



OFFICIAL REPORT  
AITHISG OIFIGEIL

# Finance and Public Administration Committee

Tuesday 3 October 2023

Session 6



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**FINANCE AND PUBLIC ADMINISTRATION COMMITTEE**  
**25<sup>th</sup> Meeting 2023, Session 6**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*Michael Marra (North East Scotland) (Lab)

**COMMITTEE MEMBERS**

\*Ross Greer (West Scotland) (Green)

\*Jamie Halcro Johnston (Highlands and Islands) (Con)

\*John Mason (Glasgow Shettleston) (SNP)

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

\*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Dr Alison Cumming (Scottish Government)

Shona Robison (Deputy First Minister and Cabinet Secretary for Finance)

Dr Andrew Scott (Scottish Government)

**CLERK TO THE COMMITTEE**

Joanne McNaughton

**LOCATION**

The Robert Burns Room (CR1)



# Scottish Parliament

## Finance and Public Administration Committee

Tuesday 3 October 2023

[The Convener opened the meeting at 10:00]

### Sustainability of Scotland's Finances

**The Convener (Kenneth Gibson):** Good morning, and welcome to the 25th meeting in 2023 of the Finance and Public Administration Committee.

There is one item in public on the agenda, which is an evidence session with the Deputy First Minister and Cabinet Secretary for Finance on the sustainability of Scotland's finances, as part of our pre-budget scrutiny. The session will also cover evidence that we heard earlier in the year on public service reform.

Ms Robison is joined by Scottish Government officials. Dr Alison Cumming is director of budget and public spending; Dr Andrew Scott is director of tax and revenues; and Ian Storrie is head of local government finance. I welcome all of you to the meeting, and I invite the cabinet secretary to make a short opening statement.

**The Deputy First Minister and Cabinet Secretary for Finance (Shona Robison):** Thanks very much, convener. I will be brief.

Thank you for the invitation to join the committee today. I welcome the opportunity to discuss the preparations for the 2024-25 budget. I am aware of the committee's long-standing interest in transparency, and I recognise the importance of my appearance here to engage with the committee in advance of the budget.

With the 2024-25 budget, the Scottish Government will look to deliver the vision that has been set out by the First Minister in the policy prospectus and the programme for government. We will be clear. We will be anti-poverty and pro-fair and green growth, and focused on delivering high-quality public services.

We also need to recognise the challenges that Scotland's public finances face, including the economic shocks that we have faced over the past three years: sustained high inflation, the war in Ukraine, the fallout from the United Kingdom's mini-budget last year, Brexit and the on-going impact of the Covid pandemic. The budget will be a budget of difficult decisions. In making those

decisions, we will be required to address the scale of the challenges that our public finances face.

I met the Chief Secretary to the Treasury at the finance interministerial standing committee on 20 September. We had a frank conversation in which we discussed the current economic and fiscal context alongside the Welsh minister for finance and officials from the Northern Ireland Executive. It was made clear to the chief secretary that the UK Government needs to provide sufficient support to the devolved Governments to ensure that we can adequately manage the pressures arising from those challenges.

I can confirm that the Government intends to publish the draft budget on 19 December. I would like to reiterate the reasons behind that decision.

We are restricted in our planning for the budget by the timings of the UK Government's autumn statement and the accompanying Office for Budget Responsibility forecasts. The agreement between the Scottish Government and Parliament to deliver a budget within three weeks of a UK Government fiscal event was made at a time when fewer policy and tax options were available to the Government. The forecasting produced by the Scottish Fiscal Commission is therefore now significantly more complex, as are the associated decisions to be made by ministers. Adhering to the three-week timeline is therefore no longer practically possible, unfortunately. However, I am keen to deliver a December budget. Our proposed date of 19 December ensures that we will lose only one sitting day of Parliament. I hope that the committee will agree that that is a reasonable compromise that will provide sufficient time for the scrutiny and passage of the budget bill once Parliament returns from recess.

I look forward to answering members' questions. I am happy to confirm that I will make myself available to the committee throughout the budget bill process.

**The Convener:** Thank you very much for that very helpful opening statement, and good morning to you.

We have taken a lot of evidence on the matter so far. Most of the questions that I will ask will reflect the responses that we have had.

You talked about the challenges that we face, the difficult decisions that are being made, and your discussions with the United Kingdom Treasury and Government. On the discussions in Scotland, as well as those wider discussions, the Fraser of Allander Institute said in its evidence:

"There will have to be discussions and decisions made about whether there will be increases in tax, reductions in spending or prioritisation across different programmes." — [Official Report, Finance and Public Administration Committee, 19 September 2023, c 1.]

Where are we in those discussions?

**Shona Robison:** You are right. Obviously, we are looking at all those issues, and we will continue to do so right up to the budget. I think that, when I was last in front of the committee, I talked about some of the on-going work on all our programme spend and whether it all delivers on the priorities that have been set out. The First Minister clearly set out the policy prospectus, which followed through into the programme for government, with the three key missions of community, equality and opportunity. We asked ourselves whether those programmes, some of which have been around for quite some time, meet the test of those missions. We are continuing with that work.

On the other levers that are open to us, the limited tax lever that we have must be considered very carefully. We need to consider the consequences of any changes further to the changes that we have already made. As a consequence of the changes that we made in last year's budget, £520 million was generated from income tax. That has been critical in helping us this year, not least because we have had the almost equivalent figure of over £500 million in additional pay pressures beyond what was budgeted for.

All those things have to be taken in the round. We are looking at the need for reform of the workforce in our organisation and across the public sector. How can our public services work better and more efficiently? That work has been going on for some time. The digital programme across the public sector has been working well in generating opportunities for more efficient services.

We will continue to look at how we can address a very challenging set of circumstances next year, when the budget will reduce in real terms, and we will have to look at using all those levers and at making some very challenging decisions. We will try to be as open and transparent about that as we can, and we will set out the conclusions of all that work as we get to the budget. I am very happy to try as best as I can to keep the committee updated on that work as it proceeds.

**The Convener:** The theme of this budget scrutiny is fiscal sustainability. I realise that you have two major issues to address. One is the budget for the forthcoming year. You are also trying to put Scottish fiscal sustainability on a long-term track.

Professor David Heald said in his evidence:

"the UK tax system is a total mess, and the Scottish Parliament has made the tax system in Scotland worse.

We are in a nonsensical position."—[*Official Report, Finance and Public Administration Committee, 19 September 2023, c 3.*]

He went on to talk about how the tax system in Scotland is not particularly progressive. For example, the marginal rate for someone earning £43,662 is higher than it is for someone earning £10,000 more because of the interaction with national insurance. How will the Government address that?

**Shona Robison:** You are right that the outlook goes beyond the next budget. When I set out the medium-term financial strategy—the MTF5—I was clear about the projections of the gap that had to be addressed and the levers that we would use to do that. It is about ensuring that we make decisions that prioritise and target, that we grow the economy and the tax take from that, and that we take the decisions that we need to take in order to close that gap. However, that is very challenging, given the headwinds that are here and those that will come at us next year and beyond. I cannot overestimate the impact of inflation in all of that. Its impact is profound in every single part of the public sector.

No tax system is perfect—let us put that out there as a point of agreement. When the Parliament and its tax powers were established, the starting point was the UK tax system, so we did not start from a blank sheet of paper. With the additional tax bands, we have tried to bring some fairness and more progressivity to our system by recognising that it is not fair to have such a wide-ranging income band in the UK tax system that is taxed at the same rate. That is very difficult to defend. By bringing in the additional bands, we have tried to make the system fairer and more progressive.

We continue to look at what needs to be done. One of the reasons why we established the expert group, which has met twice now, was to look at a number of issues around a longer-term view of the tax system and what it will look like. It was also established to take a more strategic approach to tax, which the UK certainly has not done—we are at the foothills of trying to do that—and to try to get more transparency in people understanding what the tax system does. There is still some confusion about the interaction between the UK and Scottish tax systems, so there is a genuine attempt to try to make that more visible and to be quite frank about some of the decisions, and the consequences of those decisions, on what we do with our tax system. As I started off by saying, the revenues generated by taking decisions that are different from those of the UK Government have been important in really difficult financial times. If we had not done that, we would have to have made even more difficult decisions.

**The Convener:** Scottish Financial Enterprise and Professor Bell have provided evidence to the committee. Professor Bell said:

“if Scotland does end up with higher tax rates than other parts of the UK, that will be seized upon by those other parts of the UK whenever potential inward investment opportunities arise in an attempt to ensure that they do not come to Scotland”.

He went on to say:

“the impression that is given, not just the tax rates themselves, matters quite a lot, too.”— [Official Report, Finance and Public Administration Committee, 19 September 2023, c 7.]

What is your view on that?

**Shona Robison:** The latest inward investment figures show that Scotland is second only to London and the south-east in attracting inward investment. That is testament to Scottish Development International and the work that it does in being very effective in bringing inward investment to Scotland, as well as to the skills of the workforce. Investors will look at a whole range of issues in a country. They will look at our strengths, including the key pillars of our economy; the sectors that we are known for; and our universities and the skill sets there. The fact that we, as a country, continue to do well on inward investment gives a perspective. There are always improvements to be made, but the fact that investors make those decisions to come to Scotland tells a very strong story.

**The Convener:** You touched on universities; I will ask about them next. In its evidence, Universities Scotland said that we still punch well above our weight in Scotland. For example, about 13.25 per cent of research and development spend is in Scotland and, of course, we have only about 8.2 per cent of the UK’s population. However, that spend has declined from about 15.4 per cent in recent years. Universities are of the view that, if we want to continue to outperform the rest of the UK and, indeed, encourage new business start-ups, which will lead to more people being in work in highly skilled jobs and paying more of the taxes that we require to fund our public services, we need to invest more in research and development start-ups and innovation.

10:15

As the convener of the cross-party group on life sciences, I am aware of the example of a significant company that moved from Dundee to Cambridge because there had not been enough investment in lab space. I am also aware that Heriot-Watt University is looking for similar investment in order to advance its artificial intelligence research. Again, that is because it is threatened with competition from Cambridge. It is

doing well against Cambridge and other parts of the UK, but it wants us to continue to have that advantage. We win some and we lose some: we have actually attracted businesses from Cambridge, so it is not a one-way street.

How are we going to ensure that public sector investment continues and that investment is not just left to the private sector? Universities have said that their research—I am sure that the Scottish Government has access to that—shows that every £1 that is spent in research and development creates a further £8 of investment in the sector. What are we going to do to continue to leverage that and increase it? All the economists who speak to us say that, if we broaden the tax base, we will have more people with higher salaries who pay more tax, and that will fund the public services that we all want to see.

**Shona Robison:** Clearly, there is a lot in that. In the MTFs, we talked about the need to focus on seizing opportunities in areas in which Scotland has a competitive advantage; supporting entrepreneurs, start-ups and scale-ups; and helping businesses to raise productivity. Boosting labour market participation was also discussed, and one of the important things in the programme for government in that area was our enhanced childcare offer.

The university sector has a hugely important role in all of that. We need to listen to that sector—that is the first thing—and make sure that we are maintaining Scotland’s competitive advantage.

You are right: it is a two-way street. Sometimes we have been successful not just in retaining key research and development opportunities and businesses but in attracting some to Scotland. However, that has not always been the case. In such instances, we need to pay attention to what attracted the companies elsewhere and what we can do to try to avoid that happening in the future.

There are huge opportunities for us. For example, we have invested £42 million in our national Techscalar network to support the next generation of Scottish start-ups over five years. CodeBase, which I visited recently, was awarded the contract, and it will act as the service provider for Techscalar. It is very excited about the opportunities for Scotland in that sector.

However, we must not be complacent, and I would not want anybody on the committee to think that we are being complacent in any way, because it is a very competitive world and Scotland needs to compete on the global stage. We need to make sure that, where we deploy public money to lever in private finance, that is done in a strategic way. We cannot pay for everything, and we need to use our public investment wisely in order to lever in

private investment to Scotland, particularly in those key sectors.

**The Convener:** The Federation of Small Businesses welcomed the £15 million that is going to be committed to help entrepreneurs. However, that is not even one tenth of 1 per cent of the Scottish budget. There is an issue of balance if we are going to retain and attract the people who will pay the taxes. What came over strongly from witnesses was that it is not necessarily about increasing taxes; it is about broadening the tax base. If more people earn more, they will, therefore, pay more. Will the Government look again at the balance in the public resources that are going in to boost those sectors where we will get a disproportionate return in the economy?

**Shona Robison:** The national strategy for economic transformation—NSET—is still the right economic plan. It was developed with business and with the key sectors that we have referred to. It absolutely focuses on the areas with the strongest opportunity for growth. We then have decisions to make about where we put that public investment, because, as you have just said, we cannot put it everywhere. So, we have to be strategic in how we utilise public funds in order to lever in private investment. That is the key. NSET set out some of the priorities, and that was followed up by some of the investments. You referred to one—the £15 million for entrepreneurs—but there were many others as well.

We should, absolutely, continue to listen. For example, we will be talking to the investor panel. The First Minister has met the investor panel on two or three occasions to discuss where there is an appetite to come and invest in Scotland. Clearly, there is an appetite, but we have to make sure that that can land, because investors obviously want a return for their investment. The Government's role there is to reduce risk, to incentivise, to show leadership and to provide seedcorn investment for private investment to follow. A lot of discussions are going on in that space.

I will just mention income tax. I am sure that we will get into some of this later in the session. Recent evidence from the tax receipts that are coming through the system is that income tax performance is improving and we are outperforming the rest of the UK. There is cause for optimism that more revenues are being generated through the tax system. There are a whole range of reasons for that, including the post-pandemic recovery and many others. I will be happy to get into that at some point, but I do not want to leave the impression that we are not seeing progress there; we are, but we always need to do more.

**The Convener:** I suggest that, in the UK and Scotland, most of the additional revenue comes from fiscal drag caused by high inflation rather than anything else.

Capital is a critical area. At First Minister's question time last Thursday, I raised the issue that, according to the Auditor General, the UK Government is going to cut Scotland's capital allocation by 7 per cent in real terms over the next four years. That is obviously a major issue. Our witnesses—for example, Scottish Financial Enterprise—talked about how critical it is to improve Scotland's infrastructure not just on the ground, with bridges, harbours, roads and railways, but in the digital space. Last year, when your predecessor, John Swinney, looked again at the budget and the commitments that had to be made due to the need to meet wage increases, some money was actually taken out of capital. As all witnesses have suggested, capital is essential for economic growth. Given that public sector capital is likely to be scarcer in forthcoming years, will the Government commit to ensuring that capital is not switched to resource but is invested exactly as it should be? The Government went to the Treasury to get permission to do that, but I hope that it will continue to invest capital as it should be invested.

**Shona Robison:** You are right. The capital investments that we make are important for economic growth. That is why it is extremely concerning that the UK Government did not inflation-proof its capital budget, which has resulted in a 7 per cent real-terms fall in our Barnett capital funding over the medium term between 2023-24 and 2027-28. That has significantly impacted on our ability to deliver on the capital infrastructure commitments, and it will impact on it going forward. We are looking at the choices that we have to make. That alone, plus the fact that construction inflation was running at 25 per cent last summer, has an impact on the money that we have, what it can purchase, what it can build and how far it goes. There is a double whammy of less capital and that capital not going as far as it once did. That is a huge issue for us.

What do we do about it? I have set out in the MTFs and since then that we are revisiting our capital budget and our infrastructure investment plan. We will set those out alongside the budget for 2024-25. We are also looking at how we might be able to lever in some of the private finance that we talked about in relation to additional capital that is available from other sources.

We will leave no stone unturned as we continue to make progress on the infrastructure that we have. The Audit Scotland paper "Investing in Scotland's infrastructure" identified all the issues and the challenges that are left in terms of the



decisions that we have to make. As I said, we will have to make those decisions in a way that prioritises the projects that we think will have the biggest impact. That may slow down the delivery of some other projects over the next few years; there is no getting away from that.

**The Convener:** It is understandable that there will be a reprioritisation of capital spend. Where economic growth can come out of that and lead to increased tax revenues for public services, that will be important. Some of the witnesses have said that, although the Scottish Government has a growth strategy, it has not been as clear as it perhaps should have been. We need to show that clarity going forward.

There was an issue that came up significantly. You touched on the Government's three priorities. The Scottish Fiscal Commission has said that, by 2027-28, Scottish social security benefits will cost about £1.4 billion more than the Scottish Government receives in positive block grant adjustments. The difficulty is that that money has largely had to be diverted from core public services such as health, education and local government when you have a more or less fixed budget. Paradoxically, the poorest people in our society are impacted the most, because they are mostly the ones who rely on those services. Those who depend on those services are those who are being impacted. Do you accept that?

**Shona Robison:** I accept that the Scottish Government has made active choices around where to invest in social security spend. A good example is the Scottish child payment. I hope that everyone would agree, particularly when you think of the cost of living crisis that we are going through, that the fact that that has lifted 50,000 children out of poverty in families that would otherwise be struggling even more than they are shows that we made the right investment.

Of course, deciding to invest in social security supports that go beyond the block grant adjustment means that we have to raise that money somehow. The key pillars of spend are social security, the national health service and health more generally—and, of course, local government. All of those have been impacted by inflation and by the need to pay for inflation-busting pay deals. None of that is resented, but it has had an impact on the budget.

A lot of headwinds—not just social security spend—are impacting on the budget, and they are all coming at the same time, putting on pressure beyond that which was budgeted for when the last budget was set. We have tried to manage that in a way that focuses on how we keep people's heads above water in a cost of living crisis, so we have prioritised spend on things that are absolutely

critical. That has meant making difficult decisions elsewhere.

The local government budget rose by 3 per cent in real terms, but it will not feel like that, because inflation was running at 11 per cent at its peak and we did not have an 11 per cent inflation-proofed budget to be able to pass on that funding to local government or health. Although we have tried to protect the health budget in the decisions that we have made, the 11 per cent inflation rate has had an impact on health as well.

10:30

There is no getting away from those very difficult challenges. We have tried to make the best choices with the resources that we have available in a very difficult context, and those choices are pretty clear for everyone to see.

**The Convener:** I thought that the Scottish child payment had lifted 90,000 children out of poverty. It has certainly had a very positive impact.

**Shona Robison:** Yes, it has lifted 90,000 children out of poverty. I was underselling its impact, convener, so thank you for the correction.

**The Convener:** Indeed, but that is less than one third of the increase in social security spend. Do you accept that, if you are reducing money in other areas of public expenditure, that will, paradoxically, have an impact on people who are in the lowest quintile for household income, as they are the people who are most likely to depend on those services?

**Shona Robison:** I hear the point that you are making, and it is not lost on me. In normal times, a 3 per cent real-terms increase in the local government budget, plus the resources that we have put into local government for pay, would have been able to support the pay deals that local government is trying to negotiate. However, inflation has meant that the pay settlements that we have seen across the public sector are way beyond what any part of the public sector had budgeted for. I make that point because we cannot get away from the fact that that is an absolutely critical driver of some of our problems.

You are right that the social security spend is not just about the Scottish child payment. We also need to be on top of what the adult disability payment, for example, looks like going forward. We have been under pressure from cross-party representation in Parliament to make the system more generous. That, however, comes with a cost to social security spend: making it a more dignified and progressive system that is based on dignity and respect means that it costs more. That is not the wrong choice, but it costs more. Social security spend is set to rise and, therefore, we need to

make decisions elsewhere, whether those are spending decisions or revenue-raising decisions, in order to make sure that, going forward, we have a fiscally sustainable budget.

**The Convener:** The Scottish Government is in a more difficult position than the UK Government, because the UK Government deals with demanded programmes such as social security through annually managed expenditure, whereas the Scottish Government has to fit it within a more or less set budget.

To finish off my questions before I open it out to colleagues around the table, because transparency came up a wee bit, I am going to ask about that very briefly. First, will the Scottish Government do more to highlight what it is spending in the budget on mitigating those parts of the UK's reserved areas that the Scottish Government is paying for? The bedroom tax is the obvious example of that.

Secondly, when the representative of the Fraser of Allander Institute gave evidence, he said:

"We have reinforced that we think that it will be important to have more information about in-year execution and about comparing plans with actual outturns, because we might be missing some important information on, say, how much of the allocation of capital is being spent in-year. It might be that the 10 per cent cut in the in-year allocation is a different percentage in actual execution." —[*Official Report, Finance and Public Administration Committee*, 19 September 2023; c 31.]

We all go into the debates in January for the usual budget knockabout, but it is important that we are all speaking the same language, at least on figures, so that the Scottish Government is not talking about apples while the Opposition is talking about oranges. This is about trying to ensure that the information that we detail on last year's, this year's and next year's expenditure is measured in the same way and the figures can be compared with each other, so that we are all talking the same numbers.

**Shona Robison:** Your first point, about the transparency of mitigation, is important. There are obvious areas of mitigation around discretionary housing payments and the Scottish welfare fund, but there are also probably more discreet areas of mitigation in areas where we have to support spend because of decisions being made elsewhere.

We decided to uprate our welfare supports in line with inflation, because we recognise that, in a cost of living crisis, it would be incredibly difficult to see real-terms cuts to benefits support, and all of those issues come at a cost. There may be ways of giving more transparency to that growing mitigation. Of course, in this place, there are often calls for us to mitigate further and further, but that becomes very difficult on a fixed budget.

I will ask Alison to come in on the transparency point in a bit more detail. Your letter contained a point about the in-year execution and the actual outturn. It is fair to say that we manage some difficult in-year pressures. We are managing them at the moment and trying to get a balanced budget. We have to balance our budget, of course. We have done so every year, but it is very challenging with the levers that we have. Incidentally, it is not just us saying that; the Welsh and the Northern Irish are probably, if anything, in a more difficult situation, because they do not have some of the levers that we have.

That is an on-going process. It is difficult: you set a budget, but, quite quickly, get into a situation where you immediately have to look at in-year savings because of all the pressures and headwinds. Following the money through all of that can be complex. It is not an easy process. There is work going on—Alison may be able to reference it—that might bring more transparency to the process.

**Dr Alison Cumming (Scottish Government):** We are carefully considering the letter that came from the committee last week and its recommendations to see how we can better join up the spending plans with the historical spending in order to manage expectations. I suspect that we will have a staged process for how we improve that transparency and how we work with the committee to build that up, while recognising that we have made improvements over the past couple of years, including starting last year to publish the classification of functions of government—COFOG—data. I appreciate that that is on the budgetary plans, but it provides that extra ability to follow through and compare between years how the budget is applied.

Also in the transparency space, we are developing an online portal to bring together and present our fiscal data in a more accessible, open and understandable way. We are looking at how we can benchmark our performance in openness and transparency against the International Monetary Fund's fiscal transparency code and the open budget index. We recognise that we can do more in that space, and it will likely be iterative over a number of budgets. As we work towards the next spending review, we will look at what we could put in place for a single year and on a multiyear basis.

**The Convener:** Thank you very much. I will open up the session to my colleagues around the table.

**Michelle Thomson (Falkirk East) (SNP):** Good morning, and thank you for attending today. I have a further set of questions in addition to the convener's. Part of our challenge is the breadth of what we have to cover.

You have eloquently outlined the fiscal challenges. Have you had discussions with other political parties? Thus far, have they approached you to indicate their preference for policy decisions, and, in particular, given the shortfall, which is often talked about in the chamber, have they set out their plans for their ideas of what should be cut?

**Shona Robison:** Not yet, but, interestingly, Michael Marra was on a Convention of Scottish Local Authorities political panel last Friday for which there was, of course, a local government audience. Local government has the same challenges as every other part of the public sector. I made an offer to those from all the parties on the panel. I told them that my door is open for me to hear any constructive suggestions for different choices. I said that we will set out very clearly our choices but that, if others want to make particular choices and provide suggestions on where the money could be redirected from, they could do so.

There might be some attempt to make out that the position that we are in with the Scottish budget is a particular, peculiar Scottish problem. I can say categorically that it is not. Having sat in the room with the Welsh and the Northern Irish, I know that we are in exactly the same position. If anything, we have levers at our disposal that they do not. The Northern Irish do not have politicians to be able to articulate some of those issues, so they are in a particularly difficult position. We stand absolutely together in saying that the ability of devolved Administrations to manage the headwinds as a result of the constraints that we have is exactly the same whether we are in Scotland, Northern Ireland or Wales. We made that point collectively to the Chief Secretary to the Treasury.

There are no easy answers. There is no obvious tool sitting there that we have not deployed; we are deploying all the tools that we have. As I said, my door is open. If there are parties that want to have a genuine, serious discussion about the choices that we have to make, I am very much up for that.

**Michelle Thomson:** I am sure that you, like me, will welcome any costed proposals and alternatives, because we all need to own the issues that relate to the constraints on a fixed budget.

One of the things that is being discussed this week, with a helpful intervention from the Fraser of Allander Institute, is the suggested income tax rises and the effect of behavioural changes. The Fraser of Allander Institute modelling showed the different percentages and numbers that that would wipe off any tax raised, varying from £56 million to £161 million, or 30 per cent to 36 per cent, based on the proposals from the Scottish Trade Unions

Congress and the Institute for Public Policy Research Scotland. I appreciate that that cannot be exact. The only time that the numbers can ever be exact is after the event; we all understand that. To what extent are you considering behavioural changes? What would mark the tipping point in a go/no-go decision for you?

**Shona Robison:** Those are all really important questions. Considering taxpayer behaviour is a vital part of our tax policy decisions. You pointed to some of the academic and empirical research. There is quite a lot of uncertainty when it comes to estimating taxpayers' behavioural responses. It is important to say that the Scottish Fiscal Commission is, of course, responsible for producing the independent forecasts for the Scottish budget. That includes taking a judgment on the scale of the behavioural responses, so that is already built into its forecasts.

We absolutely need to be cognisant of that. We have limited levers, and we have to deploy them very carefully. The decisions that we have made to date have taken all that into account. Of course, the issues around the decisions that people make about where to locate and why are quite complex. It is not all about tax. In fact, for a lot of people, it will not be about that; it will be about not only some of the other supports that they may get in Scotland that they would not get elsewhere but the many other issues that they need to take into account.

10:45

National Records of Scotland data show that we have net in-migration from elsewhere in the UK. Some of that is from the working-age population. We have to look at the empirical evidence and then make judgments in the round. It is a key issue, and one that we are looking at very carefully, particularly in the midst of pressures on household budgets and on the cost of living.

**Michelle Thomson:** Yes, I can understand that. The Fraser of Allander Institute's paper sets out anticipated effects. As you said, the methodology that it is using will be the same as that of the Scottish Fiscal Commission. My wider concern is around perception. It is extraordinarily difficult—probably impossible—to work out some scenarios properly, but there will be a perception linked to what, in my view, is a relatively low committed spend to entrepreneurs, for example, of only £15 million, although, of course, we have not seen the budget. It is about the wider picture.

Again, it is this same question: what reflections have you made on the perception of people, businesses and investors? I accept that the foreign direct investment stats are very strong—we agree on that—but we are trying to predict how

behaviours might change as a result of policy decisions. We have to compare apples with apples, as the convener said. Do you think that the perception, rightly or wrongly, that Scotland is a higher tax environment will play into investment decisions? How are you reflecting on that perception in your decisions on tax rises?

**Shona Robison:** The new deal for business has been important in ensuring that business is round the table as a key stakeholder on an ongoing basis not just for budget decisions but for decisions more generally around perception and what we say. The programme for government was explicit on economic growth for a purpose, such as the benefit that it can bring to all our citizens.

Perception is important. Investors will primarily look at what the return on their investment will be. At the moment, one of the important elements for not only the investor panel but other potential investors into Scotland is certainty around priorities for investment, strategic decision making and clarity on net zero, for example. That is what they are looking for. There is a lot of interest from private investors who want to come to Scotland to invest, but they need certainty and continuity on the proposition. That is why it is important to be clear about how we see Scotland's renewable energy future and net zero investment, be that in district heating systems, the decarbonisation of buildings or electric vehicle infrastructure, for example. A lot of investors are very interested in some of those opportunities and, of course, in getting a return on the investment that they are making.

I should also say that business is very much involved in some of those pre-budget discussions. If you look at the new deal for business sub-group on non-domestic rates, for example, which Tom Arthur chairs, you will see that there have been a lot of honest discussions about the choices. There are differing views in business on where support should go and on whether it should be based on the sector or on the size and scale of the business. Those discussions are being had in that sub-group.

I get your point, and we need to make sure that Scotland is seen as a good place in which to invest. Those judgments are based on a range of factors, and we need to make sure that we pay attention to each and every one of them.

**Michelle Thomson:** I am conscious that other colleagues will want to come in, but there are a couple more areas that I want to ask questions on.

To finish my previous point, I have already picked up that some in the renewables sector are rattled by the Prime Minister's recent cooling—or apparent cooling; perhaps that was for his conference—on renewables and the effect that

that will have on global capital flows. The money will go where there is political certainty, so, when such sentiment is expressed, it will probably affect Scotland while it is constrained within the UK. I am not looking for you to treat that as a question and answer it, but it might be helpful if you can make some further reflections on how that may affect or limit our ambitions.

I have a couple of questions on the reform of public services. I know that that is a stated aim. I am particularly interested in public sector property management. That is a huge area, and we all understand how the landscape is totally different after Covid. I was interested in the commentary in the recent Audit Scotland report. It seems as though we are operating at ground zero. The report comments:

“Without robust data on the entire existing estate, it is difficult for the Scottish Government and public bodies to decide whether this estate will meet future needs”.

My understanding from a previous life is that it is incredibly complex and time consuming when the Government is bedded into full repairing and insuring leases. Will you give us an update on where Government is with that and, critically, what timescales you are working to? A huge amount of money must be being tied up that could be used elsewhere because things have changed.

**Shona Robison:** In answer to your first question, it is a big concern. I return to your point about perception and global capital flows. The danger for Scotland is in whether the difference in approaches between the UK and Scotland is understood. I am not sure that the difference is totally understood in the global context, so all that will be heard is the PM's message. It is really important that we use all the available levers and communication channels to ensure that we give a clear steer and direction on our ambitions for renewable energy and state that Scotland remains absolutely committed to its net zero ambitions. We need to continue to do that. It will have an impact on our net zero plans. That is being worked through at the moment, and we update Parliament in due course.

On your point about the reform of public services, Audit Scotland's comments on the single Scottish estate programme were helpful. There are 30,000 public buildings in Scotland. I do not know whether that will surprise you, but there are a lot of buildings. From a number of perspectives, a strategy must be delivered to make better sense of all that. Some of that will lie with local government, and some of it will lie with public bodies, but there is no doubt that we can get a number of wins from taking a more strategic approach to the estate. One measure is shared locations. In communities, there are great examples of services coming together to work out

of one building to provide a better, more efficient and digitally enabled service to the public.

**Michelle Thomson:** Sorry to interrupt, Deputy First Minister. I suspect that I will strongly agree with what you are going to say. My question, if I have not been clear, was, given the scale of the estate that you have outlined, do you have a worked-up programme in the Government to address that issue? I think that we are all agreed on the scale of the challenge and on the benefits therein. I fully understand your position, but there is a need to move to having something substantive—to have at least a framework—to operate to.

**Shona Robison:** Let me tell you about the programme that is under way. We have a programme that will support public bodies to work together to achieve improvements in property data for strategic planning. There will be location-based reviews, with support to set short, medium and longer-term property key performance indicators and actions, and support to work across silos and organisational boundaries. The first governance meetings of the advisory board and programme delivery board took place this month, with very positive responses. Further stakeholder engagement is due to take place next month. The first meeting of the public sector property forum is on 19 October, and the senior stakeholder group, which is chaired by Tom Arthur, is due to meet on 26 October, so we will be really getting in and about some of the opportunities, with people working in a different way.

We also need to think about the net zero decarbonisation of buildings. It will be difficult for some buildings to meet those energy efficiency standards, so it makes absolute sense for all those reasons to work through one single estate strategy.

That will not happen a week on Tuesday; it will take a number of years to get to the optimum point. However, I have no doubt that that will drive cost savings and help with our net zero ambitions. All those are definitely worth while, and I am happy to keep the committee updated on the progress of the board.

**Michelle Thomson:** Yes. I note the urgency of the work.

I am conscious of time. My last question is about the Verity house agreement. I think that there was an expectation that there would be more meat on the bones on the fiscal framework by the end of September. Will you give us an update on that, and on the principles of how the financial flows will work with no ring fencing or direction of funding?

**Shona Robison:** Work on the fiscal framework continues. It is quite complex, because there are

pros and cons to every way of doing things differently. For example, you could have a rules-based framework in which the money is provided at the start of the year and that is it. There would be cons for local government in that position when you consider where inflation is and the need for us to offer in-year support beyond the budget, such as for pay.

I guess that local government is working through some of its own challenges. There is no perfect system. A lot of work is gathering pace around where the framework lands us. I do not think it will be the finished product for this budget because, by its definition, it is quite difficult and complex. The principles around it are “local by default, national by agreement”, so any further ring fencing must be by agreement, rather than us saying, “Right, well, that’s for that, and that’s for that”, and the removal of ring fencing will happen as a process rather than an event. There are some easier areas to remove ring fencing from that are not as contentious; there are others that are a bit more contentious, to be frank. If you look at funding for education—attainment moneys, pupil equity funding and so on—most of that goes to schools directly, so we need to work through those things.

The Verity house agreement provides an opportunity because everybody understands that the fiscal position is very challenging and that carrying on as we are is not an option. Therefore, one of the levers that we can support local government with is having more flexibility around the money that it has to meet some of the local priorities and make decisions that will be around local decision making.

We are also keen to look at whether there are additional revenue-raising opportunities for local government. Some are already in place, such as the empty property relief scheme and the transient visitor levy. There may be others, and we are really keen to look at those. There is a lag time with some of that because it takes time to develop those, but the principle of more revenue raising in local government is one that I absolutely support.

11:00

**Michelle Thomson:** I will leave the field clear here. I feel as though I have asked enough.

**The Convener:** That is big of you. Thanks.

**Liz Smith (Mid Scotland and Fife) (Con):** I would like a bit of clarification on Michelle Thomson’s question about the end of September. Now that that deadline has been moved—you said that it will probably not happen for this budget—when do you expect the Verity house agreement to be in play?

**Shona Robison:** It will impact on this budget, but it might not be the full, all-singing, all-dancing product of the fiscal framework. The work that is being done on the fiscal framework will impact on how we have discussions with local government about the budget, but areas will still be worked through beyond this budget. We will have quite a different discussion with local government about this budget than we have had in previous years, but the development of the fiscal framework will be an iterative process.

**Liz Smith:** Has it proved to be more complicated than you were expecting, given that you have had to shift things?

**Shona Robison:** Everything is more complicated, but mainly from the point of view that local government is working through some of that. For example, there was initially keen interest in a rules-based framework, but when local government worked through the detail of what that would mean from its perspective, there was further discussion about the advantages and disadvantages of that, not least in respect of in-year support. Ian Storrie or Alison Cumming might want to come in on some of that, but let me caveat that by saying that a lot of detailed work is on-going.

The ring-fencing principles have been agreed in the Verity house agreement, but the financial triggers around what the fiscal framework will look like and some of those complexities around a rules-based framework, for example, have caused local government to say, "Hang on a minute. We need to look at the advantages and disadvantages of going down a particular route."

**Liz Smith:** We asked the question because it comes back to the issue of scrutiny. The more information that we can have when scrutinising the agreement and what local government funding will look like, the better. So it is a bit concerning to hear that the time is going to be moved on a bit.

**Shona Robison:** I will furnish you with what I can, but, at the end of the day, it is a negotiation and negotiation is a two-way street. Getting it right is really important. Local government rushing into something that might have disadvantages, depending on the fiscal arrangement, pay deals and inflation and where that all sits, is something to be considered quite carefully. Taking the time to get it right is important, but we will probably need to approach the budget with a complex set of discussions that refer to the principles that lean into the work that has been done on the fiscal framework, although it might not be the finished agreement.

**Liz Smith:** The Scottish Government said that that information would be available by the end of

September. Do you have any other date for when you hope to complete it?

**Shona Robison:** We hope to complete it as soon as possible. I can come back to the committee with firmer timeframes, but we want to conclude it as quickly as we can.

**Liz Smith:** In your opening remarks, you said that you want to see a strategic objective when it comes to tax policy and that you have tasked your special tax group with focusing on that. What components would make a successful strategic overview of the tax system?

**Shona Robison:** I will bring Andrew Scott in with further detail in a second. First, public awareness is an issue. Some research that was presented to the expert group showed that the fact that there are two tax systems is not entirely understood. People's awareness of what they get for the taxes that they pay is also an issue. The Scottish Government has attempted to lay that out in clearer terms in—

**Alison Cumming:** "Your Scotland, Your Finances".

**Shona Robison:** —"Your Scotland, Your Finances", but that research showed that people have an appetite for knowing more about how their taxes are spent. We want to take that on board.

There is then a question for us, and for the UK Government. Our tax position tends to go from budget to budget, partly because we do not have multi-year projections. We have the MTFs, but we do not know what the budget allocation will be, from year to year. The tax decisions that we have to make are seen through that pretty short-term lens. There is a need for us to take a step back, look across the range of taxes in Scotland—not just income tax—and ask what that medium to longer-term view looks like. It is not about trying to get people who, incidentally, have very differing views of what the Government's tax decisions should be in the room; it is more about taking a strategic look at taxes. What is the balance? What are the issues that we need to take into account? What are the limitations of the current system? Again, it is about not just income tax but the basket of taxes across the board. The UK has never done that; it does not have any strategic approach to tax. It is not an easy thing to do. One of the reasons why the group was set up is that we need to look beyond the horizon of budget to budget to budget and look at the impact. Behavioural change is one of the issues that we will look at. We will look at the fiscal outlook and using those tax levers in a way that does not have unintended consequences. We will also look at what other levers we might wish to discuss with the UK Government in the future.

**Liz Smith:** It is complex. I am not going to defend all aspects of the UK tax system, because there are clearly problems in it. Having said that, it is the Scottish Government's job to look at the efficacy of different taxes, how well those taxes will be able to bring in the required revenue in the years ahead, and how well they can expand the tax base in relation to the public spending that the Scottish Fiscal Commission has set out in considerable detail. Correct me if I am wrong, but I think that your tax group will look at the ability of the different types of tax in Scotland and the different thresholds to serve the revenue that you require to proceed with very heavy government expenditure. Is that correct?

**Shona Robison:** That is correct. It is not about looking at income tax in isolation; a range of other taxes need to be looked at in the round, including local and business taxes. It is about how they all interplay around that longer-term strategic aim of optimising a sustainable system that delivers for the public purse. I go back to the point that I made about some of our decisions generating more than £0.5 billion of tax revenues that we would not otherwise have. We need to set that against making sure that we look more widely at the research and evidence on potential behaviour change and other taxes that might impact on the same groups of people. It is not a piece of work that will produce a report in a few months' time. It is detailed and complex. There is a wide range of views around the table, some of which may not be entirely in agreement with one another.

Incidentally, the group is not there for the short term. I would like to see it use its collective knowledge to look at going beyond the current system. I go back to an earlier question: our starting point was amending the UK system, because that was the only starting point that we could have. Looking beyond that, what differences would we make, what other taxes might we look at, and how could those come to fruition?

Andrew, I do not know whether you want to add anything that is a bit more detailed or technical.

**Dr Andrew Scott (Scottish Government):** The context for the strategy and the new group is set by the MTFs, the work of the SFC and the publications of the OBR, the IFS and the IPPR, the most recent of which was this week. That sets the general context for taxation in the UK, including Scotland. It is for the group to decide what subjects it includes.

I expect that any strategy that the Government produces will talk about the burden of taxation, its distribution, the interaction between taxes, the performance of various taxes, the effects of population on the tax base, the effects of an ageing population on the tax base, prospects for economic growth, international evidence, the

ability to tax wealth in a more general sense—inheritance tax has been under discussion in the UK again recently—and, finally, taxes that can bring about some kind of behavioural change. Possibly the most significant issue is the prospect of environmental taxes and our carbon footprint. All those things will figure to some extent and be blended into some kind of long-term tax strategy. There are big trade-offs between those things. Some taxes have greater symbolic importance to people than others, but they are all there.

**Liz Smith:** That was helpful, Dr Scott. This is not the first tax group that has run into difficulties over several years of the Scottish Parliament while looking at how well we can get the necessary revenue in from the tax that we place on businesses and the public.

I want to finish on modelling, which the Deputy First Minister has mentioned several times, because the modelling matters. It is about the facts. I think that Michelle Thomson raised the issue—maybe it was the convener—that, when we come to the budget debates, we will obviously have different political views but the facts matter. At the moment, we are in a difficult place on the committee because some of the facts seem to be nebulous and up in the air. I will quote for you what Sandy Begbie told us last week at committee. He said that we desperately need young graduates and professionals:

“That is exactly the type of population that we want to attract to Scotland, and we should do everything that we can to attract them. To be blunt, free university and prescriptions are all great, but they do not really mean anything or carry any value for that population.”—[*Official Report, Finance and Public Administration Committee*, 26 September 2023; c 34-35.]

That is an interesting reflection about a cohort of people whom we are trying desperately to attract into Scotland and about some of the advantages that we might like to talk about not meaning so much to them. I am interested in how you can model behavioural changes in the different groups in Scottish society and, I hope, the ones that we can attract in the future. We need that data if we are to be successful in that.

**Shona Robison:** It is a good question. First, though, let me reiterate that the role of the Scottish Fiscal Commission is to be an independent body for producing those independent forecasts. As I said, it makes a judgment about the scale of the behavioural responses, so we have that external look. I know that lots of different evidence is provided, but that external, independent look is important.

11:15

You make a good point about how we, with the limited powers that we have, attract more people

to live and work in Scotland. I think that you agreed with us on the rural visa pilot, which has gained cross-party support but is not agreed at the moment.

The evidence that we have so far shows net migration to Scotland, including by people of working age. That figure is not as big as I would like it to be, but it is in the NRS figures, and it is important that we keep a close eye on it. We are not resting on our laurels. The work of the population task force is important, and next year will see the launch of the talent attraction and migration service. That will support international workers in the migration and relocation process by saying, basically, "Come to Scotland and work, wherever you are from". The service will be targeted not only internationally but at elsewhere in the UK and will have opportunities for people to utilise their skills in any jobs here. It will also help employers to target more effectively and navigate a complex system to attract people from outside the UK to come and work in Scotland. That service will be helpful. I assume that it will target sectors that need to bring particular skill sets to Scotland and that it will do that in a more effective, co-ordinated way. I am happy to come back to the committee with more information once the service is launched.

We are not resting on our laurels. We do not have control over migration, so what can we do? The one thing that we can do is work with the agencies that we have already established not only in Scotland but internationally to work through the new service to target and get the message out about the skills needed and job opportunities in Scotland.

**Liz Smith:** Okay. Thank you.

**Ross Greer (West Scotland) (Green):** To go back briefly to the Verity house agreement, I am still not completely clear about what we should expect the impact of that to be on the coming budget and how it will impact on our ability to scrutinise the budget. If you can say anything to expand on that, that would be useful.

My main line of questioning is about the deficit of £1 billion, rising to £2 billion, that we are looking at in the immediate future. We need to close that deficit just to meet existing commitments while growing demand. We have to factor in our statutory targets, such as reducing child poverty and tackling the climate emergency, both of which require significant levels of additional spending. Has the Government done any work—I recognise that this will be a broad range and that there is a significant margin of error here—to quantify how much spending will be required on top of the difficult decisions that we will need to make to close the gap and to meet existing commitments and rising demand? Has any work been done to

quantify just how much more we will need to meet targets in law? I recognise that other targets are set in policy but not in legislation, but we have some significant targets in legislation, and I am concerned that there are no figures attached to how we meet them.

**Shona Robison:** Your first question was about the Verity house agreement. A lot of the negotiation with the Scottish Government on the fiscal framework is being led by COSLA on behalf of local government. In the midst of that, COSLA has been working with trade unions to resolve some of their pay disputes. COSLA is quite a small organisation, and we ask a lot of it. COSLA being pulled in different directions is not a new issue; we need to understand that. That said, increasing the pace to conclude the fiscal framework discussions is a key priority for us both. All I am saying is that there has been an impact from COSLA having to deal with other matters, and we will work to conclude as much as we can to help with the budget process this year.

On the second area, yes, all those issues are part of the wicked problems with which the Scottish Government is wrestling. It is not just about the gap in finance and revenues that is projected through the MTFs, because layered on to that are the pay deals, which, owing to inflation, have exacerbated that situation. As I said, I do not resent a penny of it, but spending £0.5 billion more on pay than was budgeted for will clearly have an impact.

On top of that, we have targets for child poverty and climate change, both of which are statutory targets and key priorities for budget spend. Trying to navigate all that means that we have to be more targeted and will have to prioritise within the collective spending envelope. That work was done over the summer, and we continue to look at what we might have to do differently or stop doing. That is not necessarily comfortable territory, but it is the territory that we are undoubtedly in. We have to make sure that the key priorities receive the funding, and we need to continue to be clear about that. We have said this over and over again. I am not sure whether everybody understands the severity of the finances. Sometimes that may not be the case, but those are the difficult decisions that we will have to make.

I have talked about some of the levers that we have, but there are constraints on those levers, given some of the discussions that we have had about potential behavioural change and the limitations of our tax levers. It is a set of wicked problems, and there are no magic answers that no one has thought about before that we can pull out of the sky. The levers are the levers, and, at the end of the process, we will make our proposition and say, "These are the best decisions that, we



think, can be made, given the constraints and the financial outlook". If others think differently, they are always welcome to come to us with different propositions, as long as they tell us where the funding is to come from.

**Ross Greer:** Thanks. I will go back to the convener's line of questioning on the capital budget and the severe pressures that you laid out. What impact do the revised capital borrowing powers from the fiscal framework revision have on that? I will expand on that a little. How do you approach decisions on whether a capital project receives funding directly from the capital budget allocation versus where it will be funded from borrowing?

**Shona Robison:** The changes to the fiscal framework were helpful, but I do not want to overegg the pudding. They are quite technical, and the extra borrowing powers enable us to deal only with negative tax reconciliations, which will be important next year, given that the negative tax reconciliation is not of the extent that we first thought that it would be. It is about half of what we expected. Increased borrowing powers of up to £600 million means that we can smooth out the negative tax reconciliation over the next few years, which helps. It is not a fundamental change, however. I know that we are going to have a session on the fiscal framework review, so I do not want to go into any more detail at the moment.

You asked about how to prioritise. The capital projects that will have the biggest impact on economic growth, net zero ambitions and sustainable public services are key to the decisions that we make. However, we cannot fit all those into the reduced capital budget that we now have in front of us. That means that it will take longer to deliver some of those projects. As I said, we are looking at alternatives, such as leveraging in private finance, and how they might enable us to take forward certain projects in a different way.

**Ross Greer:** To press you on that a little bit, I am looking for clarity around whether, on a project-by-project basis, funding directly from the capital budget allocation or through borrowing ultimately makes any difference. If so, what approach does the Government take to deciding whether each project is funded by one or the other?

**Shona Robison:** Traditional capital is obviously cheaper than borrowing or other options. However, when it comes to either being able to do projects or not, the questions are different, so we need to take them in the round. Some of the considerations will include the nature of the project, how long it will take to deliver and how complex it is. All those things need to be assessed against where they leave us with the revision to the capital spending review that we will bring

forward as part of the budget process. However, we will lay out why we have come to some of those decisions. Alison, I can see that you want to come in.

**Alison Cumming:** On the point about how we use the borrowing effectively, we use it to set the overall capital funding envelope. So we do not distinguish on a project or programme basis which assets and projects the borrowing that we draw down under the fiscal framework goes towards. We set out our approach to how we use the capital borrowing powers in a sustainable way in the medium-term financial strategy. I am happy to pick up any further detail on that.

**Ross Greer:** Thank you. On the budget timeline, Deputy First Minister, you mentioned in your opening statement that the time when the UK Government sets its budget has a significant impact on the Scottish budget, as well as a knock-on impact on every organisation, particularly local government, that is funded by the Scottish, Welsh and Northern Irish Governments. I know that, in recent years, you have consistently made representations to the UK Government about that. I note, however, that Rachel Reeves has set out that an incoming Labour Government would also aim to set its budgets at the end of November. Given that, on a Government-to-Government basis, it is legitimate to speak to the UK Government, has the Scottish Government—not the Scottish National Party or the other political parties—made any representations to the Labour Party, as a potential incoming UK Government, on the impact that setting UK budgets at the end of November has on devolved finances?

**Shona Robison:** No, not explicitly, but it is fair to say that the Welsh Labour Government will probably be making that point through its own channels. However, there is absolutely no difference between our position and that of the Welsh Government: it really constrains the time that there is to scrutinise the budget, not just for the Government but for the Parliament.

On top of that, the Scottish Fiscal Commission needs time to do its forecasts and gather the information that it draws on. That all leads to a very complicated landscape with very little time. It is not sustainable in the long term to have that constraint. We will continue to make those representations—as, I am sure, will the Welsh—to try to come up with a better set of arrangements. One of our asks has been earlier sight of some of the decisions beyond the formality of the autumn statement, and it is fair to say that we have had limited success with that. Some of that reluctance is due to the theatre of keeping back some of the information, but it would be really helpful to know the direction of travel in advance. Sometimes, we are picking stuff up as it comes into the public

domain and trying to work out what it means for our budget. That is not ideal. We will continue to make those representations and we will see where we get with them.

**Ross Greer:** Thank you.

11:30

**John Mason (Glasgow Shettleston) (SNP):** Deputy First Minister, I take your point that we will have another session on the fiscal framework, but if you do not mind, I want to ask you a few questions about it. If you want to come back to us at a later point, that would be okay.

We were all a bit surprised about how quick the whole process was. We had thought that the previous report would have been published, that there would have been outlines for a review and that it would have gone backwards and forwards. I was certainly caught by surprise when it was all agreed. I remember that, the previous time, it was John Swinney who was negotiating. The draft framework was put to Parliament and the Conservatives said that we should accept a poor deal, but John Swinney carried on arguing and we ended up with a better deal. Can you explain the timeline of what happened?

**Shona Robison:** Both Governments drew from the independent reports. It is important to say that those were important reports. We agreed to publish them on the same day as the outcome of the review because we thought that that would help people to make sense of why we had come to the conclusions that we had come to. I guess that that constrained things. I do not know whether there would have been any great public or media debate on the independent reports, because they are quite technical, but that was the logic. Rightly or wrongly, both Governments agreed that that made sense.

At the beginning, we had said that we wanted it to be a more expansive review, but it became clear that that was not on the table. There was no point in pursuing something that was not on the table, so the process became about increasing our borrowing and reserve capacity and securing the use of the index per capita methodology. That is really important for us, given the issue of population—the position is different for Wales, but that is really important for us. To be blunt, it was a negotiation that involved seeing where we could get to, and some things were easier to settle than others. With a bit of give and take on both sides, we got to a landing space that I think is pragmatic. I will probably not say this very often, but I found John Glen, the Chief Secretary to the Treasury, to be one of the easiest UK Government ministers I have ever had to deal with in all my years in government. [*Interruption.*]

I do not know what his views and reflections would be, but we allowed our officials to get on with the job. Treasury officials and our fantastic officials here in the Scottish exchequer were allowed to get on with finding solutions without political interference to make that process difficult. John Glen and I then had an opportunity to agree the bits that we could agree. We had a bit of negotiation around some of the other bits, and we came to a pragmatic solution. I will spare his blushes, but that is not always the case when dealing with the UK Government—sometimes, you might think that you have agreed something, but that turns out not to be the case. I did not find that during this process: what was agreed was agreed.

**John Mason:** We are still hoping that the Chief Secretary to the Treasury or others will come to the committee to explain some of the fiscal framework process to us. We have been having difficulty with that.

**Shona Robison:** I hope that he will, and I hope that he will have not dissimilar reflections to make on the process, otherwise it will be embarrassing. We had to give a bit, and I am sure that we will get into some of the detail of that at the relevant committee session. The important thing for us was to increase the borrowing and reserve capacity, which will make such a difference next year. The process was not about—

**John Mason:** I will press you on that point. You say that the borrowing capacity has increased, which it has, but we thought that we were going to have a £700 million adjustment. Thankfully, we will not have a £700 million adjustment, but if we had done, the new borrowing limit would not have covered it. Is that correct?

**Shona Robison:** Yes, but it would have covered the vast bulk of it. It will not surprise you to hear that we asked for more borrowing capacity. However, it was a negotiation, so there had to be compromise. It is really important that we will be able to cover whatever negative tax reconciliation there will be. We asked for a longer repayment term and, again, we had to give ground, because we did not win that particular argument, but we won the argument on the use of the index per capita methodology. That is quite important for our budget, given the issue of population.

There are areas that we still need to work on, such as VAT assignment. We agreed that those areas would take longer to work through because of the potential unintended consequences of having responsibility but no levers. That was a worry for us.

**John Mason:** That has worried the committee previously, and I think that we will look at that. Are there any updates that you can give? Can you say anything about timelines?

**Shona Robison:** Basically, we agreed to consider the approach at a later date and that we would progress the matter at a future meeting of the Joint Exchequer Committee. I am happy to keep the committee informed when we get to that. There was a recognition of the complexity and the dangers of having responsibility but not having levers, which would put us in a very vulnerable position.

As I said, we got to a position in which we probably obtained the best outcome that we could get, given that it was a negotiation. We will undoubtedly revisit the fiscal framework on a number of occasions, but, at this moment in time, we have made some substantial gains. We have not made gains in cash terms—the budget has not grown, because any borrowing has to be paid back—but having the ability to smooth the peaks and troughs is really important.

**John Mason:** I certainly accept that that is positive, but it still worries me that certain things were not on the table and that a wider review was not on the table. I feel that there is a fundamental problem, even with the index per capita method. Our population is struggling because Westminster will not allow extra immigration into Scotland. We compete pretty well with all the regions of England apart from London and the south-east. Earlier, you said that, when it comes to inward investment, we are second only to London and the south-east. However, we are always second to London and the south-east. Therefore, it seems to me that, when we compare our economic growth with England's, we are comparing ourselves with a country that is dominated by London and the south-east. Call me pessimistic, but I struggle to see how we will ever be able to compete with them, so we will always be financially disadvantaged.

**Shona Robison:** Of course, the northern regions of England do not compete with London and the south-east, either.

**John Mason:** Absolutely. That is right.

**Shona Robison:** Let me be clear: the process was limited. Nobody will put bells and whistles on it and say otherwise, but, given the headwinds that we face in the immediate financial term, the agreements that we got were important ones to get. They will help, particularly with next year's budget.

Your point about population growth is important. Of course—you have heard me say this today, and I will say it in other forums—having control over migration, for example, would be hugely important in enabling us to attract folk with the right skills to live and work here and to contribute in Scotland. If we had those levers, I have no doubt that we would be able to use them to great

effect, but that is a debate about the powers of this Parliament, which is a wider debate than we were ever going to be able to reconcile through the negotiation on the fiscal framework. We had to deal with what was in front of us, and we have probably got the best deal that we could have got in the circumstances.

**John Mason:** I will move on to one or two other points. The committee had a useful away day in Largs, when we listened to local people's ideas about the budget. Everyone accepted the fact that we face difficult financial times. There was a degree of openness—in the group that I was in, certainly—to a little more means testing and a little less in the way of universal benefits. When we pressed people, we found that they were not suggesting means testing to access the NHS or schools. What is your thinking and that of the Government on how we can get the balance there? Currently, some things are means tested, and some things are universal. How do we get the balance right on that?

**Shona Robison:** There is a difference between means testing and targeting, so let me take them in turn. We are looking in great detail at what the options are in relation to targeting. The Scottish child payment, which has lifted 90,000 children out of poverty, could not have been afforded on a universal basis. That measure was targeted to help us to meet the targets that were set out in the child poverty legislation. We had to look at measures and take a credible path to meeting those targets. The Scottish child payment is a lever that could only have been a targeted measure.

There may be other areas of policy and existing spend that, if money were no object, there would probably be a good argument for continuing to provide on a universal basis. However, when money is really tight, how do you deliver services that will make a difference? Let us look at the options on the childcare offer. Some aspects of that offer will work for everyone, but how do we make sure that it really works for those parents who face blockages in getting into employment, being able to take additional hours or finding better-paid employment? Clearly, childcare is one of the big levers there. We are having a lot of discussions about what our childcare offer will look like in future.

When it comes to means testing, that is a different discussion, which involves discussing whether there are areas of public spend in which services are currently free but that might have to change. That is more complex, because a whole system would have to be set up for that. Prescription charges are a good example. I will not get into a long discussion about that, because I sat through all the committee discussions when those

debates took place back in the day. The argument was made that we could have a means-tested system in which we exempted people with chronic conditions. However, the long list of chronic conditions grew even longer and reached a tipping point where the number of people who would have had to pay—those who did not have a long-term condition and were not below a certain income threshold—was so small that setting up and administering the system for them to pay became uneconomical. We constantly need to look at whether that is still the case, but that was the fundamental argument at that time. Value for money, purpose and impact all need to be looked at, but our focus is definitely on better targeting.

**John Mason:** We have been told by witnesses that the public sector landscape is cluttered, given the number of organisations. Some of the individuals and organisations in Largs brought that up as well. Another issue that has been raised with us is that although individual organisations can make savings, that is not really reform. The police would never have combined into one organisation without a central Government push. How much is the Government thinking of pushing for the kind of reform that would involve reducing the number of bodies?

**Shona Robison:** Public sector reform is really important. I lead on that across Government in order to ensure that a strategic view is taken across the whole of Government. First, there is some low-hanging fruit that all public sector bodies should be aiming for around efficiency and digitisation. There are some great examples of organisations that have become far more efficient—in difficult financial times, that is important—and that are able to deliver an improved service to the public, but for less money. All those things should absolutely happen.

11:45

We then get into the more complicated territory of potential mergers and amalgamations and of whether people can share services or buildings. That brings us back to our earlier discussion. All those things are on the table, along with the workforce level that each public sector body requires and, frankly, a bit of a presumption against new public bodies. We now have a system of needing explicit ministerial approval for the creation of any new public bodies. There are still some in the pipeline, because parliamentary decisions lead to the creation of new public bodies. I am not pushing back on those decisions or saying whether they were right or wrong, but I guess that there is a role for Parliament in taking a step back and looking at the multitude of public bodies that we have that are in the parliamentary space. For example, we have a number of

commissioners, some of which overlap. There is a bit of a need—which should not be pushed by Government—for Parliament to look at what makes sense in that landscape.

We all have to be acutely aware of the need to leave no stone unturned when it comes to how can we extract better value for every public pound, every public sector body and every commissioner's office, given that the finances are so constrained. Not only the Government but all of us have a responsibility to consider such matters.

**John Mason:** Thank you.

**Michael Marra (North East Scotland) (Lab):** There have been some emerging themes in our pre-budget scrutiny. The longer term has come up several times today. In your own words, we have to look “beyond the horizon”. The issue of prevention has come up on many occasions, as has the lamentation of the lack of implementation of Christie and the opportunities that that might have afforded us as a country if we had done more on prevention.

Demos has produced a report saying that we should have a third demarcation of public spending. It thinks that, instead of having only capital and revenue, we should also have a preventative departmental expenditure limit. What are your thoughts on that?

**Shona Robison:** I have some sympathy for that, but it would certainly have to be in the longer term, because what happens in the here and now is that services run in a particular way. If you wanted to move those services elsewhere and change how they work, it would take funding to make that change happen. That is quite challenging when funding is difficult, but you will get no argument from me about the value of every pound spent on prevention. I will come on to a couple of examples.

We have implemented some of the Christie principles. For example, if you think about youth justice, you see a very different pattern of service provision that has reduced the number of young people going to prison and enabled young people to find alternative ways to address harmful behaviour.

I am really excited about the pathfinders in Glasgow and Dundee on the principle of how to develop the system of social work as it is into the system that we want. With a bit of Scottish Government funding, which was actually quite modest, Glasgow has turned around its childcare system and social work support for children to the point of seeing a huge reduction in the number of children who come into care and an increase in those who can remain with their parents. Whether it is from the point of view of the family, the children or the budget, being able to maintain and

keep families together—in a safe way, of course—reducing the number of children coming into care and improving the outcomes for those children ticks so many positive boxes. It is indisputable that that model could work well beyond Glasgow.

Dundee's pathfinder in Linlathen is more about agencies getting out of their silos, working together, engaging with people—the staff do not wear a badge that says that they are from the Department for Work and Pensions, the council or wherever—and asking them what they need that would make a difference. Some of the answers from families about what makes a difference are quite surprising and are not what the statutory services might think.

Should we do more and could we develop something on preventative spend as part of the budget? We are in the foothills. I would like to do more, but trying to carve out the funding is an issue. The pathfinders show that it can be done by using modest amounts of money to unlock that big spend. We sometimes focus on bits of programme spend, but if we could unlock the billions that are tied up in systems at the moment and change the way that those systems work, we could be a lot more impactful in the outcomes.

**Michael Marra:** I suppose that the biggest wins for Scotland are in the health space. Obviously, that has the biggest portion of our budget, and it is where savings could be made. I have sympathy, as it would be easier if this happened at a time when there was an increasing spending envelope, rather than at a time when there is a decreasing spending envelope. However, that is the point of this work. We need to continue to talk about transparency. Perhaps the officials will reflect on how we might account for preventative spend differently.

I will move on to a different area. Last week, we had the minister responsible for the national care service in front of us. I asked about the amount of money to be allocated in the longer run to the national care service. On expenditure, Maree Todd said:

"I will be candid and say that the cabinet secretary has not set a ceiling."—[*Official Report, Finance and Public Administration Committee*, 26 September 2023, c 16.]

Is that correct?

**Shona Robison:** As you will be aware, how and when the national care service will be done was fundamentally reviewed. That has an impact on the profile of spend going forward. We moved from where we were, with the requirement for funding to be made available more quickly in the system for the change that was required, to a more gradual process of delivering the change through the national care service.

Local government's key ask, which we met, was that staff in the national care service do not move to a central agency but are retained in local government, and that changes the way that the service will be funded. We have made clear commitments through the programme for government, including paying £12 an hour to social care staff, which is a key part of the recruitment and retention of social care workers. That will be delivered from April next year.

Wider funding for the national care service, in this budget and budgets going forward, will inevitably be part of the negotiation with local government. We need a line of sight from where we are at the moment to where the national care service will have the biggest impact, which is through consistency of standards and quality. The national board, which will have representation from all the key parties, will be able to drive forward some of the improvements that need to be made. The funding needs to follow through on that.

**Michael Marra:** Given the long-term commitment to this shift that the Government retains, you must have an idea of what the country can afford.

**Shona Robison:** I am not sure that taking everything on the basis of what the country can afford, in its bluntest sense, is the best starting point. The starting point needs to be what priority is being given in a difficult financial environment. I can say that social care is a key priority. You made the point about unlocking some of our systems: you could not find a better example of where that needs to happen than the money that is tied up in health. People are in hospital when they do not need to be there, are going into hospital when they do not need to go or sometimes end up in long-term care when they could have remained at home for longer.

**Michael Marra:** I am in full agreement on that.

**Shona Robison:** How do we shift? That is the question. I, along with colleagues and local government, need to work out what trajectory of spend is needed to make the difference. Next year's priority is the recruitment and retention of social care staff. If we do not get that right, we will not get the other bits of the system right.

**Michael Marra:** In the past week, we have had headlines about the ferries and the on-going cost increases, with an additional £24 million. Where is the ceiling for that? At what point does it become too expensive?

**Shona Robison:** I am concerned, as Neil Gray is, about the cost increase. As I understand it, Neil Gray stated in his letter to the Net Zero, Energy and Transport Committee, which is the lead committee on the matter, that officials are

preparing to undertake due diligence, drawing on the value-for-money assessment that was completed earlier this year. The NZET Committee and the Public Audit Committee will be provided with further information on that when the assessment is complete.

These are difficult decisions. The rationale was about keeping shipbuilding in Scotland, and that remains the focus and the key objective. As we have said, delivering the two ferries is a key objective, but the yard's future being secured in a private sector environment is also a clear objective. I will therefore not give some artificial ceiling and say, "There and no further". We have said clearly to the Ferguson's management team and to the chief executive and chair directly that they have to constrain costs and be acutely aware of their responsibility to constrain any further rises, and that they need to deliver both ferries as quickly as possible. They have had challenges with inflation and its impact on construction costs, with the availability of labour and subcontractors and with prices coming in way above what was expected. If, however, you ask any sector that is operating in Scotland or elsewhere, it will tell you that it is feeling the same impact on its costs. That does not excuse the situation, but there are clear reasons for the cost increases.

If you are asking me whether I am concerned, the answer is yes—I share Neil Gray's concerns.

**Michael Marra:** I suppose that I am asking, as I was in my earlier question, whether there is a point at which the Government will take a view on whether we have enough money to pay for the ferries.

**Shona Robison:** The value-for-money test is and continues to be important. As I said, due diligence is being done on the value-for-money assessment that was completed this year. There will be an update on that, and the committees will be furnished with it. That is the proper process to go through. However, the value-for-money test was in terms of how quickly both ferries could be delivered compared with alternative routes forward.

**Michael Marra:** When you came to the committee on 13 June, I asked about the resource spending review. I asked specifically whether the policy had been dropped, and you said, "Yes." On 14 June, in the chamber, I asked a similar question. I asked:

"Has the review been killed off ... ?"—[*Official Report*, 14 June 2023; c 15.]

and you said, "No". I am quoting from the *Official Report*, although we might quibble about some of the detail.

This is also, in part, a question of cost control. You have talked about the number of public bodies. One of the key growth areas in the public sector reform agenda is in your core civil service. There was a previous commitment to return the workforce to pre-pandemic levels, from which I think—although I am not sure—the Government has resiled. Maybe you can clarify that: is it no or is it yes? Is that another area where costs have got badly out of control?

12:00

**Shona Robison:** Let me say two things about that. If we applied that approach across the board, you would not see any more folk coming into the NHS, social care or Social Security Scotland, which is still expanding its services. I was imparting to you that there needs to be a recognition that there are still some areas of growth. That does not mean that all areas of the public sector will grow—I will come to the figures for the core civil service in a second—but it does mean that a more nuanced approach is required to recognise that there are some areas, in social care, the health service and Social Security Scotland, that need to continue to grow.

On a point of agreement, if I can be helpful, part of the constraint on costs going forward is because the workforce in the public sector, regardless of which part, needs to be affordable. We cannot afford a workforce that there is not the money for, and that is a key element. Civil service numbers dropped marginally over the last reporting period, and workforce recruitment controls are in place across the civil service. There is a recognition that areas where there are new developments and policy areas may need to be treated differently from other parts of the core civil service. If you are asking me, bluntly, whether the size of the workforce will need to reduce over time, the answer is yes, it will. However, within that, there will still be areas where it does not reduce, for the reasons that I have just set out.

**Michael Marra:** For clarity, the resource spending review policy was not my policy; it was the Government's policy. It was your stated intent, or that of your predecessor, to reduce the size of that workforce. I entirely sympathise that there are areas where it has to increase and others where it has to reduce. My overall point is that you said that we are facing the same headwinds as other parts of the UK, but is the key issue not your Government's ability to control its expenditure and the difference between what you say you are going to do and the money that we have coming in?

There has to be more discipline on your part, as the person who holds the purse strings on taxpayers' money, to make sure that we control

the costs of government and reduce the amount of waste, because there are several areas where costs are, by your admission, out of control.

**Shona Robison:** First, that is part of the discipline. At my very core, I absolutely want to make sure that we get maximum value for the public purse from every pound that we spend. On a point of absolute fact, when we talk about the overrun of costs in Ferguson's or anywhere else, which I have made very clear is not acceptable, let us not make out that that money is baselined into budgets and has to be there as part of the resource budget. You cannot compare project spend with the resource budget that pays the wages: the two things are very different. I am not saying that the overrun in costs is acceptable, but let us not conflate the two, because they are very different things.

If I was sitting here as the Welsh finance minister, I would say to you that the problems in Wales are, if anything, even greater than the problems in Scotland, not because the Welsh Government has been profligate with the money that it spends or has made mistakes, but because it does not have the necessary levers at its disposal to deal with the headwinds of rampant inflation and economic shocks, all of which impact on budgets. We do not have the levers in Wales, Scotland or Northern Ireland to deal with the headwinds. In Scotland, we have some additional levers at our disposal, which the Welsh and Northern Irish do not have, to help us balance our budget, even though that is proving to be extremely challenging this year.

If the ministers from Wales and Northern Ireland were sitting here now, they would tell you that the prospect of being able to balance budgets is getting increasingly difficult. They have told the Treasury that over and over again. There is an issue, and it has been brought into stark contrast by all the headwinds that we have discussed. To date, that has not been heeded or listened to. This year will, I think, expose very clearly some of the limitations of those levers.

From Scotland's perspective, as I said, we have levers at our disposal, thankfully, that Wales and Northern Ireland do not have. We will have to use those levers, and we will use them, but it is becoming increasingly difficult—because of those headwinds and the limited levers that we have—to do the thing that we are legally required to do, and that is to balance our budget. I cannot put any gloss on it. Those are the same messages that were put to the Treasury, sitting in a room not dissimilar to this, by our Welsh and Northern Irish colleagues.

**Michael Marra:** Thank you.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** Good morning to the cabinet secretary and her colleagues.

On the subject of Caledonian Maritime Assets Ltd and the boats at Ferguson's, you said that Ferguson's was asked to constrain costs and to get the boats built as quickly as possible. Clearly, it has failed to do that. We have talked about value for money; clearly, the boats have not been value for money. There is an approach going forward, and it will be interesting to see the responses to that. You talked about the impacts of inflation. Inflation in Turkey has been at over 80 per cent and is currently over 61 per cent, yet it looks like the yard in Turkey will deliver boats on time and on budget before the boats that are being built at Ferguson's.

Neil Gray said that there is not a blank cheque for those boats. However, the simple fact is that there is likely to be a blank cheque because there is so much political capital invested in the boats, in CMAL and in Ferguson's yard that it will never be a case of enough is enough. You will keep finding the money to make sure that the boats are delivered.

**Shona Robison:** I could respond by saying that recent debates around whether a certain railway is going to end up in Manchester at a cost overrun of over £100 billion—

**Jamie Halcro Johnston:** Focus on the question I asked about your area of responsibility.

**Shona Robison:** A £100 billion overspend on a railway that is now not going to go to Manchester just shows that all Governments have challenges with infrastructure projects. It is not an issue unique to the Scottish Government.

We have been clear, and Neil Gray has been clear, to the Ferguson's management team—in which, of course, there have been leadership changes in recent times—about the requirement to constrain costs, the requirement to deliver on the timescales set out and the fact that not doing so does not do the reputation of Ferguson's any good at a time when, clearly, that is important for future contracts and the future of the yard. I want to see a good, positive future for that yard, because I want shipbuilding to be retained in Scotland, so it is really important that we make progress there.

The point that I made to Michael Marra was that one of the reasons for the cost overrun is the same reason why many infrastructure projects have had cost overruns, which is construction inflation running at 25 per cent at the height of last summer. That is not to make excuses; it is to give some context as to why some of the costs are overrunning. There are other complexities at Ferguson's that the committee will be well aware of.

**Jamie Halcro Johnston:** Ferguson's should have been finished well before now, before the issues with inflation arose.

**Shona Robison:** I am well aware of the delays—

**Jamie Halcro Johnston:** I am conscious of time, so I will just ask: is it the case that you are not ruling out further payments to Ferguson's due to further increases in costs?

**Shona Robison:** To be clear, in his letter to the NZET Committee, Neil Gray stated that officials were preparing to undertake due diligence, drawing upon the value-for-money assessment that was completed earlier this year, and to provide that committee and the Public Audit Committee with further information on that when the assessment was complete.

We have made our expectations clear to Ferguson's, and I have been pretty clear with the committee about what those expectations are. Those two committees in particular will get that updated information, which I hope they will find helpful.

**Jamie Halcro Johnston:** Okay. Can I look to the longer term? National Records of Scotland projected that Scotland's population will fall by 400,000 over the next 50 years. A fiscal sustainability report by the SFC showed that the proportion of Scots aged over 65 is expected to increase from 22 per cent in 2026-27 to 31 per cent by 2072-73. Obviously, that will impact on demand for public services. It will also impact on participation rates, productivity and labour supply. What expectations do you have? Do you accept those projections from the Scottish Fiscal Commission? What expectations do you have of how that will impact spending and tax?

**Shona Robison:** The shorter-term figures from NRS, which are important, show that we are still seeing net in-migration to Scotland from the rest of the UK, but you are absolutely right that—

**Jamie Halcro Johnston:** May I quickly ask a question on that point? When you talk about net inward migration, who are those people? Are they over the age of 65? How are they made up?

**Shona Robison:** Net in-migration was around 10,000 people. Out of something like 25,000 people, net in-migration was 10,000, and half of that—5,000 people—was people of working age. I would like that number to be bigger, frankly, but it shows that there are still people of working age coming to live and work in Scotland. That is good, but we need more of them to do so.

You are right to highlight the longer-term challenges. There is an appetite to have a wider debate on those issues in the chamber, and I am keen to do likewise. Here, the issue is population

size and population balance, but we are not unique—other areas of the UK face a similarly ageing population, and that is a concern.

In respect of population size, I talked earlier about how, with the limited powers that we have, we can attract more people to live and work in Scotland. I would like powers over migration. In the absence of that, we are introducing things like the talent attraction and migration scheme, which makes it easier for employers to bring people in, and key worker housing in rural areas where we can link to employers and businesses to make sure that, when people come, they do not just come to Edinburgh but are encouraged to go to other parts of Scotland, which is important.

I want to avoid the shift to an older population by using all those levers that we are talking about, but we have to prepare for the fact that, even if we stem that to some degree, we will still have to support more older people. Key to that is the need to make sure that, where we can, we keep the older population as healthy as possible for as long as possible, that they live in their own homes for as long as possible and that they use the NHS as little as possible because of the provision of support for them in other ways. That means going back to public sector reform. Our services need to look and feel different in how they do that. We need to make all the changes to social care that we have talked about in order to maximise people's independence and then provide the support when people need it in a way that keeps them in their own home.

It is not rocket science. We have been talking about it for some time, and most other countries are looking at very similar models to make that happen. We are scratching the surface of the opportunities to use technology and artificial intelligence in the space of keeping people safe in their own home for as long as possible and making our health services sustainable for those who need them. There is a huge purpose there, not just for the Scottish Government but for local government, our public services and our third sector organisations, in being able to sustain and prepare for that ageing population.

**Jamie Halcro Johnston:** I recognise that providing for an ageing population is an important part of it. One projection from the Scottish Fiscal Commission is depopulation, particularly in rural areas and in the Highlands and Islands. In projections to 2043-44, all Highlands and Islands council areas will see their populations fall. That is a mid-term approach, but there are already concerns. There has been a lack of investment in infrastructure such as the A9 and ferries, and people feel very distant from services. If you want a population to stay in rural areas, you need maternity services. We have had a number of



debates recently in the Parliament about the need to provide such things. How can you, over the next few years, reverse the feeling among people—certainly those in our remote areas such as the Highlands and Islands—that services are further away from them than they were previously?

12:15

**Shona Robison:** We have just had a travelling Cabinet—it was the first one since the pandemic—over in Argyll and Bute, where we met a lot of local organisations and businesses. There is no doubt that there are challenges around infrastructure investment, digital connectivity, housing and jobs, and in making sure that the west and rural Scotland get a fair crack of the whip in migration and people coming. How do you attract people to live and work in areas that would otherwise suffer depopulation?

Some really good things are happening. I visited an affordable housing project in Dunbeg, where 300 affordable homes have been built for the local population. That will enable people to remain living in the area in homes that they can afford. The people to whom I spoke were previously in the private rented sector, paying costs that they struggled to afford. That makes a huge difference, because they are able to remain working in the local area. Those homes are energy efficient, so they are also able to afford their fuel bills, which is important. We need to see more of that.

We have put money aside for the key worker housing scheme through the affordable housing supply programme, in which we work with local businesses. Perhaps they are trying to recruit labour, whether they are a fish farm or in the hospitality sector, and are finding it difficult, partly because of the housing situation. How can we work with local businesses to look for available land and joint solutions, to make sure that we do not lose people from rural communities and that we get people to live and work there as well? There is not one solution; all those things will be important in addressing that very live and important issue.

**Jamie Halcro Johnston:** I certainly agree about housing, but, across the region that I represent, the picture of what is available is still very mixed. I agree that it is about building high-quality housing, which will reduce some of the costs for people.

My last question is about the Scottish Fiscal Commission's projections on funding. It is looking at funding increasing from £54 billion in 2027-28 to £177 billion, with the block grant increasing considerably as part of that. Do you recognise that? How can you make sure that, where new

taxes are being delivered, they work to complement that increase in the block grant?

**Shona Robison:** It is also important that we do not lose housing to second homes and short-term lets. That is one of the issues that came up at the travelling Cabinet. People are concerned about the loss of homes for local people.

On the block grant, you will excuse me if my time and focus are more tied up with the immediate term. Next year, we will be wrestling with a real-terms decrease in the block grant. The forecast beyond that is that we will begin to see a bit of improvement by 2027-28, but, in capital, we will see a real-terms reduction right the way through to 2027-28. I need to focus on the here and now of what that looks like in terms of the extremely difficult and challenging decisions that we have to make.

**The Convener:** The Scottish Fiscal Commission's sustainability report was about where we would be by 2072 if things did not change, rather than what the allocations might be.

Jamie Halcro Johnston made a point about population displacement, and I think that you touched on it as well, cabinet secretary. It is a real issue. Arran, in my constituency, has the demographic profile that the SFC predicts for the whole of Scotland by 2072. It is important that we do not look at Scotland as one unit; we need to look at island and rural Scotland differently. It would be helpful if rural funding allocations for housing were spent and, indeed, if deliberations over them did not take three years to progress, as they have done in my constituency.

I have one further question. John Mason and one or two others touched on the issue of decluttering. We have Westminster, Holyrood, local government, health boards, integration joint boards, community planning partnerships, three enterprise agencies, region and city deals, 150 non-departmental public bodies and an increasing number of commissioners. A national care service board is also going to be established. You mentioned a presumption against new public bodies, but, surely, the Scottish Government has to be much more ambitious about decluttering the public sector. You talked about overlap, but there must be overlap, duplication and confusion. I do not think that there is anyone in Scotland—I would be surprised if there was anyone—who knows how all of those fit together and work. I suggest that the Scottish Government address that. Will the Scottish Government give greater priority to that?

**Shona Robison:** Let me end on a point of consensus: yes. The points that you make are legitimate. Doing it is sometimes a little more complex. Think of some of the reforms that we

took forward—I am sure that there will be debate around these matters—such as the formation of Police Scotland, which has been a success with regard to the more effective use of resources and the solving of serious crime, although I accept that it has not been without its challenges. It was difficult and took a long time. It is only after a time that you begin to see some of the benefits roll out from a painful process.

I am up for structural public service reform, but, sometimes, when you get into the weeds of the changes that need to be made, opposition begins to grow. You have people asking, “What about this?” and people with vested interests saying, “This will be to the detriment of A, B and C.” You have my absolute assurance that I am keen to push to the maximum the opportunities for public sector reform, and that includes how organisations deliver their services, how they work together, the landscape and how we get that to make more sense, not in a detrimental way but in a way that is more effective. On that point, you will not get any pushback from me. My only point is that making it happen is sometimes more complex.

**The Convener:** Thank you. I thank the Deputy First Minister for her responses. It has been a real shift—almost two and a half hours. I congratulate you on your stamina. Unfortunately, despite the myriad questions, we did not touch on non-domestic rates, we did not really get into AI or data, and we did not really talk about public procurement or, indeed, council tax reform. I hope that you and your officials will look at the evidence that has been submitted by witnesses and deliberate on it as we move forward. I thank you once again for your answers, which are greatly appreciated by the committee.

That concludes the public part of the meeting. We will consider a report on the sustainability of Scotland’s finances and public service reform in private at our meeting on 31 October. We will now move into private session to consider our work programme. We will have a two-minute break to allow the Deputy First Minister, her officials and the official report to leave.

12:24

*Meeting continued in private until 12:30.*

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

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