data, what is it that acts as a barrier to doing that?

Mark Taylor: That is a good and complex question. We have touched on time pressures and the need to be seen to be doing something. Some of that squeezes out that front-end data analysis. There are possibly some cultural issues. Again, we need to take the time to find out what the data is and what it is telling us in a particular area at the front end. Generally, when Government sets off to do something, a team is tasked to do it and the first thing that the team will ask is, “What data is out there? Let’s go and find out.” Is there an opportunity to have a bit more of a data store—that is, a comprehensive go-to place that pulls together that sort of information? That was the aspiration behind the national performance framework. However, as the committee has recognised, it is still the case that there is no data set associated with a number of high-level measures in the NPF.

Liz Smith: I have to say that I think that Scotland is blessed with an awful lot of people who are putting the facts in place for the Government. Perhaps we need a few more organisations like the Fraser of Allander Institute but, nonetheless, I think the ones that we have are pretty objective.

James Black, when you make a submission on, for example, a very objective analysis of the economy, does that submission reach the right circles? I am thinking about the civil servants and Government ministers who will be making some pretty big decisions about the economy. Is the analysis reaching the right quarters?

James Black: It is sometimes difficult to tell, to be frank. We always hope that the analysis that we do is read and is useful. At times, our analysis has led to discussions with the Government and we have seen some change. However, our analysis is not always readily known.

I completely agree with your point about good-quality data influencing decision making. One of the things that we must bear in mind is the extent to which data exists and our biases towards the data that exists. There is often a natural bias towards trusting something on which we have data versus something on which we do not have data. The issue is the extent to which that becomes a risk in policy development. If we consistently do not have data on something, to what extent are we overlooking it?

Take biodiversity as an example. That has led to a number of changes in HM Treasury guidance and the use of things such as benefit to cost ratios. Essentially, we must be careful about not

placing too much weight on what we have data on and placing too little on what we do not have data on.

Another issue is the extent to which it is recorded when we do not have information. That missing information might be a regular occurrence. For example, some of my colleagues did an evaluation of the small business bonus scheme. One of the challenges that they found is that the data that needed to exist for that evaluation, which would have been some sort of business database, did not exist readily, .

Liz Smith: Your first example about biodiversity is a classic example, because the data that you need will not exist until years from now. That might be slightly different from the business case for deciding on business rates or whatever, because that detail potentially exists, although you might not have it. In the case of biodiversity, the data that you need on which to base policy might not come for another five or 10 years. An example of that is moorlands—we were having that debate last year or the year before. To what extent is that a serious problem for the Government in devising policy? Effectively, there is nothing that it can do to get that data.

James Black: That is very challenging. Timing is key for data. Earlier, I spoke about the timing processes. When you are able to introduce data will potentially influence some of your policy options or the decisions that you make.

Some data can be made early, whereas some data might take several years to make. The Government could think about understanding where those data gaps exist. Other data, just by the nature of some policies, must be collected while those policies are operational. There is a mixture in terms of evaluation as to what is available and what will not be available.

Ben Thurman: I note everything that has been said about the challenges, particularly in relation to the national indicators and in setting policy agendas when there are gaps and some quite significant lags in the data. It is very hard to use it to shape decisions that you are making in 2023 if the last data that you have is from before Covid for example. There are examples of that being the case.

The other point that I want to make—because we are talking broadly about statistical data and population-level data sets—is that there are certain groups in the population that are unseen in data sets, so there is an equalities point here. We know that it is often the same groups that will be unseen in data on housing, education, health, poverty and so on, and they are the same groups that risk being ignored in the way we appraise

data and, accordingly, in the way we make decisions.

In our submission, we refer to the need to shift towards a different approach to understanding data—one that includes co-produced evidence and non-statistical evidence—so that we can bring those experiences into our policy-making conversations and ensure that we are moving in a policy direction that ensures that everyone has what they need in life to live.

Douglas Lumsden (North East Scotland) (Con): I want to pick up on a point that Daniel Johnson made earlier about business cases. In your submission, you say:

“Business cases were performed to the minimum standard or missing entirely.”

That links to what Liz Smith said about evaluation. If there is no business case at the start, how can we do an evaluation or a post-implementation review? Why would business cases be missing?

James Black: It comes back to the culture and speed. In a time-pressured situation, some things might be done to a minimum standard or processes might be done retrospectively and so on. We see that quite a lot with impact assessments, which are often done right at the end of the process—in fact, almost as late as they can be done. Clearly, they are not having the intended impact if it would be too late at that point to go back and change anything. Therefore, the why is a big question, but part of it comes down to the speed of policy making.

Douglas Lumsden: I can understand that when it comes to things such as homes for Ukrainians or dealing with a pandemic but not with everything else. I am from a background where you had to have a business case, so why is it not the same in Government?

James Black: That is a good question. I do not know exactly what is happening in Government. I had discussions with civil servants, but it is difficult to ascertain, from what they said, what is happening across the whole of Government among all civil servants at all times.

Business cases are incredibly important for setting out your objectives, timescales, delivery and what you are aiming to achieve in terms of the expected impacts. Of course, that feeds into the likelihood of achieving wider Government targets. Therefore, they are very important. They are also critical to ensuring that your policy is evidence informed. If you are not doing a full business case, you might not be monitoring and evaluating your policy, and, if you are not monitoring and evaluating your policy, there is no link to new policy development to improve the next set of policies.

Mark Taylor: I will add some reflections on that. On the question of why the development of business cases is not happening, the first thing to recognise is that, often, it is happening and happening well. When it does not happen, it is a question of volume. The number of decisions that Government is making inevitably drives that question of whether a full evaluation can be done. That comes back to the capacity point that the convener asked about at the outset of the discussion.

Prioritisation is an issue for the Scottish Government. How is it ensuring that it focuses on fewer areas—the right areas—in order to do things better, rather than spreading itself too thinly in some cases? The capacity question at the heart of that is about the ability of Government to prioritise. Business case variability, if I can use that shorthand, is probably a symptom of the ask that we all place on Government to do lots of things, which therefore means that things sometimes fall down.

At the heart of that is the fact that, where we have seen good business case development, what happens is that resources are identified, targeted and focused on doing that from the outset in a particular area. There is something about how Government decides to invest in business case development in area A and not so much in area B. That sort of thing happens not only globally but at departmental and DG level, too, and there are also some questions to explore with regard to how such decisions are made and whether they are related to what Government sees as its overall priorities.

10:45

Douglas Lumsden: Your submission contains some good examples in that respect—you have mentioned the Forth crossing, and another example is Social Security Scotland—but what has been on my mind recently is the proposal for the national care service, in which we are being asked to approve the allocation of quite a lot of money without there seeming to be a business case. Have you in Audit Scotland seen a business case for the national care service, or is that something that has been lacking?

Mark Taylor: As far as the audit view is concerned, the short version is that we are not there yet, but it is absolutely in our sights. What I can offer you comes back to a previous conversation that we have had with the committee on some aspects of the financial side of the proposal not being as well thought through as they could be. I absolutely recognise, as we do in our submission, that the issue is close to the committee's heart.

Ben Thurman: I just want to echo what has been said. It is hard to comment on why business cases have not appeared in particular examples, but I would just come back to the point about prioritisation and incentives. If we are talking about issues with capacity and the volume of things that Government has to deal with, the fact is that if a particular proposal does not come with some understanding of the outcomes that have been used to set objectives, with an evaluation process that has been built in from the very beginning through a business case or some other framework or with any incentivisation or prioritisation of the way in which people are held to account, that will be the thing to drop off. The question is: what do we value in the way in which we are making decisions?

Douglas Lumsden: You talk in your submission about evaluation being carried out post hoc—I think that that was the term that was used.

Ben Thurman: Obviously this is a process that needs to start at the very beginning when you set a policy direction. What does success look like and how will we know it if we get there? If that sort of thing is happening only at the very end of the process, the risk is that you miss quite a lot of important learning.

Douglas Lumsden: My final question, which is for Mark Taylor, is on record keeping and transparency. Your submission highlights examples where those things are being done well, but there is also, I guess, the example of new vessels 801 and 802, where it is not clear what discussions were had or who gave the approvals. Why does that happen?

Mark Taylor: Where that sort of thing works well, the records are generated by the process. You have a project board, a project process and business cases at multiple stages—and it is also worth saying that business cases are not one-off events. They build up through time, with different levels of detail.

In such well-controlled—if I can use that phrase—projects or programmes, record keeping is built in. Indeed, there is often a quality system that is driven by record keeping and which provides real clarity. Not only does such an approach have real benefits to us as scrutiny bodies, to you as a committee and to public transparency, there is also real value to Government and to project management in having clear knowledge of where things are at and what is going on and knowing what record to consult when, say, people change and so on.

The flip side of that is record keeping almost as a by-product of the process. The classic example—and I should say that this does not necessarily relate to the ferries—is of there being

some email somewhere or something else that people have to cast around to find and which has been banked in some means of communication that we all now use. It might well be in a WhatsApp group or in an email; it is something that we all do, but how does that record then get sucked out, banked, packaged and given the same accessibility that you get in project management approaches? How that sort of thing is captured is, for us, one of the fundamental questions that have come out, not just from the experience or audit that you have referred to but more generally. Of course, capturing these things is not just for the benefit of audit, although it does make our life easier if we can go to a place and find something there; it also benefits Government itself if it knows where things are and how things have been decided.

Douglas Lumsden: So we as a committee should be asking for a review of and a more formalised approach to record keeping in terms of who made decisions and how such things are stored. Do you agree?

Mark Taylor: I would hesitate to suggest anything directly to the committee, but clearly it is important that, as far as the big things are concerned, there is a record of what has been decided and why and that that record forms the basis of communicating with the wider public about such decisions. That speaks to the convener's earlier point about why applications are not successful. Explaining decisions as well as setting out what the decisions are is an important part of Government.

Douglas Lumsden: It would make it better for the committee and for the Government to justify the decisions that it has made.

John Mason (Glasgow Shettleston) (SNP): On the theme of transparency, we also heard a witness say that too much transparency is harmful to decision making because writing everything down prevents civil servants from being frank with ministers. What is your response to that?

Mark Taylor: I would distinguish between the discourse and the outcome. It is important to write down the decision and why it has been made, and it is important to capture some aspects of that, such as options considered, why some were discounted and that sort of thing. However, that is not to say that every discussion, consideration or investigation of particular areas needs to be banked. It is fundamentally important that, when things are decided, it is clear what has been decided, who decided it and why.

Ben Thurman: That is exactly what I was going to say. It is not a question of everything being written down in a burdensome and bureaucratic exercise. There is an important democratic point

about being able to communicate to citizens and relevant stakeholders how decisions have been made, who was involved in them and what the reasoning behind them was.

There is also something about the quality of decision making in that point about transparency. Our work on budgeting for children's wellbeing, which is cited in our submission, contains a clear point about opening up the process of setting budgets. Part of the children's sector is crying out for more involvement so that it can bring all its knowledge and evidence into the process to shape policies that would improve children's wellbeing. If we are not transparent about how our decisions are made, how budgets are set and how they are evaluated, we are neglecting the wealth of knowledge that exists in Scotland that could support the Government to do its job.

John Mason: I will come back to you on that, but I will let Mr Black come in first.

James Black: I make the caveat that I have not worked in Government, although I have dealt with a lot of civil servants. We have to bear in mind the fact that sometimes there is a trade-off between transparency and the ability to have a frank discussion. For example, the Freedom of Information (Scotland) Act 2002 can cause a bit of fear among civil servants around making sure that everything has been recorded, which can change the way in which things are discussed. Sometimes that might be for the better, and sometimes it might affect frank discussion.

How that balance is struck is difficult but, as Mark Taylor said, we could focus more on the outcomes. In my submission, I referred to what the New Zealand Government is doing in proactively releasing its Cabinet papers. They do not include the full discussion and what happened; they just include what was decided and why. I do not take any particular stance on whether that is good or bad, but it is an interesting approach to transparency.

John Mason: Mr Thurman, you mentioned children and young people. I was going to ask about that anyway. In evidence from the Children and Young People's Commissioner Scotland and other people on communication, we heard that decisions that are being made should be better communicated to the general public, through, I presume, the language that is used. I am interested to hear your thoughts on that, and on the idea that children and young people should be more involved in decision making. When we come to discuss the national care service or the budget, is such involvement realistic?

Ben Thurman: I agree with your broad comment about the importance of being able to communicate decisions clearly to the people

affected, including relevant stakeholders. The way in which that is done can either build or undermine trust in decision making, and we know that trust is critically important for our democracy right now.

John Mason: Does that need to involve a bit of the decision-making process, as well as the actual decision?

Ben Thurman: Yes, exactly. It is about how decisions are made, which connects to how you involve people in shaping a decision. A lot of public consultations are undertaken, and we definitely advocate for greater citizen participation in decision making—we are advocating for that right now with the review of national outcomes.

There are other policy areas in development in which there needs to be greater involvement with the people whom the policies will affect. There is something really important about how you invite people into the process, as well as how you communicate what they say in the process that has shaped or will shape decision making, to create a feedback loop of democratic accountability. For example, you might say, “We created this process whereby we invited your views; this is what we heard and this is how we’re going to act accordingly”.

John Mason: I am sorry to interrupt you. Do you agree that, often, people give their views and then the Government, the committee or whoever says, “We have heard and considered your views, but we disagree with them”, yet people think that they have not been heard at all?

Ben Thurman: Absolutely, although I cannot think of any examples where I have heard that being communicated as clearly as you have set out. The openness and transparency that we would like to see is people being able to hear messages such as, “We have heard your views; this is why we are not able to act on that particular part of it, and this is how we are able to act on these other parts”. Does that make sense?

John Mason: That makes sense to me. We could go on a long time. I do not know whether either of the other witnesses would like to come in on that point.

Mark Taylor: Yes, very briefly. On communicating decisions better to the general public, one of the things that I recognise is that, often, decisions are packaged either for the Parliament or for the media—they are positioned subjectively. I understand that and I am not criticising it, because it is a really important part of this. However, there must also be a more objective and straightforward communication, particularly to the people who are affected, that almost takes the politics and spin out of it. I recognise that that is easier said than done.

On people being involved in decision making, there are well-understood and well-known participative budgeting processes, and there is an expectation that local government undertakes those in certain areas. That has not been a feature of the Scottish Government’s budget, but there are approaches that, as John Mason asked about, allow people to be involved in budget decisions—there are examples where that happens.

James Black: I have a quick comment, too. “Evidence-based policy making” is a phrase that is often used, but there is a big question over what is meant by “evidence” in that regard. In my view, evidence does not just mean quantitative studies of impacts; it also means the more qualitative side, which comes from speaking to people, understanding who will be impacted and getting views. If we are to use that definition, ensuring that children are involved in decisions about policies that might affect them is a form of evidence-based policy making.

John Mason: Yes. I would probably agree with that.

In your evidence, Mr Taylor, you were quite positive about decision making around the Queensferry crossing, but you were less positive about the decision making involved in the 600 hours or whatever of early learning and childcare. Is that just because one of them is a bridge and it is pretty clear that two sides should join up, so, if they do, it is a success and, if they do not, it is a failure; whereas, with early learning and childcare, it is a little bit more vague?

Mark Taylor: I recognise that there is a degree of that. I also recognise that, in our assessment of the decision making around the Forth replacement crossing, a big component of that project was the engagement with local communities and consideration of some of the wider knock-on effects and benefits of the construction of the bridge. Those were all part of the project. There was a big physical thing to be built—it was built and the costs were within budget and so on. However, in our report, there was also quite a lot of detail on wider aspects that apply to bridge building, such as the wider implications for outcomes. From memory, we said that part of the unfinished business was the classic thing of going back and showing, retrospectively, what the effect on the local economy has been. Whether the Government has quite got there yet, I do not know.

11:00

There is more complexity in early learning and childcare. An almost bridge-building approach has been taken to that policy, which is about hours spent in a certain place. In our view, that is a very

narrow articulation of what the decision has been about and what its impact will be.

John Mason: You also said that there might be conflicting aims between what is best for the parents and what is best for the kids.

Mark Taylor: As I say, we have done a number of reports in that area, and we will look to report again soon, but with regard to our historical reports, that was one of the things that we identified that had not been fully worked through. That is the shorthand answer that I will give on that point.

John Mason: Mr Thurman, kindness is a point that came up in your report. Can you build kindness into the civil service, or is it just an individual thing?

Ben Thurman: We did a lot of work on the role of kindness in public policy. We were really pleased to see that value statement at the heart of the national performance framework and the vision of a country in which everyone is treated with kindness, dignity and compassion.

From our perspective, to be successful, valuing kindness has to start with Government. There are certain things that you can do to create conditions that value kindness—we can talk about relationships or use other words—and in which it will flourish. We mentioned the Sturrock inquiry, which involved a set of conditions that did not encourage kindness but which did encourage certain behaviours that had quite a detrimental impact on staff who were working in that situation and the patients whom they were there to serve. There are areas—social security, for example—in which values have been embedded into the way in which people interact, which has an impact on the quality of the service that they deliver.

You cannot go around telling people to be a little bit nicer to one other. However, you can do certain things with the spaces that you use for collaboration and discussion, and with the way that you hold people to account and scrutinise them—whether you take a punitive approach or a learning approach—which will encourage or inhibit kindness.

John Mason: Mr Black, can the Fraser of Allander Institute measure kindness?

James Black: We can certainly try. Part of the challenge is measurement. It is about how you make sure that the Government has a way to work towards objectives. Touching on your earlier question for Mark Taylor, there are certainly areas of Government in which that is easier to do than it is in others.

I teach economic appraisal to students, and the reason why I teach them about a transport project rather than about projects such as childcare is

partly because it is easier to conceptualise. If you are trying to come up with a number for the climate impact of a transport project, you have to make some assumptions about the number of cars crossing the bridge, whereas the climate impact of a childcare project is a much less tangible concept.

It can vary a lot across Government, which can sometimes drive some of the differences. However, sometimes, the important thing is not coming up with a number; the important thing is working through the process. In working through that process, you start to see how you can do things in different ways.

John Mason: Mr Taylor, I will give you the last word, on auditing kindness.

Mark Taylor: I will just reinforce the point that Ben Thurman made. In social security, the Government deliberately set out to instil a certain value set, and we have reported strongly that we have seen evidence that that worked. Therefore, there is a case study that shows that it is possible to set out to instil a particular set of values and ways of working in a new business area and to set that culture.

John Mason: Thanks.

The Convener: Thank you very much. We have gone over time. Daniel Johnson was going to ask a further question, but we will have to call it quits there, I am afraid.

I thank our witnesses for their contributions today. We will continue to take evidence on effective Scottish Government decision making at future meetings. We will take a five-minute comfort break before moving on to the next item on our agenda.

11:04

Meeting suspended.

11:10

On resuming—

Scottish Fiscal Commission (Fiscal Sustainability Report)

The Convener: The next item on our agenda is an evidence session with the Scottish Fiscal Commission on its “Fiscal Sustainability Report”, which was published last week. From the Scottish Fiscal Commission, I welcome Professor Graeme Roy, chair; Professor David Ulph, commissioner; and John Ireland, chief executive. I intend to allow around 75 minutes for the session. Before we move to questions from the committee members, I invite Professor Graeme Roy to make a short opening statement.

Professor Graeme Roy (Scottish Fiscal Commission): Good morning, and thank you for inviting us to give evidence on our “Fiscal Sustainability Report”, which was published last Wednesday. In the report, we project the Scottish Government’s spending and funding out to 2072-73, with a particular focus on demographics, trends and the cost of delivery of public services. The balance between spending and funding allows us to assess the long-term fiscal sustainability of the Scottish Government’s current tax and spending policies.

Importantly, many of the sustainability challenges that Scotland faces are common across the United Kingdom. Indeed, like Scotland’s, all high-income economies face pressures of rising costs of public service delivery and an ageing population. Moreover, the fiscal framework between the Scottish and UK Governments means that managing the challenge of fiscal sustainability in Scotland is a shared endeavour between the two Governments.

It is important to note that the challenges that we identify would exist under any constitutional settlement. However, under the current settlement, many of those challenges emerge through their impact at the UK level, which feeds through to the Scottish Government’s budget via the block grant. From a Scottish perspective, what also matters is where our outlook might differ from that at the UK level, and feed through either to higher spending pressures in certain areas or to relatively weaker devolved tax revenues.

If we look at that differential risk under current Scottish and UK fiscal policies, we project that, if public services in Scotland continue to be delivered as they are today, Scottish Government spending over the next 50 years will exceed, by an average of 1.7 per cent each year, the estimated funding that is available.

However, taking account of what the Office for Budget Responsibility says might need to happen across the UK in order to move towards a more sustainable position, we estimate that, over the next 50 years, the average budget gap for the Scottish Government would be 10.1 per cent of devolved spending each year.

Underpinning those calculations is detailed work, which uses projections for Scotland’s population and economic growth to develop our assessment of Scottish Government spending and funding. For example, our projections for Scotland’s population follow those that have been produced by the National Records of Scotland. In our central projection, the population of Scotland falls by approximately 400,000 over the next 50 years, driven largely by the low birth rate.

Our long-term economic projections are determined by the supply of labour and by productivity. To help with transparency, we have aligned our productivity assumptions with those of the OBR. We show that spending on public services will increase not only because of pressures from an ageing population but, crucially, because of evidence of the rising costs of delivery. Spending on health is projected to grow more quickly than that on other services, increasing from around a third of total devolved spending at present to about half in nearly 50 years’ time.

Finally, I thank the committee, and its predecessor in the previous parliamentary session, for their support as we have developed the project. As we look to future work, I refer you to the letter that I sent to the convener last Wednesday, which contains an overview of our thinking around next steps.

I am happy to take any questions.

The Convener: You will be glad to know that there will be questions. Obviously, I am not going to hog things too much, because time will be against us today more than I had hoped.

My first question is about the fact that you intend to publish one of those reports every five years. The Office for Budget Responsibility first started producing such reports in 2011 and has been producing them every year. Given the fact that there can be significant changes within a five-year period—such as a change of Government, a pandemic or Brexit—do you think that, in the future, you will look at changing that frequency? Rather than the reports being produced on a set timeframe, might you produce them in response to specific events?

Professor Roy: That is a really useful question and, in part, the answer is about the demand for that sort of work, whether people find it useful and where further or more regular insights can value to it.

Two things are worth considering. One is the areas that we have not covered in this report—which we have identified—that it might be useful for us to focus on. Climate change is an obvious area where some further work and insights would be helpful.

Secondly, you are right that our initial thinking was that we would do a big set-piece report like this every five years. However, clearly, things will change during that time. There could be changes of Government, priorities and economic conditions, so instead of doing a large, detailed, in-depth rebuilding of all our modelling, perhaps there is scope for us to think about how we can do updates more regularly.

11:15

Returning to the first part of my answer, part of that is about whether there is a demand for it: would it be helpful in informing the debate around Scotland's budget and public finances? I think that it would be, but that is slightly biased. However, if it would help to inform the work of committees and the Government, it would help us with both our internal resource conversations and our conversations with the Government to know that it adds value to the debate.

The Convener: From a personal perspective, I think that that would be very healthy. I see that Liz Smith is nodding, which is probably because we both submitted questions on that topic for First Minister's question time this Thursday. Liz beat me to it and was selected to ask one, which I hope to come in on the back of.

That is certainly a good starting point, you are right. The Organisation for Economic Co-operation and Development has reviewed it and also sees it as being very positive. It talks about other things being added. As well as climate change, which you mentioned, it suggests health and poverty. The OECD also looked at intergenerational fairness, which economists talk about a lot but perhaps not many other people do—certainly not as many as should.

I asked about the five-year situation because paragraph 2.15 of the SFC's report says that, in August 2022, the forecast was that the Scottish population would fall to 4.6 million by 2072, yet only six months later the projection is that Scotland's population will fall less, to 5.1 million, by that time. That is good news, but it is a dramatic change in six months, so one wonders how seriously the forecast should be taken, given that it is a 50-year projection. Who knows what bumps will come along the road? It is difficult to see whether the forecasts should be taken as seriously as—well, not quite tablets of stone, but it is hard to see how seriously they should be taken.

Graeme Roy: Those are very fair points. I will say a couple of things about them. One of the key messages that we want to get through is that we can play around with some of the assumptions but doing so does not alter the core message, which is about the relative scale of the challenge that we face. Another thing that I am keen to communicate is that, now and again, it is useful to take a break from the day-to-day discussions about budget to look at the very long-term challenges that we see coming down the line. Many of those challenges are resilient to the assumptions that we use in the report.

The second point that you made, about changes in assumptions, adds value to my point that there should be more regular updates rather than a full republication, because that would mean that, when the evidence changes, we could amend the reports and keep them as relevant as possible.

On the specific example around population, there is a technical reason why we made that amendment. We consulted to get people's views on the report and we had some feedback about the relative population projections in it. However, the most important thing was that we were really keen to use the same broad assumptions as the OBR was using for its population projections, so that we were not talking about apples and oranges. When we published the first report in August 2022, before we did the numbers, the OBR had a much more a cautious forecast about what might happen to international migration in the UK, so we followed that. The OBR then became a bit more optimistic about that, given recent evidence on international migration published by the Office for National Statistics, so, in essence, we aligned with that.

That explains one of the key reasons why we have a slightly more optimistic assumption about population, but it comes back to your point that, as things change—whether that be on key elements of our projections such as population, or a new fiscal strategy from the UK Government about what it might want to try and achieve in the long run—that is when it is probably useful to update the analysis and show how the messaging has potentially changed at the margin, although it will not change the overall story.

The Convener: The overall story is critical, because it is quite clear that Governments need to look very seriously at what is likely to happen. One of the things that grabbed my attention was the fact that, over 50 years, we are looking at a 72 per cent increase in output but a 218 per cent increase in health expenditure. The good news is that we are all going to live longer, but the bad news is that it will be a lot more expensive to treat us because of new and more expensive treatments, the introduction of technology and so on.

Governments north and south of the border have to take serious cognisance of those developments.

In the report, there is a very interesting graph that shows that there will be divergence in population numbers. Figure 2.4 shows that, over 25 years, there will be a 31 per cent increase in Midlothian's population but a 16.2 per cent decrease in Inverclyde's population. You say quite clearly that you did not look at population numbers by local authority, but it is interesting that National Records of Scotland is predicting a 2.5 per cent increase in the population over that period, whereas the SFC is predicting a 0.5 per cent increase. That is obviously a difference of more than 100,000 people across Scotland. Can you explain why there is a significant difference in the figures that have been produced by the SFC and National Records of Scotland?

Professor Roy: I am just trying to find that bit of the report.

The Convener: It is on page 19.

Professor Roy: The first point to note is that our projection is slightly longer—it goes to 2072—so there is a slight difference in the timing that we used.

In order to be consistent with what the OBR does, we used slightly different assumptions about international migration. That means that there is a slight difference between our projections and the central projections from NRS.

However, that does not really change the overall story about the projections of weaker growth in Scotland's population relative to the growth in the population of the rest of the UK, and, crucially, about Scotland's ageing population.

I will build on your general question about potential population changes. In future reports, we might show that the range of projections on outcomes might depend on differences in our assumptions about population. We could show the relative differences in that regard, but that would not show the overall change in fiscal stance, which is our core message.

The Convener: In paragraph 2.8, on page 16, you say that Scotland has a "projected net annual inflow" of about 19,000 people and that about 9,000 of those people will be from the rest of the UK. Over the months and years, I have said that a lot of the people who leave Scotland tend to be highly productive and educated people in their 20s and 30s and that a lot of the people who come from the UK retire to Argyll and Bute or to Arran, in my constituency, where they have a nice view over the Clyde to Skelmorlie and West Kilbride.

Overall economic performance will be impacted not just by the number of migrants. That goes back to the OECD's point about intergenerational

differences. Do you intend to take such issues into account more in the future?

Professor Roy: I will give David Ulph a chance to come in in a moment.

On the general question, our projections on migration are drawn largely from long-term averages relating to migrants who have come to Scotland. We take into account our share of international migration into the UK, we use long-term averages relating to migration from across the rest of the UK into Scotland, and we use age profiles based on historical evidence. That all feeds into our modelling.

We then get into the questions that you are alluding to. What potential changes can be made in the long run to make Scotland a more attractive place for people to come to? How does that relate to relative economic performance? How does that relate to the delivery of public services and all those sorts of things?

Historically—for well over a century, until the past couple of decades—Scotland has been a net exporter of people, and a net exporter of younger people in particular. That is one of the dynamics that shapes our population projections for Scotland. We have not had the continual inflow of younger workers that other parts of the UK have had, and that is why our population is older, on average, than that of the rest of the UK. A lower birth rate feeds through to slightly slower population projections for Scotland relative to the UK. The question of how we attract more younger workers into our economy is one of the key policy implications of what the report is suggesting.

Professor David Ulph (Scottish Fiscal Commission): You should bear in mind that this is our first report on the subject. We are trying to paint a big picture of what is happening with population growth and other factors that are driving current policies. We have factored in the composition of migration. It is not covered in detail in the report, but it is in our thinking. If you think that we should bring that factor up more strongly in future reports, that is a useful steer to us. We can think about how we identify the factors and bring them out more clearly in the work that we do.

We are very conscious that there are many factors at work here. We wanted to produce a report that told as clear a message as possible, so we tried not to overcomplicate the story or give people the impression that we can get almost any number we want depending on the assumptions that we make.

The Convener: I think that it is an excellent and thought-provoking report. I have to be honest with you. The things that we have discussed are just wee tweaks that would be helpful.

A key aspect that the committee has talked about over the years, including with the SFC, is productivity. You look at that primarily from a demographic perspective and you say that, under current projections, Scotland's productivity level is likely to continue to be below that of the UK far into the future. What impact would an increase in productivity of just 0.1 per cent have? What role does policy have in increasing our productivity?

Professor Roy: We do not have a back-of-an-envelope ready reckoner that says what we will get for every 0.1 per cent increase in productivity. We can look at that, but I emphasise as a really important caveat that it is important to understand how our modelling feeds through. We have aligned our assumptions on productivity with the OBR's assumptions in order to get consistency, as Dave Ulph said. We are focusing on the big messages.

If we increase productivity and grow our economy, that will increase the tax revenues that we can raise and it will potentially encourage people to come and live in Scotland, but it will have another effect, too. If productivity rises, we would expect people's wages to rise in the economy overall. In order for public services to keep pace, the wages in that sector will rise, and we would expect spending on the health service and education to rise as well, so the public sector will not shrink.

Having higher productivity in the economy is therefore not necessarily an exact win. It will not fully mitigate the challenges that we have with an ageing population, a potentially declining population and rising costs of delivery. It can help at the margins, but we assume in our modelling that, broadly, we will want to maintain the public sector's relative share of the economy and continue to pay public sector workers in line with the broader growth rates in the economy.

Increasing productivity can have an impact and it can feed through to helping to deal with some of the challenges, but it is not a silver bullet. We cannot rely on it and hope that it will be a public policy magic wand. It will not fully mitigate the challenges that we have with an ageing population and rising costs of delivery.

Professor Ulph: What Graeme Roy says is true of many things in the report. There are often two sides, or facets, to a given issue. Although productivity is good from the point of view of growing gross domestic product and tax revenue, we make the assumption, as Graeme said, that rising productivity in the economy shows up in higher wage costs, and drives up spending, in the public sector. On the one hand, it increases the funding side, but on the other hand, it increases the spending side. It is important to look at the

balance between the factors and how they play out on both the funding and the spending sides.

11:30

The Convener: Yes. I note that your projections do not incorporate the establishment of a national care service, but you predict that social care spending will grow by 135 per cent per person, which would be fuelled "by increased ... wages".

I want to bring colleagues in, so I will not—you will be glad to know—go through the whole document. I will finish with a question on the annual budget gap, which is discussed in what is probably one of the most interesting and important parts of the report. At paragraph 5.8, you state:

"In the fiscal framework, the Scottish Government has more control over its spending than its funding."

You talk about a funding gap that

"is equivalent to £1.5 billion in today's prices"

and you say that, in order to address that,

"the Scottish Government ... have to consistently reduce spending or raise devolved taxes throughout the next 50 years."

However, you say that the UK Government is able to fund its gap, which is also significant; you talk about the UK's

"public sector net debt reaching"

an astonishing

"267 per cent of GDP in 2071-72."

Will you talk us through the annual budget gap a wee bit and outline its implications for Scotland and the UK?

Professor Roy: That is a important question, because it is crucial to understand what the budget gap means and how it is interpreted. The Scottish Government's budget is quite different from that of most other fiscal authorities, which might think about fiscal sustainability from the perspective of an independent country that is issuing debt and borrowing on international markets. Typically, a fiscal sustainability report looks at how sustainable the debt position is over time, as the OBR does for the UK. I will come back to that point, because it is a crucial aspect that feeds through to the Scottish element.

We do not have that in Scotland. The Scottish Government has relatively modest borrowing powers and the Scotland reserve, but those mechanisms are not really about borrowing structurally over a long time—they are largely about day-to-day management of the budget process. The Scottish Government essentially has to run a balanced budget year on year.

At the SFC, we say, “If the Scottish Government and the UK Government continue with their current policies and we have an ageing population and rising costs, what will the average gap between spending and funding be over the next 50 years?” That is where the 1.7 per cent figure comes from—it is the £1.5 billion. It is clear that that gap would not actually arise, because the Scottish Government is not allowed to run such a gap. It would have to make the changes before then. That goes back to the point that we make about the adjustments that are needed year on year just to balance that.

Crucially, however, that is only one part of the equation. As you mention, the OBR says that, without corrective action, the UK’s fiscal approach will lead to debt rising to well above 250 per cent of GDP, that it is therefore not sustainable, and that the UK is going to have to make adjustments in order to become fiscally sustainable.

In the report, we say, “Let’s take the OBR analysis and assume that the UK becomes fiscally sustainable. How might that feed through to the block grant, and what would the implications be for the Scottish Government’s budget as a result?” That is where the 10 per cent figure comes in—it represents the average change that is needed over that time period.

The key point is that there is a shared risk, as many of the challenges that Scotland faces, such as an ageing population and rising healthcare delivery costs, are happening at the UK level too. When the UK makes those adjustments on behalf of the UK, that necessarily feeds through to the Scottish block grant and the Scottish budget. The 10.1 per cent figure is the really important one to focus on, because it represents the totality of the risk that is faced. The 1.7 per cent figure is essentially the differential risk that we estimate in the Scottish context.

David Ulph might want to add to that.

Professor Ulph: I will reiterate those points, because it is important to understand them.

First, as Graeme Roy said, many other countries that have fiscal sustainability reports can run debts—their Governments can borrow on the international markets—which means that many other studies use the debt to GDP ratio as the measure of sustainability. We could not do that here, so we had to come up with a measure that no other fiscal sustainability report uses. We decided to use the fiscal gap measure, which represents the annual gap between spending and funding. Essentially, that is what is behind the debt to GDP ratio. If funding is higher than spending, the ratio will go down. If spending is higher than funding, it will go up. The direction of change in the debt to GDP ratio will pick up the annual

budget gap. However, we are the only people who use that as our primary measure of lack of sustainability. We cannot use the debt to GDP ratio as a measure of that.

There is an important corollary to that. Where countries use the debt to GDP ratio as their measure of sustainability, they have a choice, to some extent, about exactly when they address the sustainability challenge, because they can borrow on the international markets. As Scotland does not have that choice, policies will have to be initiated to address the budget gaps as they start to materialise, because Scotland has to run a balanced budget.

This is a central point. We were forced to use the budget gap measure because we cannot use the debt to GDP ratio. That has a powerful implication for future policy making, and it is important that Governments in Scotland grasp that nettle.

The Convener: At paragraph 5.14 of the report, you say:

“The bulk of the sustainability risk is with the UK Government”.

At paragraph 5.15, you say that, in that scenario,

“the UK Government would have a deficit in its primary balance for almost all years of the projection. The deficit would gradually grow, reaching 11 per cent of GDP by 2071-72.”

The UK Government will clearly have to take corrective action, which will obviously impact on Scotland.

Professor Roy: In short, yes. That is correct. Again, that comes through in a variety of channels. For example, the fact that the cost of pensions, which are reserved, will increase as people get older means that—all else being equal—other budgets will have to be squeezed to compensate for that.

The majority of the Scottish budget still comes through the Barnett block grant. As the UK faces pressures from the impact of the ageing population on healthcare and makes adjustments in that regard, other parts of public spending will be adjusted. In turn, that will feed through to Scotland via the block grant. There are direct effects through the block grant on devolved areas, but other pressures that arise from the ageing population and rising costs will indirectly impact on Scotland as well. That is why, in that context, the majority of the risk at the UK level.

The Convener: Thank you. I will open up the session to members of the committee.

Daniel Johnson: I echo the convener’s points about the usefulness and importance of the report. One of the interesting things about the timeframe

is that 50 years gets us very close to the global inflection point at which deaths will start exceeding births—I think that the United Nations predicts that that will happen at some point in the 2080s. This is therefore a global issue and not just a European or a Scottish one.

You said that you have taken the assumption on productivity from the OBR. Is the gap between Scotland and the rest of the UK purely down to demographics?

Professor Roy: The most interesting chart on that is probably figure 2.6, which shows what is happening to Scottish GDP and the driver for that. There are two key elements. Broadly speaking, our GDP grows in line with productivity and what is happening to our workforce. To try to simplify things, we have in essence followed the OBR assumption on productivity, with a differential assumption about what is happening to population and therefore the workforce. We can see that the 16-to-64 population is projected to decline, which acts as a drag on Scottish GDP growth. Because there is a bigger decline in Scotland than in the UK, there is more of a drag than in the UK.

There is an important question about whether we think that Scottish productivity might be higher or lower than the UK's over time. There is an interesting question about potential interactions between the size of the workforce, the age of the workforce and productivity, and whether we think that the interaction is good or bad. For simplicity, we have set all of that aside and focused on the demographic element, which is the driver of the gap between Scotland and the UK.

Daniel Johnson: Thank you for that helpful clarification.

I understand the points that you made in previous answers about productivity not being a silver bullet. However, on the basis of what you say in the report, is it fair to say that the key parameters are the level of spend; the level of taxation; immigration, and therefore net population growth; and productivity? It strikes me that we have quite good measures on the first three of those things, but do we have enough focus on and insight into the last one? In particular, do we need to focus much more carefully on productivity per capita and the distribution of that productivity both geographically and across the population?

Professor Roy: I would not want to give the impression that productivity is not important in this context. Our modelling assumes that productivity leads to higher wages and that those wages will be shared between the private and public sectors. Clearly, you could depart from that and assume that some productivity growth just provides additional revenues that will, in turn, let you fund higher public spending without increasing wages

in that context. One thing that greater productivity and prosperity does is to allow more flexibility to make some bigger choices.

The key point is that, with a potentially shrinking workforce, the only thing that is left around growing the economy is productivity. I will make the point again so that you fully understand what we are seeing. Faster productivity growth enables us to have higher public spending, higher wages for people in the public sector, and greater prosperity as a result of that. That will not necessarily close the gap, because more money will be spent on that but demand will also increase—spending and demand will both rise. However, faster productivity growth leads to a more prosperous economy, which in turn means that more can be spent on those things over time.

That gets us into the broader debate, which I know you have had in a number of evidence sessions, about how we turn the handle on productivity, the potential sector mix of productivity, the regional variations in productivity and how we can turn productivity around, given the puzzle whereby it has been growing much more slowly than it has grown historically in both Scotland and the UK.

Daniel Johnson: The balance between private and public sector productivity is also key for exactly those reasons.

It strikes me that we are not alone, but that countries such as Japan and Finland have had a much sharper focus on the issues than we have had. Do we need to do more international comparisons, not only at the quantitative level but at the policy and qualitative levels, to better understand the challenge?

Professor Roy: Your point is entirely right. If we look at other high-income economies that are like Scotland's—for example, in Europe, North America and Japan—we see that they all face the same challenges with ageing populations and rising costs of delivery. We need to keep reminding ourselves that it is positive that we are living longer and can access greater technologies and healthcare, but it comes with a cost that we need to face up to and think about.

11:45

For our purposes, we have looked at a lot of countries that have started to do fiscal sustainability reports and to think about how they might respond to the challenges. The phase in which we think about what we should do by way of policy responses is the really interesting one. In recent years, fiscal sustainability reports have had an impact on issues such as the pension outlook in particular. France, which is currently

experiencing some interesting events, is considering some of those issues.

When we discuss fiscal sustainability, we often make the point that the numbers are so big and of such magnitude that there is no single silver bullet, such as putting an extra year on pensions—although that would push things out a bit and save some money. We need to look at a combination of everything that is happening in the economy, including choices about some public services relative to others and what we should do on pension age and prevention in the context of healthcare. Can anything be done to reduce healthcare costs over the long term? It is that balance and mix that is interesting.

It would be really helpful to look at what other countries are doing—countries that are perhaps ahead of us in focusing on and managing such pressures include Japan and European countries such as Finland—to see what lessons they are learning.

The Convener: There are currently 8 million empty houses in Japan, and mid-range economic countries such as Bulgaria and other eastern European countries have huge out-migration, as well as massively falling birth rates, and they do not have the strong economies that we have, in relative terms.

There is an issue that I want to ask about before I bring in John Mason. When we discuss such matters, we keep talking about 16 to 64-year-olds. Why do we do that, given that the pension age is going to change and will be well above 65 for the bulk of the period that we are talking about?

John Ireland (Scottish Fiscal Commission): That is just shorthand. In our work on fiscal sustainability, we take account of the fact that people over 64 participate in the labour force. We just use 16 to 64-year-olds as a convenient shorthand to let us get a handle on relative population movements.

The Convener: Okay. It would be good to change the 64 figure to whatever the pension age is. Is it 67? I am trying not to think about that.

John Mason: I want to pursue some of the areas that the convener has asked about. Paragraph 24 of your report, which is on page 7, under the heading “Fiscal Sustainability”, says:

“Based on the OBR’s suggested paths for reducing the projected UK Government deficit, we have modelled a scenario where the fiscal tightening is applied evenly across all areas of UK Government spending and taxation.”

What does that actually mean? Does it mean that half the gap will be met from spending and half will be met from taxation? Obviously, that would have an impact on us.

Professor Roy: Yes, it would. What we do in that central scenario is relatively straightforward. We say, “This is the adjustment that is needed at the UK level. If half of it is made up of spending and half of it is made up of tax, what would the figure for Scotland be?”. In box 5.2 on page 50 of the report, we vary that assumption. If the UK Government puts all of it on tax, the negative hit to the Scottish Government is slightly less. If it puts all of it on spending, the hit to the Scottish budget is larger in that context.

The point that we are trying to make here is that it is still a very large negative number, irrespective of what the UK Government would do around spending and tax. We have made an assumption, but the actual story does not change the fact that the UK Government must make that adjustment, which will feed through to the Scottish budget.

Professor Ulph: An important issue here is not just whether it is spending or tax, but whether it is spending or tax in reserved or unreserved areas. We probably had more discussions about the diagram that Graeme Roy pointed you to than on almost anything else in the report. The question was, “How do we convey a message without complicating it too much and having lots of different lines for lots of different assumptions?”. Therefore, we went for a very simple message by just presenting the average across tax and spending, and the average across reserved and unreserved, and showing the picture for that case. We do not know what the UK Government is going to do. We just wanted to get a really clear message out.

As Graeme has said, the line based on 10.1 per cent is the one on which the committee and everybody else should be focusing—not the smaller, 1.7 per cent one.

John Mason: You have kind of underlined what I was thinking. So, 1.7 per cent would be the absolute minimum or the best situation—however you want to look at it—whereas, as you say, 10.1 per cent is where we are more likely to be.

What would 1.7 per cent mean for us? I think that you gave us a figure, but what would we have to raise income tax or cut expenditure by to get 1.7 per cent?

Professor Roy: Perhaps John Ireland can find the discussion that we have had about that, while I come back to the point that you made about 1.7 per cent being the best possible outcome. That would assume that the UK became fiscally unsustainable—that is the key point. It is a step in the process. We assume that, should the Scottish and UK Governments continue to spend as they do now, with changing demographics and rising costs, the Scottish Government will still face a gap of 1.7 per cent, because spending will run ahead

of funding. However, that is based on the UK Government spending in an unsustainable manner, whereas we know that it will have to adjust.

That is why an easier way to think about the issue is to flip it around and say that the total fiscal risk that Scotland faces is the combination of Scottish Government risk and UK Government risk, which is the 10.1 per cent number. Of that total, the 1.7 per cent figure is, in essence, the differential risk that Scotland faces because of additional pressures—demographics and so on—that are relative to the UK as a whole.

John Mason: I am emphasising the 1.7 per cent, because it would be, as you have just said, differential. In a sense, that is what we have to worry about and what we can make decisions on, because, if the UK cuts expenditure by 10.1 per cent, we will certainly all complain about it but we will not be able to do anything about it.

Professor Roy: Yes. However, the point is that that cut would immediately feed through to the block grant, and the decision on how to allocate that sum and feed it through would suddenly land at the door of policy makers in this Parliament.

You can think about how you can potentially close the gap relative to the UK—that is the 1.7 per cent—but the full-on adjustment at UK level will still feed through to the choices that this Parliament has to make around prioritisation of spending.

John Mason: So, we would have both the cut to the block grant, which we would have to put into practice, and the extra 1.7 per cent or whatever figure.

Professor Roy: Exactly. I will let David Ulph come in in a second, but I want to make a really important point about language in this context. We are not talking about cuts in block grant. Public spending will still rise; it is just that it will not rise as quickly as the demand on spending will. We are projecting that the economy will grow and predicting that public spending will rise in real terms. It is just that the demand on spending will grow more quickly, which means that you will have to prioritise in other areas.

Professor Ulph: Another way of putting this is to say that 1.7 per cent is the figure that comes because Scotland is, on the whole, relatively insulated from some of the pressures that the UK is facing. As Graeme Roy said previously, pensions will fall entirely on the UK Government, and one of the big drivers of lack of sustainability that the OBR has identified is the loss of fuel duty as people switch to electric cars, which will have a big impact on revenue at UK level but will not affect Scotland. As Graeme also said, some factors are driving higher health spending in the

UK, which has to be met from tax revenue, whereas we get Barnett consequential for that spend in Scotland. Therefore, we get that spend coming through on both the funding and spending sides.

We are, to some extent, more insulated. The 1.7 per cent shows the position in Scotland, which is, on the whole, relatively protected from some of the factors that drive lack of sustainability across the UK, and the 10.1 per cent really reflects the long-term sustainability pressures that the whole of the UK, including Scotland, faces.

John Mason: Right. Just to clarify again, on the 1.7 per cent, you say that we are relatively insulated.

Professor Ulph: Yes.

John Mason: That is, the Scottish Government budget is insulated, but not the people of Scotland, because the people of Scotland will have to pay more VAT or some kind of electric car duty or something to help as part of the UK applying the 10.1 per cent.

Professor Ulph: Yes.

John Mason: That is helpful—thank you.

On migration, we are getting less than 5 per cent of UK migration. Perhaps you are the wrong people to ask this, but why is that the case and can we do anything about it?

Professor Roy: We use the average over time—it is a historical average, with Scotland getting a smaller share of migration. In part, it comes back to the point that the convener made about the inflow of people and where they locate. Particularly with international migration, people are looking for opportunities and, in that context, the pull of London is always a dominant factor in the UK economy. Turning that around, if you can get a higher share of the international migration that comes into the UK to locate in Scotland, and different parts of Scotland, that in turn will help you to boost the migration flow. However, we have not looked at what you could do; we have just looked at the evidence about where that number has come from.

I am sorry to go back, but I did not answer your previous question about the numbers. On page 49, we turn the percentages into actual raw cash terms, to give an idea of the scale of the adjustment.

John Mason: That is helpful. I confess that I have not read every word in the report. I focused on certain chapters, so I will go back to the one that I have read. I am struggling with figure 4.2 on page 44, as some of it seems a little counterintuitive, so I want to ask you to explain some of that.

For example, the first paragraph under the chart says:

“Scottish tax revenues would grow by an additional 5 per cent by 2072-73 ... because of the larger pool of Scottish tax payers. But the BGAs would increase four times as rapidly due to the impact of greater population growth in Scotland”

relative to England and Northern Ireland. I am struggling to understand that.

Professor Roy: This is really important. Perhaps the easiest chart to explain this is the one on page 43, because it gets to the heart of the fiscal framework and how it has been set up.

To again think about what we do, we in essence assume that there will be broadly the same earnings growth across Scotland and the UK—we assume that earnings will grow in the same way as they grow in the rest of the UK. If the rest of the UK has a growing population, total tax in the rest of the UK will run ahead of the growth of total tax in Scotland, simply because there are more people.

Remember that what really matters for the fiscal framework is the block grant adjustment, which is indexed deduction per capita, and it is the per capita bit that is important here. If you assume that people’s earnings are growing at the same rate as they are in the rest of the UK, but you have a falling population, in essence, the denominator in that calculation is going down, which means that the ratio is going up.

That is the protection in the fiscal framework that Scotland has in relation to declining or slower-growing population relative to the rest of the UK. In the example that we give, total tax grows faster, because the English and Northern Irish population grows more quickly than the population in Scotland but, because we have a falling population, the tax per capita essentially cancels that out—in the scenarios that we have in the report, it moves ahead ever so slightly in Scotland’s favour. That takes us into the whole debate around the fiscal framework and the protection that Scotland gets from the method of indexed deduction per capita.

John Mason: Okay. My final point is, I think, linked to that to an extent. You say that you assume that

“the age distribution of income tax revenues remains constant”

and that

“an older tax payer base would partially offset the fall in tax revenues”.

12:00

Professor Roy: What we have done is to assume as neutral a position as possible in which

earnings growth stays the same across the UK and Scotland. However, we know that older workers tend to earn more than younger workers, and because Scotland has slightly more older workers, particularly in the initial period, that leads to higher earnings in Scotland relative to the rest of the UK. For simplicity, we have made the assumption that earnings grow as people become older. Their pay increases, they move through increments and they have more experience, and that leads to higher earnings. It is important to think about whether that holds. There is the risk that, if you do not have the same level of growth or, potentially, you have sectors that are in decline in that context, you might face a squeeze in which older or more experienced workers do not get that pay premium—

John Mason: They might be forced to take a lower-paid job.

Professor Roy: Exactly, and that would start to feed through to our projections for income tax and so on. It is a really important debate. Coming back to David Ulph’s point, we assume, for simplicity, that it is the same as it is at the moment. If it changes, that is an additional factor or risk that could potentially feed through to that relative position.

The Convener: We move to questions from Ross Greer, to be followed by Douglas Lumsden.

Ross Greer (West Scotland) (Green): Thanks, convener. I should flag up that I have an event with the Presiding Officer at 25 past 12, so I will apologise now for having to slip out early if we run over a wee bit.

I should also caveat my question by saying that, like colleagues on the committee, I really appreciate the huge amount of work that has gone into the report. On the productivity projections, would you, for illustrative purposes, be able to project the impact on the deficit—the 1.7 per cent and 10 per cent figures—if our productivity, instead of running as currently projected, were to mirror the European Union average, the Organisation for Economic Co-operation and Development average and so on?

Going back to the convener’s point about policy choices, I know that everybody and their gran has, at some point, come up with a plan to boost productivity, and none of them has really worked. How much effort should we continue to put into that instead of trying to pull other policy levers to address the deficit?

Professor Roy: As I have said, that is not something that we have done, but it can be done now that the modelling has been done. I am looking at John Ireland as I say that—and before he faints at having to deal with an additional request on top of preparing the medium-term

financial strategy. It is certainly something that we can look at and write to the committee about.

However, even if it were relatively stylised—if we were to, say, rerun the model with slightly different productivity figures and say, “This is what the number would be”—we would still want to take a bit of time to interpret that. That is because, as I have said, the way in which we have set this up is to assume, essentially, that higher productivity is feeding through to greater prosperity—in other words, greater wages in the public sector and greater resources available for public spending.

To an extent, these things will largely cancel out, but, as Mr Johnson has said, a question then opens up about the relative balance between the public and private sectors in that context. It is certainly something that we can have a look at and get back to you on.

Professor Ulph: The thrust of your question is interesting, Mr Greer, because it is about where you, as a committee, should be trying to focus your efforts. If we could help you understand the effect of pushing on this or pushing on that, it might help the committee understand better where it should go on this.

Ross Greer: Absolutely. Thanks very much.

John Ireland: In effect, that will probably happen after the May forecast.

Ross Greer: Absolutely, John. Thanks.

The report notes that the growth in the block grant is largely going to be driven by increased health spending in England. If the assumption is that the consensus in Scottish politics continues and that health consequentials go straight into Scottish health spending, I presume that that will result in a relative deficit in non-health areas—that is, everything other than health—of Scottish Government spending and that they will be worse than the overall headline figure. Has any work been done on trying to disaggregate that to look at the sustainability of all of our non-health spending?

Professor Roy: There are a couple of things to highlight. Page 36 of the report contains a bit of a discussion on the relative comparisons with health in England. Essentially, we assume no change in policy; we take the current position on health, with no change in policy, and push it forward, and we can see that Scottish spending on health per head is running slightly ahead of spending in England. In our spending projections, we assume that health spending will continue to grow in line with current policy.

What we do not do—because it starts to stray into the policy debate—is to consider how, if you face a funding gap, you might prioritise things in order to plug it. That gets us into questions about

how you reprioritise from some areas to others—and if current policy is to prioritise health over other areas, that suggests that that is one thing that you would do—or about where taxes would potentially come from et cetera. However, we do not go into that, because we would then start to move into future Governments’ policy choices. We are simply saying that, if you keep the current health policy constant and then push forward, in the context of rising costs and an ageing population, that is the number that you will get in terms of spending pressures.

Ross Greer: That is relevant to questions on preventative spend. We can keep launching more money into health, but it is not going to reduce demand. The challenge for us, then, is how we take money out of health and put it into prevention. That is politically challenging.

Finally, I want to ask about your projections for growth in local government tax revenue—and I accept that this will be more of a political question that you might want to avoid completely. It feels like we are relying far too little on local government tax, bearing in mind that in Scotland we rely too much on devolved income tax. Under our current powers, it is through local government tax that we can tax wealth, property and so on—in other words, we have more latitude with local government taxation—but the projected growth from local government tax is minimal and the overall share of tax revenue from local taxes relatively minimal. Do you have concerns that, given the overall issue of fiscal sustainability here, not enough discussion is being had about how to reform local taxation?

Professor Roy: I will try to dodge some of that question, because it gets us into policy questions about what Government might do, but I can make a few general points. Maybe David Ulph, as ex-chief economist at HM Revenue and Customs, has some views on this, too.

What we do in the report, again for simplicity, is assume that, in essence, local government taxes grow in line with the rest of the economy. We are not taxing more in this context, because, again, it is all about policy neutrality. However, there is a funding gap, so the question is what you do about it. We have already talked about how you might prioritise within budgets such as health and education, which, as far as local government is concerned, might go down, because of demographics.

Then comes the big question of where you raise the revenue for the elements that you want to look at. How much can you actually tax income under Scotland’s fiscal framework? After all, it is just one element of the tax system; you can add pennies, adjust rates and bands and so on, but that will raise only hundreds of millions of pounds, as a

maximum, when we have potentially billions of pounds of additional pressures coming down the line. The nature of the fiscal framework is such that you are constrained in your big revenue raiser, because, as simple arithmetic shows, there is only so much that you can do.

That starts to open up questions about where else you might raise revenue from. Some of that is a Scottish question relating to things such as local taxation and some of it is a UK question relating to the future of taxation in a world where there might be significantly different pressures on public spending than has been the case historically. That gets us into lots of questions, which I presume are being asked at a UK level, about things like carbon and wealth taxes.

I do not know whether David Ulph wants to add anything.

Professor Ulph: I can say two or three things. What we were trying to do in the report was look at fiscal sustainability at the aggregate level in Scotland, without trying to differentiate too much between local and central Government spending and funding. We thought that that was a useful starting point.

There is a problem with trying to think about what happens if we do this and what happens if we do that. It takes us into the area of trying to produce projections, rather than forecasts, on the basis of endless possible policies. We do not do that in our forecasting; all that we do is forecast for policies that have been formally announced. We did not want to complicate the message by thinking about all the different variants of doing this or doing that. We are trying to keep the central message clear and to paint a picture—it is up to politicians to think about what they will do about it. Once that turns into concrete policies, we can think about forecasting the likely consequences.

However, speculating endlessly about all the possible variants is a road that we do not want to go down. We want to give very clear messages instead of allowing people to pick any number that they want from a basket of numbers.

Ross Greer: That is our job—we all pick the number that we want.

Professor Ulph: Yes.

Ross Greer: Thanks very much. That is all from me, convener.

The Convener: I call Douglas Lumsden, to be followed by Liz Smith.

Douglas Lumsden: I have a question about participation rates. I understand that the rate for the over-65s drops significantly, but has work been done on participation rates for those between 50 and 65? Where does Scotland stand

in relation to the rest of the UK in respect of participation among that group? As Graeme Roy has said, they are probably the highest earners and the ones we want to keep feeding their tax income into the economy.

Professor Roy: You are right. Indeed, we have discussed that issue in previous economic forecast reports, where we have seen a drop off in participation rates in Scotland relative to the rest of UK, particularly in the middle part of the age distribution. That is one of the key drivers of income tax revenues not being as high as they are in the rest of the UK. A big debate is happening at the UK level about what might have happened post pandemic in relation to the fall in participation rates in that crucial age group. It is the exact opposite of what we are saying in this report that we need, which is to get more people to participate in the economy for longer, given that life expectancy has gone up and they are the crucial earners that matter.

We know that participation rates across the UK have increased, because unemployment is now at a record low level—it is certainly at a record low in Scotland. However, it is the inactive bit that is crucial. We can make some changes to boost participation, particularly among older workers, and that will have a positive impact on the numbers, but it will not change the overall trend, which is ultimately driven by the ageing element and the rising costs in that respect.

When we get into policy questions about participation among older groups, there is some interesting stuff about dealing with not just an ageing workforce but people ageing in jobs, and the potential additional pressures, challenges and health conditions that we all experience as we get older. If we are going to try to encourage people to stay in the labour market, we have to consider how we make the workplace environment more conducive to people working there as they get older. That is crucial. Yes, we can boost population by migration, but we can also increase the impact by improving participation.

Douglas Lumsden: Has any work been done on how we are doing in relation to that age bracket compared with the rest of the UK? Are we better, worse or just the same?

Professor Roy: I cannot recall. There might have been something about that in the last report.

Professor Ulph: There was something in the Scottish economic and fiscal forecast.

Professor Roy: We can dig that out and send it to the committee. I recollect that the key point was that, across the working age, Scotland had not been doing as well recently when compared with the rest of the UK. That related in particular to the 30 to 40 age bracket. We can dig that table out.

Douglas Lumsden: I guess that that would not be explained by people retiring early—unless we were retiring really early.

Professor Roy: It is early retirement and health conditions. It comes back to the point about prevention and healthcare; we know that we have slightly poorer than average health in Scotland compared with other parts of the UK and internationally, which means that, relative to other places, more people as they get into their 50s are leaving the labour force, because of ill health. That acts as a drag on the productive capacity of the workforce.

Douglas Lumsden: My other question—

Professor Ulph: Could I just add to that?

Douglas Lumsden: Of course.

12:15

Professor Ulph: The other point to highlight is NHS waiting lists. We have quite good evidence that, because of the waiting lists in the NHS, people with relatively mild conditions who might have persevered in work are withdrawing from the labour force, because those conditions have become serious. Not only that, but people are then claiming certain types of disability benefits. Indeed, the rise in claims for disability benefits associated with increasing waiting lists in the NHS has been a phenomenon both in Scotland and in other parts of the UK. There is an interaction there; although we are spending huge amounts of money on health, waiting times in the NHS are still rising, with knock-on implications for participation and tax revenue and claims for disability benefits. It is quite a complex picture.

Douglas Lumsden: So, reducing our waiting lists and getting more people to participate will boost the economy in both ways.

Professor Ulph: Potentially, it would be a benefit.

Douglas Lumsden: In terms of the demographics, I think that Graeme Roy mentioned at the start of the session that what we are seeing in Scotland and the UK is not unique. How do we compare with other countries in Europe—France and Germany, for example? Has that work been done?

Professor Roy: Yes. The broad picture is the same; an ageing population is common across European and high-income economies. A large part of that comes from the baby boomer generation and then the children of the baby boomer generation. That is easing out just now, with birth rates falling over the entire period. Essentially, then, we have had this bulge in the population, and now it is starting to ease off. That

ageing in the population has been a big driver of that.

There are some countries that are ahead of us in this, and those are the countries where there might not have been significant in-migration through the second part of the 20th century. Japan and some of the Scandinavian countries, for example, have gone through that ageing of the population more rapidly. In that regard, Scotland is in a better place than some of those countries in terms of the relative ageing of the population and the population's potential future decline.

However, the challenges are not different—this is not something that is unique to Scotland. Indeed, that is one of the key points that we are trying to make in the report: these challenges are not unique to Scotland. Nevertheless, they are challenges, and that is why we need to get ahead of them.

Douglas Lumsden: It is just that we often hear that our situation is much worse than everywhere else, because of Brexit. That does not seem to be the case.

Professor Roy: Everything that we are talking about is long term. With, for example, the slight changes in migration assumptions—and this brings us back to the point that the convener made at the start—we assumed that there would be relatively low levels of migration. We have uplifted that figure, because we now think that we have more people coming in through migration. It does not really change the story, because this is all about the population stock changing over the long term, and there are also permanent increases in costs to take into account.

For example, in our report, we have assumed that, every year, about 10,000 people will come to Scotland through international migration, with 9,000 people coming from the rest of the UK. That is against a population stock of 5.5 million. From a fiscal sustainability point of view, that will not radically change the picture that we are getting. There is a broader question about what that means for productivity, skills and so on, but the big questions that we are talking about here are driven by structural dynamics in our economy that are not unique to Scotland. These things have been shaped over 100 or 150 years.

Douglas Lumsden: My last question is about the population of 16 to 64-year-olds. The figures for that age range in the rest of the UK seem quite constant, but we are dropping off quite considerably. Is that down to migration or is it down to the birth rate in the rest of the UK being higher than it is in Scotland?

Professor Roy: There are a number of factors. The chart that you are referring to is on page 17 of our report. It is partly about our starting point. We

have a slightly older population than the rest of the UK has. As you push that forward, you get that decline happening earlier. There is also a slightly lower birth rate on average in Scotland relative to the rest of the UK, which drives and pushes that decline forward.

As I have said, a lot of that stems from changes that have happened over decades to Scotland's population relative to that of the rest of the UK. Apart from in the last decade of the 20th century, there was a net outflow of people from Scotland whereas, in the rest of the UK, there was an inflow of people from other countries. Scotland's share of the UK population has gradually ticked down over the past 20 or 30 years as population growth has increased in the rest of the UK and population growth in Scotland has either been stable or has increased at a slower rate.

In essence, that is why, on the basis of the existing structure of the population, the projection for ageing and birth rate is relatively flat for England and a decline is projected for Scotland.

Douglas Lumsden: I guess that the Government should focus on that area to reduce the brain drain from Scotland and to try to attract more people from the rest of the UK to Scotland.

Professor Roy: Yes. To be fair, the Scottish Parliament has probably spent a lot of time thinking about that since 1999. You will remember Jack McConnell and the fresh talent initiative and the pressures that we faced then. Actually, in the early period, Scotland did really well on attracting international migration because of the opening up of EU borders. That inflow has had a positive impact on Scotland's population. In the late 1990s, there was talk of Scotland's population potentially falling below 5 million within a few years, but it has increased because of that inflow. In turn, that has helped to boost the birth rate. The discussion about our population is really important, and it has been for the past 20 years.

Does David Ulph want to add to that?

Professor Ulph: I will go back to the point that the convener raised at the start of meeting. Just getting more people to come from the rest of the UK might not solve that problem, if we get retirees and we are still losing young people. The central question is how we get more younger people to come to Scotland. That is the question that we need to focus on.

Douglas Lumsden: Yes. I think that the convener has mentioned in previous meetings that, often, people leave Scotland to work and then come back to retire, which is something that we need to change.

The Convener: Yes, indeed.

In your submission, you said that net immigration of 19,000 a year is not that significant, but if only 48,000 babies are being born, that figure would be quite significant—it would be about 27 or 28 per cent of the total. The net figure for the number of people who left Scotland in the 50 years before devolution was 2 million, but we had a much higher birth rate then. That is why the population remained static. It is only because the birth rate has fallen so significantly that we have this situation. If we still had the out-migration that we had then, we would be in real bother.

Liz Smith: You have referred in a number of your projections to the size of the increase in the health spend, which I think you are estimating will be just under 50 per cent of the change—it is about a third now. Obviously, there will also be an increase in the social security spend. Do you have any views on the scope for public sector reform in the economy to address the increase in the costs that we are having to cope with?

Professor Roy: I have a couple of thoughts on that. There is an interesting chart on page 27 of the report that shows the drivers of health spend. Some of that is real earnings growth—productivity. We have spoken about the fact that, if you have a growing economy, you share that out and public sector wages grow with that.

The demographics are really important in the short term. In many ways, we are ageing—we are all ageing—and that will feed through, because we demand more public services as we get older. We face challenges, particularly in Scotland, in relation to demanding healthcare for longer because of issues around health inequalities and unhealthy life expectancy. Therefore, things that you do on that can lead to savings, which could be redirected. That gets us into the debate about prevention, the Christie commission and all those elements.

We talk about the pressures on health spending more generally. The costs come in at about 1 per cent over the long run. That is the rising cost of just delivering on healthcare. You could think about what reforms you could make to minimise that increase in costs—there are questions around productivity in the health service and the like. What is quite interesting is that we looked at a lot of international evidence on the pressures on health costs. Those pressures are not unique to the UK or to Scotland, and they are not unique to the delivery of healthcare in either the public sector or the private sector. They are essentially built into the way in which healthcare operates, given its unique nature.

In most sectors, as we improve and introduce technology, costs will fall, but in healthcare, that tends to increase costs. For example, if we have new ways of detecting illnesses or delivering

procedures, there is greater demand; that is the nature of healthcare systems. As we develop new drugs to cure illnesses such as dementia, demand for those drugs goes up, so costs rise.

There are potential reforms that could be made to address that aspect, but we find that it will not be addressed through reform alone. Those pressures are built into the nature of how we deliver healthcare and the demand for it.

Liz Smith: I do not think that there is much scope to be able to reduce costs. As you rightly say, if we want a world-class health service, costs are going to rise in that sector more than they will in the rest of the economy. That has been the nature of health service costs for a long time.

Is there scope for reform elsewhere, in the non-health, non-social security aspects of the economy, that could help us to make some savings?

Professor Roy: We did not look at that area in the report because we were simply making projections. In the report, we essentially assumed, in order to come up with the totality, that the non-health elements and anything that is not really linked to demographics will grow largely in line with the economy. One exception is education, in which we pushed through a drop in the younger population, so there is less of a pressure in that context.

The general point—this starts to stray beyond the report—concerns the hope that the report will start a conversation about the fact that the systems that we have for public services, not only in Scotland but in the UK, were built around a structure and a cost base that will look quite different in the next 20, 30 or 40 years. Therefore, we need to have a conversation about how we can potentially reform those systems.

Some of that reform can come through efficiencies, but some of it will have to come through having debates—which are quite big debates for a country—about what we spend money on and what we prioritise, what our tax system looks like, and what the balance is between raising tax and spending. The system was built around the structure of our population, and that will—as you can see from our population projections—look radically different over the next few decades.

Professor Ulph: There might be more discussion about the whole issue of social care for the elderly and the balance between getting people out of beds in the NHS and into social care. That whole debate has been going on for decades, and Governments have kicked it down the road time and again. That is one area in which there might be some potential to get some control of some element of health costs. However, as

Graeme Roy has said, the drivers of health costs are so fundamental that small reforms will not really get us very far.

Liz Smith: Indeed.

The Convener: On health, we need lifestyle changes, whether that involves tobacco, drink or the food that we eat. In North Ayrshire, where I live, the average age at which a person tips over from good health into bad health is 56. In the future, people may live 10 years longer but, for six or seven of those years, they might be in bad health. We need to ensure that, if people live 10 years longer, they actually live for 12 years in better health, so that we increase the healthy age even outwith the additional lifespan. That is where the prevention agenda comes in.

I thank everyone for their thought-provoking contributions. I apologise for the fact that some members have left—that is because they have been invited to lunch with the Moderator of the General Assembly of the Church of Scotland. It is unfortunate that this session coincided with that.

We have been trying to plug tomorrow's seminar; I will give it another plug now. It will start at 8.30 tomorrow. There will be bacon rolls and an interesting presentation by Graeme Roy on the fiscal sustainability report. There will, no doubt, be many good questions from those who attend.

I thank the witnesses very much.

Before I close the meeting, I put on the public record my thanks to our colleagues from the Welsh Finance Committee, which hosted the second meeting of the interparliamentary finance committee forum on Friday. It was extremely interesting and valuable to hear about some of the common challenges that we face in undertaking scrutiny on a cross-party basis. I thank the clerks for their hard work and patience on the Thursday and the Friday; I think that they have aged significantly as a result of that trip. We have published a short statement on the meeting.

I close this meeting.

Meeting closed at 12:30.

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