OFFICIAL REPORT
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Finance and Public Administration Committee

Tuesday 26 March 2024

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
12th Meeting 2024, 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:

Steven Bunch (Scottish Government)
John Ireland (Scottish Fiscal Commission)
Claire Murdoch (Scottish Fiscal Commission)
Professor Graeme Roy (Scottish Fiscal Commission)
Graham Thomson (Scottish Government)
Professor David Ulph (Scottish Fiscal Commission)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 26 March 2024

[The Convener opened the meeting at 09:30]

Police (Ethics, Conduct and Scrutiny) (Scotland) Bill: Financial Memorandum

The Convener (Kenneth Gibson): Good morning, and welcome to the 12th meeting in 2024 of the Finance and Public Administration Committee. Michael Marra will be joining us remotely.

Before we move to agenda item 1, I record the committee's thanks to those who took the time to meet us as part of the interparliamentary finance committee forum visit to Portcullis house in London last Thursday. I am sure that I speak on behalf of all members involved when I say how worth while our meetings were with MPs on the Treasury Committee; the chair of the Public Administration and Constitutional Affairs Committee, William Wragg MP; David Gauke; the Office for National Statistics; the Institute for Government; and our Welsh colleagues. We look forward to meeting our Welsh and Northern Irish counterparts again later this year, possibly in Belfast.

Under agenda item 1, we will take evidence from the Scottish Government bill team on the financial memorandum for the Police (Ethics, Conduct and Scrutiny) (Scotland) Bill. We are joined by Scottish Government officials Graham Thomson, the head of legislation and divisional development, and Steven Bunch, the bill team leader. I welcome you both to the meeting.

I invite Graham Thomson to make a brief opening statement.

Graham Thomson (Scottish Government): Good morning, convener. Thank you for having us to provide evidence and to take your questions.

We recognise that there is a difference between the costs that are set out in the financial memorandum and the evidence that the committee has received. I confirm that we are working to revise the financial memorandum, with the intention of publishing a revised version after stage 2.

The cost estimates that are set out in the financial memorandum were informed by extensive discussions with our policing partners, particularly Police Scotland, the Police Investigation and Review Commissioner and the Scottish Police Authority. In addition, through the Scottish police consultative forum, statutory staff associations such as the Scottish Police Federation were able to set out their views. Those discussions were complemented with written evidence and desk-based research that we undertook and through liaison with His Majesty's Inspectorate of Constabulary in Scotland, the Home Office and the London mayor's office. That all helped us to sense check the information that we received.

There are three main differences between the financial memorandum and the evidence that the committee has received. The first relates to training costs. As we prepared the financial memorandum, Police Scotland told us that it was likely that it would be able to absorb those costs. However, as you can see, it has now adjusted that position, partly due to the wording of the statutory responsibility that the bill will place on the chief constable and partly as a result of the more robust approach that Police Scotland is taking to assessing the impacts of new legislation across the board. We are working with Police Scotland to fully understand the training requirements and their financial impact, and we will reflect that work in the revised financial memorandum.

The second difference relates to staff costs associated with the anticipated increase in the number of gross misconduct cases. We accept that there will be a need to increase resources in Police Scotland's professional standards department to support the bill's provisions, and we intend to capture that in the revised memorandum.

The final difference relates to legal costs for former officers, which are dependent on estimates of the number of additional cases and the average cost to support an individual's attendance at a hearing. In preparing the financial memorandum, we relied on information that was provided to us by the Scottish Police Federation and Police Scotland, and we recognise that those organisations have now revised those costs. We will reflect that in the updated financial memorandum.

Overall, the information that has been gathered via the call for evidence reflects a greater understanding of the impacts of the bill, and we will draw on that information when updating the financial memorandum after stage 2.

We welcome any questions that the committee might have.

The Convener: First, I am quite astonished that publication of the updated financial memorandum is planned to happen after stage 2. An updated financial memorandum for any bill should be with us before stage 1. I do not think that what is proposed is appropriate at all, and I hope that work will be done to ensure that what I have suggested happens.

Secondly, I am quite surprised by the fact that the figures that are used in the financial memorandum relate to September 2022, which was 18 months ago. As Police Scotland pointed out in its submission, inflation peaked at 11.2 per cent a month after that point. Even if one does not agree with the costings that Police Scotland has provided, surely steps should have been taken to update the figures long before now.

Graham Thomson: The bill was introduced in May or June last year. At that stage, we used the information that was provided to us by Police Scotland. We accept what Police Scotland has said about inflation. We accept that inflationary costs and pay have increased for Police Scotland, and we will reflect that. Indeed, we will take advice from the committee about the best time at which to bring back a financial memorandum, and we are working with those policing bodies to update it. We are already in a position to be able to update some of the information, and we will seek to do that at the earliest opportunity. It was our understanding that protocol dictates that that would normally be after stage 2.

The Convener: If members are to deliberate on the general principles of a bill, it is appropriate that the Finance and Public Administration Committee scrutinise the financial memorandum—an updated financial memorandum—before it goes to the lead committee at stage 1. As far as I am aware, that is how it has always been done and should be done. It certainly should not be done after stage 2.

I understand your point that the bill was introduced in June last year, but it makes me even more bewildered that nine-month-old figures were used when, clearly, everyone knew that inflation was high—especially given that there have been nine months in which to update it since then. We are being presented with a set of figures that do not really mean anything. We could go through it all—I sat ready with all my nice wee yellow-highlighted bits and questions to ask, but you are saying, in effect, that the financial memorandum—all 22 pages of it—is not worth the paper that it is written on at this stage. Is that a fair assessment?

Graham Thomson: It is fair to say that we will look to update parts of the financial memorandum. I do not accept that it is not worth the paper that it is written on. We will update elements of it in line with the particular sections that we drew out.

The Convener: Why has it not been updated before now?

Graham Thomson: We did not have that updated information until you received it through your call for evidence. Although we have worked closely with Police Scotland, it did not supply that information to us in advance of providing it to you in response to the call for evidence.

The Convener: Have you no other sources of information? You were clearly aware of it. I thought that there would at least have been an inflationary uplift over the past 18 months, even given your caveat about submissions from Police Scotland and others.

Graham Thomson: Certain elements are subject to inflationary uplift, and I take your point that, potentially, we could have updated for that at an earlier point, but that is not the case across the whole financial memo.

To be honest, we are reliant on some of the information that we have received—from Police Scotland, in particular, and from other policing bodies—in shaping this. We are reliant on their providing the information either to us or to you through your call for evidence.

The Convener: Okay, but how did you come to the figures that you have in the financial memorandum before Police Scotland made its submission, given the fact that you say that you are so heavily reliant on what it has provided?

Graham Thomson: We worked closely with the professional standards department in Police Scotland, and we have done so over a considerable period of time. In my opening statement, I mentioned that Police Scotland is taking a different approach to how it assesses financial impact. Prior to our producing the financial memorandum, it concentrated on the impacts on the professional standards department alone. Since then, it has considered the impacts across the organisation. For example, it is considering across the piece the training costs for the introduction of the code of ethics or a duty of candour. It had previously told us that those were absorbable, but it has now adjusted that position. We accept that there is a case to be made for that, and we are working with Police Scotland to understand the full impact.

The Convener: Police Scotland has said that it will cost nearly £5 million more than the figure in the financial memorandum. That is more than three times the figure in the memorandum. Do you think that the figures in Police Scotland's submission are more accurate than those in the memorandum?

Graham Thomson: I think that elements of that submission are more accurate. I broke down my opening statement into three parts. The associated legal costs and the staff costs have increased, and we broadly accept what Police

Scotland is saying in that regard. There is on-going discussion with Police Scotland about the training elements, largely because the costs that it has set out include opportunity costs, such as officers concentrating on the training as opposed to other tasks, rather than direct costs.

The Convener: Okay. My colleagues are quite keen to come in, incidentally.

The financial memorandum refers to the £10,000 benchmark for materiality, which

"takes into account the relative cost of changes in proportion to the overall budget of the affected organisations ... and the difficulty in being precise when dealing with smaller estimates."

However, the approach of presenting costs as material and immaterial and using the £10,000 figure as a benchmark is not the usual approach that is taken with Scottish Government financial memoranda. As the Finance and Public Administration Committee, we are trying to interrogate apples with apples, not apples with pears. Why have you decided to use that approach?

Graham Thomson: I will let Steve Bunch come in in a second. Generally speaking, we adopted that approach because there was a little bit of uncertainty about some of the costs. We recognise that costs can only ever be best estimates. We accept that we could phrase that in a different way. So, if that is not in line with other financial memoranda, we will seek to specify costs where we can and provide better estimates where we can.

We are talking about things that were considered to be very low amounts. Steve Bunch can potentially provide some examples of that.

The Convener: Yes, they are very low amounts, but, cumulatively, they can become large amounts and they must come out of somebody's budget.

Steven Bunch (Scottish Government): The costs include the costs of consultation with stakeholders for the code of ethics. We were not sure exactly what those costs would be at that low level, so we took account of them by assuming them to be £10,000. As Graham Thomson said, we can look to remove that element from the revised memorandum if that is what the committee wishes.

The Convener: Okay. Paragraph 27 of the financial memorandum says:

"The figures contained within this Financial Memorandum are the Scottish Government's best estimates of the costs of the provisions of the Bill".

Clearly, that is not the case, is it?

Graham Thomson: Sorry, but can you repeat the question?

The Convener: I will quote paragraph 27 of the financial memorandum. It says:

"The figures contained within this Financial Memorandum are the Scottish Government's best estimates of the costs of the provisions of the Bill".

They are not the best estimates, are they? The figures are nowhere near the costs.

Steven Bunch: The financial memorandum provides the best estimates that we could get from the information that partners gave to us at that time.

Graham Thomson: Overall, the costs that we considered to be immaterial—we could have described them as absorbable—were included in the overall bill figure.

The Convener: It is groundhog day for the committee. Paragraph 33 of the memorandum says:

"Many of the Bill's provisions will require secondary legislation to be fully implemented."

Why are those provisions not being included in primary legislation?

Graham Thomson: I will start off with that and will then bring in Steve Bunch. The legislation is an enabling and framework bill, and a number of provisions will be set out in secondary legislation. I accept that there is more that we could potentially do to outline some of the costs, but a key element of conduct regulations—conduct matters are some of the things that will be introduced through secondary legislation—is that we must do that, as set out in legislation, in consultation with the Scottish police consultative forum. The forum comprises statutory staff associations such as the Scottish Police Federation.

Everything that is in the terms and conditions of an officer's employment is set out in regulations rather than in an employment contract, as it would be with police staff or most other professions. As part of that agreement, there is an acceptance that everything can be done only through the Scottish police consultative forum. In some ways, we have not gone through that process, and the process that we go through with the Scottish police consultative forum may well change what is or is not in that secondary legislation, because that should be done via agreement through that forum.

09:45

The Convener: You say in paragraph 33 that

"it is not possible to provide a full assessment of costs or savings until the regulations have been agreed", but in table 1 you give a figure of £1,414,474. You put quite precise figures into the table, despite the fact that, as you have admitted, the figures do not bear any real relation to what the costs will be. It seems very odd to be so precise in a document that is so imprecise.

Graham Thomson: I take your point about the precise nature of the financial memorandum. As part of the work that we are undertaking to look again at the financial memorandum, we are likely to provide a bit more evidence in range form where we are not able to be as precise.

The Convener: I have one more question before I open it up to colleagues around the table. When can we expect an updated financial memorandum with more accurate costings?

Graham Thomson: As I said at the beginning of the meeting, we intended to provide that after stage 2, because that was our understanding of when—

The Convener: But that would be unacceptable to the committee, so when can we have it?

Graham Thomson: We can work to a shorter timescale. We know that the Criminal Justice Committee is undertaking its stage 1 work prior to the summer recess, and we can work to that timetable.

The Convener: I will now open it up to colleagues. The first to ask questions will be Liz Smith, followed by Michelle Thomson.

Liz Smith (Mid Scotland and Fife) (Con): Good morning. Mr Thomson, the problem that this committee has, which the convener has rightly pointed to, is that we are asked to scrutinise the numbers that have to go behind a bill. This is the fourth bill in recent months about which we have had concerns because the accuracy of the numbers does not suit the scrutiny that we have to provide. Do you accept that, when a bill team makes a presentation to Parliament, it is essential that the financial memorandum that goes with the bill is understood and clearly set out before we get to any legislative process? Do you accept that as a bill team?

Graham Thomson: As a point of principle, it is absolutely our intention as a bill team to make sure that the information that is presented is as accurate as possible.

Liz Smith: Why did you originally consider it appropriate not to provide us with an updated financial memorandum until after stage 2? Where is the logic in that?

Graham Thomson: It was a misunderstanding on my part. I think that we understood that protocol dictated that it would not happen until that point. I point out again that it was not until we received the response to your call for evidence that we had the information to enable us to update the memorandum.

Liz Smith: It is a long-standing convention of this Parliament—rightly so, as the convener has set out—that the financial memorandum must be presented in time for the legislative process. That is not after stage 2. If that is a misunderstanding, we have to correct that very quickly.

I suggest that there is also a wider problem here. We have to ensure that any legislation that we pass in this Parliament is fit for purpose and is good law. Whether parties vote in favour of or against the bill is not the main point. The main point is whether the financial memorandum is factually correct and whether the evidence supports it. At the moment, it is very difficult for us to understand why a bill team thought that it was appropriate to come with the numbers after stage 2, which is after the committee stage as well as the stage 1 debate in Parliament. Do you accept that we are right to have those concerns?

Graham Thomson: I absolutely accept that. It is my intention to bring you a revised financial memorandum as soon as it is possible or practical to do so. What I said in my opening statement about stage 2 was not born out of anything other than what I understood the protocol to be. If that is not the case, as you are clearly setting out, we will work to bring you a revised financial memorandum as soon as we possibly can.

Liz Smith: That would be very helpful.

I want to pursue a related issue. I do not know how many framework bills we have in the Parliament just now, but there are a lot. My understanding is that, from a Scottish Government perspective, one of the reasons for framework bills is to try to ensure that there is as much discussion as possible between the Government and relevant stakeholders to co-design—I think that that is the term that the Scottish Government uses. In other words, we have a better chance of getting good legislation if the stakeholders have had really good input into it. That is my understanding, and I think that that is the committee's understanding. The problem is that the co-design process goes on beyond the publication of the financial memorandum, as you have just shown us, and beyond the initial stages of the legislation. Do you accept that that is also a problem, as it means that, if the process of suggestions coming in about the bill is still on-going, we will be unable to decide what the costs will be?

Graham Thomson: I accept the premise of what you are saying. It is clearly in the interests of Parliament to have all the relevant information in front of it. That is why a financial memorandum is presented along with the bill's provisions. I accept that, in this case, we now have information that allows us to update the financial memorandum. The earlier we can do that to help to support parliamentarians in their work, the better.

Liz Smith: From a practical angle, I understand that the Criminal Justice Committee is taking stage 1 evidence on the bill just now. Is that correct?

Graham Thomson: It plans to start its stage 1 evidence sessions after the Easter recess.

Liz Smith: Do you know how long the stage 1 process will be?

Graham Thomson: We understand that that committee is planning sessions that will run up until the end of May. However, we do not know for certain at the moment whether that will allow stage 1 to be fully completed by the summer recess or whether it will extend to after the summer recess.

Liz Smith: It would be very helpful if we could get details on when we might expect the revised financial memorandum, convener.

The Convener: Indeed.

Liz Smith: Thank you very much.

Michelle Thomson (Falkirk East) (SNP): Good morning to the witnesses, and thank you for attending the meeting.

I want to pick up on that last point and reiterate what my colleague Liz Smith and the convener have said. It is absolutely necessary that we have an updated financial memorandum before the conclusion of stage 1, and certainly before the production of any report. That is because the satisfaction of the Finance and Public Administration Committee critically depends on the numbers being within certain ranges and as accurate as they can be. I add my voice to that. That is very important.

As well as the finance side, we have responsibility for public administration. I must admit that I am quite surprised at how we have ended up where we are in respect of organisational culture. My colleague Liz Smith set the backdrop. We have seen an increasing number of framework bills. Such bills carry significant risks to the public purse in that a lot of the costs are put in past the stage at which the numbers bods—that is, us—are able to look at them in detail. From a public purse point of view, they represent a significant risk of a waste of money. What conversations are going on in your area about the risks against the backdrop of chronic shortages in public sector funding? What are the risks that are actively being considered of using framework bills?

Steven Bunch: There are lots of elements in the bill. It is not just an enabling or framework bill. There are the code of ethics, the duty of candour and section 4. There are a lot of elements on the face of the bill.

Michelle Thomson: My specific point is that, as a direct consequence of the co-design process, there is a risk of overspending, of inefficiency in spending and of sunk costs. That is against a backdrop of significant public sector cuts. Understanding that, and any understanding of how money operates in such programmes, goes against the use of framework bills, because those bills bring significant risks. Within your hierarchy and your understanding of what is going on in the Scottish Government, what active discussions have you had about the risk that adopting that approach might lead to inefficient spending?

Graham Thomson: It is safe to say that value for money and the impact on the public purse are threads that go right through what we are doing in policy making at the moment.

Having said that, and unless Steve Bunch tells me otherwise, we have not had any personal discussions about the impact of framework, as opposed to detailed, legislation. Working with our legal colleagues, we felt that having a framework bill was the best way to implement the intention of the legislation, but we did not consider the impact of framework legislation in general when bringing forward this bill. I may be able to provide the committee with an answer in writing in due course.

Michelle Thomson: It is not part of the standard process, but it sounds to me as if you are saying that quite a number of departments inside the Scottish Government have not got the message about the chronic shortage of public funds. It sounds as if people might get round to thinking about that at some point. In all honesty, if that were me, I would be developing a detailed assessment of the financial risk of using a framework bill for this sort of legislation and would be disclosing all of that.

You may be picking up from the committee that this all plays into confidence. If, in your preparations for today's meeting, you and others in your directorate looked back at the committee's deliberations on a number of bills, you would quickly and easily have gleaned that we have concerns about framework bills, which would have prepared you adequately for that question. It is a significant concern.

A lot of points about the FM itself have already been picked up. After I heard your opening comment, I realised that all the questions that I had were, in effect, moot.

Can you explore a bit more how on earth we got here? I notice and acknowledge that you have clearly had conversations with Police Scotland, the Scottish Police Federation and so on. I am interested in understanding the nature of those conversations, given that they suddenly had no meaning when we got to giving evidence. What happened and why are we where we are?

Steven Bunch: As I said, we have been working closely with Police Scotland. Police Scotland was able to understand the full impact of the legislation when the bill was introduced in June last year. One of the higher costs is the training cost for the code of ethics and duty of candour, which we were told would be absorbed within the general training of officers.

Michelle Thomson: Does that mean that the police thought that it could be absorbed based on conversations that had taken place by that point? Why did the available information lead them to that decision? Logically, that can only be because a lack in the information that was given to them led to a lack of understanding and because, as they gained more understanding, they were able to update their figures. That goes back to the point that my colleague Liz Smith is making, which is that people are making up numbers without having any clue about what the legislation actually intends.

Steven Bunch: At the heart of that matter, there is a statutory duty on the chief constable to ensure that all officers have done the training, and that is where a training package will have to be developed.

Michelle Thomson: So that statutory responsibility was not known about prior to that. The fact that there was a statutory responsibility that brought associated costs was not known at the point of the original conversations. Is that what you are saying?

10:00

Steven Bunch: We were able to explain the policy and say what we were including in the bill, but that key point was unknown to Police Scotland at the time.

Graham Thomson: Police Scotland set out in its response to your committee that it did not know that that was the case until it saw the exact wording of the bill. We cannot say exactly how the bill will be worded before it comes to Parliament, but we can have proper conversations with Police Scotland and anyone else about the policy intention.

I also said that Police Scotland is adopting a different approach when it comes to assessment of training and IT costs across the board and their impact on the organisation. Between the time that it provided information to us and when it provided information in response to the call for evidence, it has put in place more robust processes. Partly as a result of the pressures that it is facing as a result of the constraints on public finances, Police Scotland feels that it needs to be better at explaining and setting out exactly the impacts on the organisation, to ensure that that informs the asks that it makes of the Scottish Government when it comes to budget discussions.

Michelle Thomson: My last wee comment, which I suspect is probably moot, is about ranges. I will look at a range and the scale of the range will add to my confidence. In other words, if a range is significant, that makes me less confident. A range is entirely acceptable because we realise that we are talking about estimates rather than final figures. I noticed that the estimated upper cost of the bill's provisions was 2.7 times more than the lower figure. Do you anticipate, or is it your intention that the ranges will be more acceptable in the updated financial memorandum that will come back before the end of stage 1?

Graham Thomson: At this point, before we finalise the wording, it is almost as if the range is one of the end points of where we get to. I cannot commit one way or the other, but I take your point. We will try to minimise the range as much as we possibly can.

Ross Greer (West Scotland) (Green): I have a couple of quick questions. First, on process, you mentioned your understanding of protocol. The protocol for the initial publication and lodging of an FM is quite clear, but Liz Smith was right in the language that she used about the convention that has built up around that. My understanding is that, when it comes to the revision of FMs, we generally rely more on convention. Are you aware of or were you provided with an internal Scottish Government protocol on how to revise an FM and what Parliament would require from that, including timescales?

Steven Bunch: There is a bill handbook that sets out the process. Often, a financial memorandum will be revised after stage 2 if there are any amendments, so we assumed that that would be the point at which we would be able to revise the financial memorandum. However, we can look at the bill handbook and see whether there is guidance there. I am sure that there will be guidance on how to revise the financial memorandum or to update it in line with the guidance that is already there for the initial financial memorandum.

Graham Thomson: To back that up, we will certainly take back the information and evidence that the committee has provided to us today and look to feed that back to those who are responsible for the overall bill handbook and see whether it can be updated accordingly. It is a living document, so it gets updated regularly.

Ross Greer: That would be useful and it would probably be worth while for the committee to engage directly with ministers on the handbook. My understanding is that the handbook is not specific enough in these circumstances and there is a clear need for revision.

I sympathise with you in that, ultimately, you are significantly dependent on the information that is provided by Police Scotland. It is unavoidable, because it is not like there are third-party sources for the kind of information that you need. Am I correct in my understanding of what you said, which is that the first time that you were aware of Police Scotland’s changed position was when the evidence that was submitted to us was published, because Police Scotland did not proactively contact you? When Police Scotland received our call for evidence, I presume that staff realised that what they were going to submit was significantly different from what they originally provided to you. Did they proactively contact you to let you know, or did you find out when our evidence was published?

Graham Thomson: We engage on a really regular basis with Police Scotland’s professional standards department, which is the department that is most affected by the provisions in the bill. It is the lead department in Police Scotland for that.

It is safe to say that, as a result of the changes in Police Scotland, it is looking at the impacts of bill provisions across the organisation much more holistically. We did not hold the previous direct conversations with Police Scotland until it had managed to do that across the organisation and come up with the totality of what it presented in response to the call for evidence. I will let Steve Bunch come in on the specifics of the conversations that we had.

Steven Bunch: Police Scotland had intimated that the costs would likely be higher when the evidence was published but, until it was published, that was not really the official position that had been agreed. We realised the difference only when the evidence was published.

Ross Greer: I realise that this will sound as though I am repeating the question. Police Scotland did not provide that revision to you directly. The first time that you saw it written down as a new set of figures was when we published the evidence that was provided to us.

Steven Bunch: Yes, that is correct.

Ross Greer: Convener, I think that we need to take that up with Police Scotland, because I cannot understand why it would not provide that information. There are issues here with the Government process, but I am a bit disturbed that the police would know that they were making a significant revision yet not provide that information to the Government.

The Convener: We will obviously deliberate in private session on where we go from here as a committee. If that is your questioning finished, I will move to John Mason, who will be followed by Michael Marra.

John Mason (Glasgow Shettleston) (SNP): I slightly disagree with the convener, because I agree with the idea of materiality and rounding things to £10,000 or so. That is much more realistic, and it is quite normal in accounting practice.

The Convener: It is about consistency across financial memorandums.

John Mason: It is a good example and others should follow it. The idea of having very precise figures—going down to £134 or £474—is just unrealistic, frankly. Some of the figures are clearly rounded—the SPA potential costs of £259,000, for example. The committee might disagree with me, but I think that that is the right way to do it. When it comes to a figure with £134 at the end, I would just drop the £134, because there is no way that anyone can be that accurate when they are making such forecasts. That is just my comment by way of support.

In paragraph 30 on page 9, for different organisations, you compare £10,000 materiality as a percentage of their annual budgets, which comes in at 0.001 per cent and suchlike. Would it be better to show the materiality as a percentage of the actual costs of the bill, which would be something like 2 per cent in some cases? Would that be more helpful?

Steven Bunch: That is an interesting way of looking at it. We were looking to capture the costs as a percentage of the overall budget to show that it seemed to be quite absorbable and not material to the consideration of the bill.

John Mason: Yes. Given that we are looking at the bill, I suppose that, for me, what makes a figure material is how it compares with what is in the bill rather than with the whole budget. I just throw that in as a point of consideration, because the percentages that are shown in paragraph 30 are tiny. They would still be small enough if they were compared with the bill. I throw that in by way of comment.

The convener touched on the cumulative effect of having a number of issues that are under £10,000 that, together, would come to more than £10,000. Would it be possible to have a line in paragraph 33, where you show the different costs, for “sundry” or “miscellaneous”, or are you not comfortable having a figure for that?

Steven Bunch: If you look at table 3 on page 12 of the financial memorandum, that is where we start to set out what we think are the immaterial costs, including those that might transfer to another body or that will be absorbed.

John Mason: One of which, at least, is an immaterial saving, is that right? It sets off some of the others.

Steven Bunch: Yes, that is right.

John Mason: I have a couple of questions on some of the assumptions and details. I do not quite understand the point that, if somebody has retired or has otherwise left the service, the costs might be higher in their case than the costs for somebody who is still in the police service. Will you explain what happens there?

Steven Bunch: Right now, if there are allegations of gross misconduct and an officer resigns or retires—I am talking about gross misconduct, not where there is any criminality—the hearing would stop. Therefore, there would not be an outcome. In the bill, we are looking to ensure that an outcome is achieved, so that either it is not gross misconduct or it is gross misconduct. If it is gross misconduct, the person would be put on the barred list. Until that outcome has been reached, the person would be on the advisory list.

John Mason: How do the costs vary because of that? Would the cost for Police Scotland or for the individual officer be different and would the costs be handled differently, depending on whether the person is in the service or has left?

Steven Bunch: The costs include the investigatory costs. If an officer resigns, the investigatory costs and the costs of the hearing would stop, whereas if the hearing was to continue, the police might need to still investigate, and they would incur the costs of the hearing as well. Those two costs would be part of the costs for former officers.

John Mason: I am not sure that I understand or that I am explaining myself very well. In Police Scotland's evidence, it says:

> "The legal costs involved in defending such challenges vary but will always be significant. An example of the level of costs that can be incurred was provided",

and it goes on. Police Scotland seems to suggest that the costs would be different. If an officer had left, they might want their own legal representation, whereas they would not if they were still in the police.

Graham Thomson: I think that what is being referred to are the legal costs associated with that. At the moment, if someone resigns or retires, no further action can be taken. We are looking to ensure that further action can be taken or considered. At the moment, there are no legal costs arising from that. Police Scotland, rightly, points out—as did the SPF in its evidence—that someone will have to now meet those legal costs, which are a direct result of the introduction of the legislation, and we accept that.

John Mason: So does the SPF cover the costs for existing officers but not the costs for officers who have left?

Graham Thomson: Yes.

John Mason: Is there a difference in the costs involved for higher ranks and for lower ranks?

Graham Thomson: We have put into the financial memorandum, based on the information that was provided, an overall cost—both legal costs and an average cost, irrespective of rank. It is safe to say that a wide range of legal costs could be incurred as a result, ranging from zero up to £170,000. We have to go for an average, otherwise we would end up in a situation where we are providing a very wide range of costs. I take on board Michelle Thomson's point that we want to try to minimise doing that.

Steven Bunch: I also point out that the bill does not say that the officers need to have that legal representation; it is just in case they want to have legal representation, which they might want in a gross misconduct case.

John Mason: Right. The SPF makes the point that

> "it seems grossly unfair that those in higher ranks who are also higher earners are having their financial costs paid ... yet the federated ranking officers are having to pay for their defence either personally or through their professional subscriptions."

Is there an inconsistency there?

10:15

Graham Thomson: At present, the SPF usually picks up the tab for all, as a result of their membership—

John Mason: At any level?

Graham Thomson: No—for the federated ranks. There are other representative organisations for senior officers—assistant chief constable and above—such as the Association of Scottish Police Superintendents and the Scottish Chief Police Officers Staff Association. As a result, the legal costs for those ranks are sometimes picked up by Police Scotland. That is because the membership of the SPF is 97 per cent of the ranks, so it generates more in funds to allow for spending on legal costs, whereas that is not possible at the more senior levels.

John Mason: That is interesting.

Finally, paragraph 107 of the financial memorandum, on page 23, talks about the PIRC making

"recommendations to the Chief Constable".

That is under the heading "Unknown indirect costs", so there is a lot of uncertainty in that respect. It would depend on what those costs were. The memorandum goes on to state:

"If there is a cost in implementing the recommendation then this indirect cost cannot be quantified."

Can you give any examples of that? What might the PIRC recommend? Is it just that the variations are so wide that you cannot put a figure on it?

Steven Bunch: Yes. The bill aims to strengthen scrutiny of the police by enhancing the PIRC's role. When the PIRC makes recommendations to the chief constable, in order to ensure that we are not interfering with the chief constable's operational independence, they will have to respond. They might respond by saying that a particular recommendation is something that, due to resourcing or an operation, they would not want to implement. Nonetheless, the PIRC will make those recommendations, they will be in the public domain and the chief constable will have to respond.

We are not able to foresee what the PIRC would see in its review of Police Scotland's activities, and therefore what it would recommend.

John Mason: I do not know what kind of thing the PIRC would recommend, but let us say that it was some piece of equipment such as a camera or new cars—whatever it might be. Is it just totally unpredictable as to what the PIRC might recommend?

Steven Bunch: Yes. It could be a new piece of equipment or a new training regime, or something else. It is pretty unknown. The chief constable would then take that on board, in the context of thinking about resources at the time.

John Mason: Right. So, even in a revised financial memorandum, that aspect would stay the same—it would still be unpredictable.

Steven Bunch: Yes, it would still be unpredictable.

Michael Marra (North East Scotland) (Lab): Do you accept the costs as presented in the evidence from Police Scotland?

Graham Thomson: As I set out in my opening statement, for two of the three key elements, we accept the costs. Those are the additional staff costs that are associated with the anticipated increase for gross misconduct cases, and the legal costs for former officers. We are still in active negotiations with Police Scotland in relation to the training costs that are associated with the introduction of the code of ethics and a duty of candour.

Michael Marra: Is there anything else in the evidence that we have received that you will take on board when you are trying to revise the financial memorandum?

Graham Thomson: We will take account of the inflation costs and the reference to the pay increases. In essence, that feeds into the staff costs that I outlined earlier. We recognise that there have been pay increases since the original figures were provided.

Michael Marra: As has been referred to, the committee has had a lot of back and forth with the Government on financial memorandums of late. I am looking for clarity from you. Do you accept that this financial memorandum is not fit for purpose as it stands?

Graham Thomson: I accept that it is in need of revision and that the information that is contained in it is not up to date. We accept the vast majority of what is in the evidence that has been provided by Police Scotland and others.

Michael Marra: The evidence indicates that the costs will be up to three and a half times higher than those that you have presented so far. As my colleagues have set out, it is important that we do not move to stage 1 consideration given that it is so vastly out of kilter and does not have the right evidence base. Do you accept all of that?

Graham Thomson: I accept that it is of benefit to Parliament overall to make sure that we update the financial memorandum as soon as possible, in line with what I said earlier.

Michael Marra: Knowing that you were going to come here today and tell us that, did you consider writing to the committee and saying that the information in the financial memorandum is wrong and that you would revise it and come back at a later date?

Graham Thomson: We did not, because we did not understand that that is what you would be looking for. As we have said, irrespective of whether the financial memorandum is correct or not, our understanding was that we should come back with a revised financial memo after stage 2. That is clearly not the case, based on what we have heard today, so I accept that we need to do something different.

Michael Marra: We have heard a little bit about the handbook. This is not a direct criticism of your work in the area, but you will have got the strong message that this is the fourth time that the committee has been in a similar position. Who does the training on the preparation of financial memorandums in the Scottish Government?

Graham Thomson: It is, erm—

Steven Bunch: The parliamentary liaison unit.

Graham Thomson: Sorry—I could not remember the full name; I could only remember the acronym. The parliamentary liaison unit in the Scottish Government is responsible for providing on-going training, and it holds regular sessions with members of bill teams on a wide variety of things related to the introduction of bills, including a specific one on financial memoranda.

Michael Marra: So you are not given any standard ways of presenting financial memorandums. As colleagues have picked up, we are looking at wildly different ways of presenting what should be the same thing. The convener has pointed out that we cannot be in the position of comparing apples and pears. We have a little disagreement between Mr Mason and the convener about how the figures are presented and whether they are material or immaterial, but is there no standardised process that you are presented with to say how you should present the figures?

Steven Bunch: There is a standardised process. We thought that it would be helpful to introduce the concept of materiality but, obviously, it is for the committee to decide whether that is helpful.

Michael Marra: So you did not adhere to the standardised process.

Steven Bunch: We very much did, in the rest of the financial memorandum, but we introduced that aspect of materiality, which is not something that I have seen before.

Graham Thomson: To back that up, I recognise that, in our attempt to provide something that we thought would be helpful, we have not succeeded. I certainly take your point about consistency, if that is the most important thing for the committee and for Parliament in general. I take on board the point about adhering strictly to the template form and the advice in the handbook.

Michael Marra: Consistency is important and certainly useful, but accuracy is clearly the most important thing, and we do not have that in this process.

Colleagues have addressed the issue of the number of framework bills that we are receiving. Who in the process is saying to bill teams and other civil servants that we should be producing framework bills?

Graham Thomson: That is decided on a case-by-case basis. It is not a policy intention or an intention by ministers or officials to introduce framework bills. We take into account the individual circumstances of what we want to achieve. In this case, we made decisions in consultation with our legal colleagues in the Scottish Government legal directorate and the parliamentary counsel office to develop what we were trying to do.

Michael Marra: There has been a very marked increase in the number of framework bills that the Parliament is considering, including major pieces of legislation such as the National Care Service (Scotland) Bill and the bill before us now, the Police (Ethics, Conduct and Scrutiny) (Scotland) Bill. We are seeing them all the time now. I am a relatively new member of the Parliament, having been elected in 2021, but my understanding is that, in years past, such bills were incredibly rare, if not completely unheard of, yet we are now seeing them at the committee almost every month. Is it a fashion that is running through the civil service?

Graham Thomson: We can take away the point that you are making as officials, but there is potentially a question there for ministers, too. From our point of view as officials, there is no deliberate intention to do that, certainly not within the constructs of the Police (Ethics, Conduct and Scrutiny) (Scotland) Bill, and I have certainly not heard anything about whether we should use more or fewer framework bills.

Michael Marra: So, there has been no reflection, in your discussions in the civil service, as to the clear problems that such bills are presenting, including the financial accounting, which we are presented as a committee, or as to the general ability of the public and the Parliament to scrutinise the legislation effectively. Has that not been reflected on in the civil service?

Graham Thomson: It may well have been reflected on in the civil service, but we are not party to those discussions, and I can only go from my personal experience.

Michael Marra: From the bill side—okay.

Jamie Halcro Johnston (Highlands and Islands) (Con): I will not repeat all the points that have been made regarding framework bills, but I certainly support colleagues on those.

I want to ask about the timelines. You suggested that Police Scotland was not aware of the full financial implications of the bill until the bill was presented. You suggested that, despite working closely with Police Scotland, its official position did not change until the evidence was presented to us, as far as you can see. In that interim period—since June last year, when the bill was introduced—what concerns has Police Scotland raised with you about the costs, and what figures did it put on any potential increase to costs?

Steven Bunch: Police Scotland has had to assess the bill and work out what the costs are. When we were engaging with it, Police Scotland said that it thought the costs would probably be higher than what it had told us prior to the bill's introduction.

Jamie Halcro Johnston: When did it say that?

Steven Bunch: That was raised when we met at the Scottish police consultative forum.

Jamie Halcro Johnston: When was that? I am trying to get an idea of the timeline and of how long it has taken to get to this position.

Steven Bunch: September 2023.

Jamie Halcro Johnston: So, in September 2023, Police Scotland raised concerns over the costs. Did it give you a figure at that point, or did you go back to Police Scotland and ask it to revise the costs and provide you with updated parameters, in effect?

Steven Bunch: No. We did not know the figure until it was published as evidence to the committee.

Jamie Halcro Johnston: Did you ask Police Scotland for updated costs?

Steven Bunch: We were discussing that, but I do not think that it was able to say precisely, and I do not know whether it would know the figure until it was agreed as an official stance.

Graham Thomson: I want to specify something, going back to my previous point that we are interacting directly with the professional standards department. Since the introduction of the financial memorandum, from the discussions at the Scottish police consultative forum through to what it has provided to the committee in response to the call for evidence, Police Scotland has developed a corporate position, which needs to be signed off by its executive team as an official position. It is my understanding that it has taken Police Scotland time to arrive at that corporate position, where it can set out the overall impact on the organisation.

10:30

Jamie Halcro Johnston: While that has been happening, you have been progressing with your work on the bill. What concerns does that raise with you? Were you aware that Police Scotland would present new costs?

Steven Bunch: We were aware that it would give evidence to the committee.

Jamie Halcro Johnston: Did you have no idea at any point that the £5 million potential cost would be presented? Did that come as a complete surprise to you?

Graham Thomson: The exact figures were a surprise to us. We had anticipated that some increase would be presented, but we did not know the exact figures.

Jamie Halcro Johnston: It just seems odd to me that you were aware that costs were being revised; you did not know what those costs would be; ultimately, they came in at three and a bit times what they had been; but at no point do you seem to have been concerned about how that might impact on the progress of the bill or on the committee's ability to scrutinise it.

The costs will go up hugely, for a key player. Do you think that you have done enough in relation to keeping in touch with, liaising with or requesting that information from Police Scotland?

Steven Bunch: At that point in time—when the bill was introduced—the information was the best that we could get from Police Scotland. Police Scotland has now revised that information and we will use that better information, which was given to the committee, to revise the financial memorandum.

Jamie Halcro Johnston: As I said, you were not aware of it. Will that change how you may look at such things in the future?

Graham Thomson: It is safe to say that that is in our collective interest, and we are working with Police Scotland across a full range of the legislation that it has an interest in to consider the impacts on it as an organisation.

Police Scotland accepts that it needs to do better as an organisation in assessing financial impact and engaging with the parliamentary process in doing so. That includes working with bill teams such as ours in advance of the introduction of a bill, and before stage 1 consideration.

I have to accept the feedback that you have all provided today and I recognise that we have not fully understood the exact process and the benefit of producing information in suitable enough time to allow you to give proper consideration to that.

Jamie Halcro Johnston: I will ask a quick question. When was a decision made to update the FM?

Graham Thomson: It was made once we had received that response to the call for evidence and in preparation for today.

Jamie Halcro Johnston: Will you remind me when that was?

Graham Thomson: It was within the past few weeks.

Jamie Halcro Johnston: Okay, so it is a relatively new decision. You have the figures for the updated costs from Police Scotland. You say that you are discussing those with Police Scotland. Is there concern that the figures that it has presented as evidence could increase even more?

Steven Bunch: Now that Police Scotland is able to see the exact wording of the bill, those figures should be more accurate.

Graham Thomson: I do not anticipate their increasing based on what is in the bill at the moment. Obviously, that is subject to the parliamentary process and the bill could be amended, but—based on what is in the bill at the moment, what Police Scotland has produced for the committee, and the conversations that we had with it just last week—we do not anticipate things changing from Police Scotland's perspective.

I am trying to think of anything that might increase, such as pay. Should another pay deal be agreed and negotiated with the police, that would have an impact. However, that is not imminent.

Jamie Halcro Johnston: Thank you.

The Convener: Michelle Thomson has a brief supplementary question.

Michelle Thomson: I want to pick up on the point about the training that you get from the parliamentary liaison unit. How long does that training last?

Graham Thomson: Off the top of my head, there are eight separate sessions, I think, of an hour each, once a year, for bill teams to come together. In reality, while we have been preparing for the bill, we have had the ability to attend two of those sessions.

Michelle Thomson: To be clear, how many of the bill team who have had an input into the FM have attended the entirety of that training?

Steven Bunch: The bill team would have attended the entirety of the training.

Michelle Thomson: Does any other project management training take place or is it just all in-house, as you have articulated?

Graham Thomson: For Scottish Government officials?

Michelle Thomson: Yes.

Graham Thomson: For bill management and supporting bill processes, the training programme is the one that is supported by the parliamentary liaison unit.

Michelle Thomson: How many FMs have you both, and, indeed, the wider bill team, developed? What is the typical experience? Is it part and parcel of what you do, or is this your first encounter?

Graham Thomson: I have contributed to two or three financial memorandums before now, but this is Steve's first one.

Michelle Thomson: How many FMs have you undertaken for framework bills?

Graham Thomson: I do not think that I have been involved in what I would classify as a framework bill—anything can be a framework bill, depending on how you define it.

Michelle Thomson: Is the effectiveness of the FM—the question of how much an FM hits the mark—included in your annual review? I mean for bill teams generally, not you specifically.

Steven Bunch: We will be reflecting on that point in relation to future financial memorandums, to ensure that the committee is presented with the best information.

Graham Thomson: It is absolutely fair to say that we will take what you have told us today back to our colleagues in the wider Scottish Government and work on how we could do better.

The Convener: Thank you very much. That has concluded questions from the committee, but I have one or two more.

You seem to have more or less accepted Police Scotland's figures now that it has provided them. What level of interrogation of those figures has the bill team undertaken?

Graham Thomson: Without going back over what I have already said, we are interrogating training costs, because there is a need to establish stand-alone individual training packages and there are different needs for probationers who come into the police service. Probationers get a better amount of training at the moment than the officers and staff who have been in the organisation for longer, so we need to drill down into that issue and work with Police Scotland to understand it.

The difference in staff costs, in some ways, is prima facie. It is reflective of the fact that there are increased costs around staffing, which is quite a significant part of Police Scotland's overall budget.

Steven Bunch: We did some sense-checking of the information that we had received by speaking to the Home Office and the London mayor's office for policing and crime, which is responsible for the Met.

There are also plans for introducing secondary legislation that could reduce costs through things such as accelerated hearings when the evidence is incontrovertible. We are looking at that issue in the round with regard to the bill and secondary legislation.

The Convener: I have to say, though, that I am frankly astonished that it seems that it was only when the committee's call for evidence went out that you realised that there was a need to review the figures, and yet we still ended up with figures from September 2022.

We talked about the process document—the bill handbook—being a living document. However, surely, a financial memorandum should be a living document up until it is presented to the committee in an updated form. If you know that the figures are inaccurate, the fact that you come here with something that bears no resemblance to the actual figures shows a real misunderstanding of the role of the committee, the processes of the Parliament and, indeed, the timescale in which scrutiny has to take place. Do you accept that?

Graham Thomson: Based on what you and other members of the committee have told us today, I accept that we had personally misunderstood the role and timing of producing a revised financial memo. We will take on board what you have said, and we will do as much as we can to get the revised FM back into Parliament as quickly as possible.

The Convener: Ultimately, this is taxpayers' money, so there is a duty to ensure that the figures are accurate. We do not want a situation in which a bill goes through and the figures are, for example, chronically underestimated—as appears to have happened in this case—and then that money has to come out of front-line policing services, for example. That is what we could be talking about if the issue is not looked at, which is why we are taking it so seriously. It is important that we get this right.

Speaking on behalf of the whole committee, we look forward to getting a revised financial memorandum prior to the completion of stage 1 evidence, for us to be able to scrutinise it in order to inform the lead committee.

I thank you, gentlemen, for your evidence this morning and look forward to seeing you again before too long.

We will take a five-minute break to allow for a change of witnesses.

10:41

Meeting suspended.

10:47

On resuming—

Scottish Fiscal Commission (Report on Climate Change and Fiscal Sustainability)

The Convener: The next item on our agenda is an evidence session with the Scottish Fiscal Commission to discuss the commission's report "Fiscal Sustainability Perspectives: Climate Change", which was published on 14 March 2024.

We are joined by Professor Graeme Roy, chair, Professor David Ulph, commissioner, John Ireland, chief executive, and Claire Murdoch, head of fiscal sustainability and public funding, all from the Scottish Fiscal Commission. I welcome them all to the meeting and invite Professor Roy to make a brief opening statement.

Professor Graeme Roy (Scottish Fiscal Commission): Unmitigated climate change would be disastrous for society, the economy and the public finances. For that reason, and in line with the Paris agreement, both the Scottish and United Kingdom Governments are committed to limiting future global warming by reducing greenhouse gas emissions. Although those actions are necessary, they impose costs on the public sector.

Our report explores how the Scottish Government's finances could be affected by aspects of climate change. There are three ways in which public finances will be affected. The first is that there will be spending to repair damage caused by climate change because of storms, floods or droughts; the second is the need to invest in adaptations to reduce damage from climate change; and the third is the cost of actions taken to reach net zero and to limit further global warming.

Regarding the second of those—adaptation—the Climate Change Committee has estimated the economy-wide investment required across the UK as £10 billion per year between 2020 and 2030. The scale of the potential investment required is large and uncertain, and it is also unclear whether Scotland will need proportionately more or less investment than the rest of the UK and what the public sector's contribution will be. Even with investment and adaptation, there will still be a need for spending in response to the first channel of potential costs, the damage caused by climate change. There is even less information about costs in that area. It is therefore unsurprising that it is not clear how costs in Scotland will compare with those in the rest of the UK.

More is known about the third aspect—the investment that is needed to achieve net zero—and we focus on the likely implications of that in our report. We use estimates from the Climate Change Committee on the nature and scale of the likely investment required in Scotland to reach net zero. We make assumptions about the extent of devolution and the share of public sector investment in each sector to produce illustrative estimates of the investment that will be required by the Scottish Government to reach net zero.

On that basis, we estimate that the Scottish Government needs to spend an additional £1.1 billion annually between 2020 and 2050. To give an idea of the scale of that investment, that is 18 per cent of the 2024-25 capital budget. That number requires careful interpretation. First, it is a projection that is based on assumptions that we set out in the report, which I am sure we will discuss today. It is designed to provide an indication of the likely scale of investment that is required. Secondly, the projection covers only mitigation. It does not cover spending on adaptation and damage from climate change, which we hope to cover in the future as more information becomes available.

By providing illustrative estimates of mitigation investment, we hope to better understand the sources and scale of potential risks to the Scottish budget. For example, given the way in which the fiscal framework works, a significant element of Scottish Government funding depends on UK Government policy decisions and the operation of the Barnett formula. Any differences between UK Government and Scottish Government approaches to net zero could present a fiscal risk to the Scottish Government. Those differences could relate to timing, the extent to which Governments bear the costs themselves or the extent to which they use regulation, tax or other incentives to encourage private sector investment.

One good illustration of that, which we cover in the report, concerns forestry and land use, which is largely a devolved area of responsibility. Scotland accounts for 32 per cent of the UK land mass, roughly half of UK trees and 70 per cent of UK peatlands. The Climate Change Committee assumes that meeting the Scottish and UK Government targets for net zero requires significantly more investment in forestry and land use to take place in Scotland than in the rest of the UK, which means that the fiscal burden of reaching the UK's net fiscal target may fall disproportionately on the Scottish Government.

Finally, our report recommends improvements in the data and information that are required from both Governments. I hope that that information will help to make a fuller assessment of the fiscal risks that the Scottish Government faces in due course.

The Convener: Thank you for that and for the interesting and sobering report. I should say that I am not particularly thrilled by the introduction of acronyms such as LULUCF, which means land use, land use change and forestry, although it is clearly important. As you have just pointed out, there is a disproportionate cost to Scotland compared to the cost to the rest of the UK. In paragraph 21 of the report, you point out that the cost in Scotland per person per year of the investment in mitigation is £207, whereas in the rest of the UK it is £149, which is a £58 difference. However, you point out that £54 of that £58 is simply because of land use, land use change and forestry.

Given that that is a huge additional burden to fall on Scotland over many years, should consideration be given to the devolved settlement through the block grant to take that into account?

Professor Roy: Obviously, it is not for me to comment on the fiscal framework and the specifics of that—

The Convener: Ah—I thought that I would catch you out there.

Professor Roy: The general point that we make, however, is really important. In the fiscal framework, the devolution and budget arrangements were not set considering issues around climate change. When you start to look at issues such as climate change and how they translate into the budget process, you reveal some interesting dynamics. I certainly learned a lot when we were pulling the report together. You see the potential areas where there could be variations in the risk, given the nature of the fiscal framework.

You are right that one of those is—

The Convener: LULUCF.

Professor Roy: Yes, or "Lulu CF", as I call it.

This is a basic thing, but the geography in Scotland is different from that in the rest of the UK. Therefore, the opportunity and investment that can come from tackling climate change through forestry and the restoration of peatlands will be more focused on Scotland, but it is a devolved responsibility, so there is a higher share of the burden.

There are other areas where differences in timing between the two Governments in terms of relative prioritisation will have implications for the amount of money flowing through the Barnett formula, and there might well be differences in policy responses, too. For example, if one Government were to choose to rely more on the private sector than on the public sector to do some of the heavy lifting, that would have implications. For me, the key takeaway from the report is that, once we overlay the fiscal framework on, say, climate change, you start to see some really interesting dynamics that are leading to fiscal risks for the Scottish budget.

The Convener: I will touch on your report in a wee minute, but what you have said is, in effect, that, because Scotland has 70 per cent of the UK's peatlands, it might be more difficult for Scotland to afford the sort of peatland restoration that is absolutely critical to tackling climate change, because that work would account for a higher proportion of our budget than it would of the UK's. In that case, does that aspect of the fiscal framework—that is, the aspect relating to climate change—have to be looked at again, or should it just be overlaid by the existing fiscal framework? What is your view on that?

Professor Roy: The broad conclusion that we make at the end of all of this—again, it is one of the quite interesting things that we have learned from pulling together this sort of report—is that we need to fully understand the interdependencies between the Scottish Government and the UK Government. The UK Government needs Scotland to achieve its net zero objectives—or, indeed, overachieve on them—for the UK to hit its own target. However, not only does the UK rely on Scotland to meet its objective, but Scotland relies on the UK to meet its objective, too, because a lot of the responsibilities fall within reserved areas, and the funding for that is crucial.

Without getting into any specifics of any aspects that need to be renegotiated, I would say that my broad conclusion is that, if you look at this objectively, you will see that, purely from a public finance point of view, what is really important is that both Governments work together and look at the solutions that are needed to get to net zero in both Scotland and the UK.

Professor David Ulph (Scottish Fiscal Commission): That is why, in the report, we stress that meeting the climate change targets is a shared endeavour between the two Governments. We mean that in two senses. First, we need to work out how, precisely, reducing emissions in Scotland and the rest of the UK will be a shared endeavour. Secondly, any funding implications need to be worked out as a shared endeavour, too, with the two Governments talking to one another about the issues that Graeme Roy was referring to—that is, the timing of actions that take place, the balance between the use of the public and private sectors, and the balance between devolved and reserved areas. All of those are areas for discussion between the two Governments, and they need to manage things as a shared endeavour by talking to one another.

The Convener: That thread of shared endeavour runs right through the entire report. One example is the issue of flooding. The recent flooding in Angus cost the Scottish Government £15 million through the Bellwin scheme, whereas the flooding that the UK Government dealt with south of the border cost £10 million, and, as a result, there was only a £1 million consequential. Therefore, there could be disproportion. Of course, that could work the other way, as you have pointed out in the report. There could be an incident affecting only some parts of the UK, and Scotland would get a Barnett consequential even though it was not impacted. There needs to be a bit more flexibility in that respect.

Prior to the update of the fiscal framework, we had the concept of a Scottish economic shock. Obviously, that has now been removed, but should there be something along the lines of, say, a climate shock? Instead of our having to deal with the sort of example that I have just given, with approaches to flooding being enacted in such a way, could we have something more climate focused?

Professor Roy: That is a really interesting reflection. In many ways, the example of flooding and its potential impact, which you have highlighted, brings us back to very similar discussions that the committee would have had around the Covid pandemic, with all the nervousness and concern over the amount of funding that was flowing into Scotland being dependent on decisions taken in the rest of the UK. There were concerns—for example, about additional spending on healthcare or business support to support a further lockdown—that Scotland had to wait to see what would happen before the money would flow in.

11:00

In many ways, it is similar to the situation whereby we might have asymmetric shocks across different parts of the UK but the funding mechanism does not allow for those. One could think of ways in which people could respond to that. As I said, a shock might happen in England for which Scotland would get Barnett consequentials, or it might be one that happens in Scotland, where there are no such consequentials. The ways to manage shocks include thinking about borrowing and savings, so that you can build up funds to respond to them. If the potential risks are going to increase and become more significant, as the scientists say they will, they will become more material over time. That is why you will have to consider whether the fiscal arrangements are working most effectively.

The Convener: Yes. Paragraph 6 of your report says:

> "The Scottish Government ... controls most public spending on Surface Transport in Scotland but many aspects of its regulation are reserved, for example banning polluting vehicles or imposing more stringent emission standards."

You go on to say that that

"illustrates how policy decisions at the UK level are important in ensuring the Scottish Government can meet its net zero targets."

Also thrown into that mix are shipping and aviation, for which responsibility is also reserved. How realistic is it to expect Scotland to meet its targets without very strong co-operation from the UK Government?

Professor Roy: That is essential. As David Ulph said, this is a shared policy responsibility. Scotland needs the UK to co-operate and work constructively in order for Scotland to meet its net zero targets, but the UK also needs Scotland to implement key policies in areas that are devolved and, in many ways, overachieve in areas such as land use and forestry.

An interesting point, which I certainly learned a lot about while I was working on the report, is that policy responsibilities in areas such as net zero and climate change are quite different from most others. For example, responsibility for health is relatively clearly defined as being devolved. There is a debate about funding for it, but health is essentially a devolved responsibility. I will give a contrasting example on the climate change aspect. The Scottish Government is responsible for public transport and investment in transport infrastructure, roads, rail and so on, but much of the regulation is a UK responsibility. The transition to net zero and climate change are therefore quite different from most other policy responsibilities, where it is relatively easy to define devolved versus reserved areas. There, it is all-encompassing—as you would expect, given the nature of the challenge. It comes crashing into both devolved and reserved responsibilities and, crucially, the careful interaction between them.

Professor Ulph: When the fiscal framework was initially developed, it was done against a background where the shocks that economies faced were normal macroeconomic ones. Here we are dealing with a different type of shock.

We saw that the framework that we developed coped with the Covid pandemic to some extent, although there were challenges. However, the issue is Scotland's inability to transfer funds between years and periods. That is the challenge that will arise here, because, as Graeme Roy said, there will be asymmetric shocks. For example, there might be a large flood in the rest of the UK, which generates Barnett consequentials, but there is not much that the Scottish Government can do with those. Equally, there might be a huge flood in Scotland that it does not have the resources coming from Barnett consequentials to deal with.

In the report, we say that, because this is a shared endeavour, the Governments need to think about how well the existing fiscal arrangements will cope with climate change-type shocks, which is the point that you were trying to get to in your question, convener.

The Convener: Paragraph 38 of your report states that, as has been mentioned,

"Coordination and cooperation by the UK and Scottish Governments will be required to succeed in reducing emissions."

However, the two Governments might have different policy and spending priorities. Ultimately, therefore, Scotland will be at the mercy of those UK Government decisions, will it not? For example, a future UK Government might decide that it would rather spend the money somewhere else.

Professor Roy: As I said, your broad point is correct. The nature of the issue is that there are shared policy responsibilities. In broad areas such as transport, decisions in reserved areas will have an impact on Scotland. There are also areas in which reserved policies will interact with devolved policies. In addition, there is the funding element: whatever the UK Government decides to do in equivalent devolved areas will have a Barnett consequential, which will have an impact on Scotland. There are also the geographical and general variations that will differ between Scotland and the rest of the UK. There are strong linkages in that regard.

It goes the other way, too. Decisions that the Scottish Government makes and those that are made in Scotland have a significant impact on the UK's transition to net zero. That is why this policy area is quite different from most other policy areas. I cannot think of another policy that is as all-encompassing, with that level of interaction between the two Governments, which will drive the success of both Scotland and the UK in achieving net zero.

The Convener: What about global decisions? The United Nations climate change conference of the parties meets year in, year out. There is always an element of dismay that it does not go far enough, but what are the implications for decisions that are made at an international level?

Professor Roy: We have to take those largely as given, given the relative size of Scotland. However, you are right. One of the things that we highlight is that there are uncertainties, and we are trying to show the direction of travel and the scale of investment that is needed if we are to meet our obligations.

There are uncertainties relating to technology, for example. If the global economy invests significantly in new technologies, that might reduce some of the costs. We talk about where there could be tailwinds and headwinds in relation to achieving net zero. There are potential changes to overall policy agendas that might have an impact on the costs of damage and adaptation. We do not go into detail on that—there is not that much information available. However, if the world does not make the significant emissions reductions that are needed for the climate and the temperatures continue to grow at an unmitigated rate, the potential costs to the public sector in Scotland and in the UK of damage will be much higher.

We have tried not to go too much into that in our report. We are not climate scientists. We have benefited greatly from advice and support on that, but we wanted to show from what channels the fiscal implications can come through into the budget and why the Government needs to prepare and get really serious about costing those various mechanisms.

The Convener: Definitions are also important. You have said:

> “The UK and Scottish Governments should articulate their plans on how to achieve net zero and what level of public spending will be required.”

You go on to say:

> “We recommend that spend on mitigation and adaptation be identifiable in budget documentation and outturn so that spending plans can be linked to delivered spending.”

How do we define what is spent on climate mitigation? There is a temptation for people to say that a job is a green job when it may be somewhat more tenuous to another eye, for example. Do you think that there must be agreement between Scotland and the UK on the language that is used, so that they are not talking about different things when looking at those aspects?

Professor Roy: I will go first, then Claire Murdoch might want to come in on some of the detail on that.

There are two things to separate. How things such as green jobs are defined and whether things are targeted on the environment and the like can get a wee bit woolly. Ultimately, if we are to achieve net zero, every job will be a green job, or the vast majority of jobs will be green jobs by their very nature.

We think that the Government can do more. It can become much more targeted when it comes to specific interventions and spending that are explicitly designed to support the transition to net zero, or explicitly designed to help us to adapt to the challenges that will come from climate change. Where is the investment in decarbonisation of housing, in grid infrastructure and in green public transport? From our analysis, that is the bit on which it would be really helpful to have more information. That would give us and the committee much greater clarity, and enable us to see where the scale of ambition matches the targets that have been set by the Government.

Claire, do you want to say a bit more about what we have done?

Claire Murdoch (Scottish Fiscal Commission): Yes. The main data source that we have used is from the Climate Change Committee, which has an established process for estimating across the UK what it calls the additional capital investment. To a certain extent, therefore, there is a way that that aspect can be measured, and it has been done. We are asking the Government to reflect something similar in its climate change plan and in its budget documents.

It is nice to say that things are all positive for the climate, but we need to see something that is much more specific as to whether the Government is meeting the level of additional capital requirements that the CCC has identified. Can we actually see, in the budget documents and in the climate change plan, what amount of money the Government is spending on specific mitigation activities to reach net zero? At present, the information is not sufficient to enable us to do that, which is why we have had to rely on what the Climate Change Committee has produced, rather than being able to look at the climate change plan or the budget documents.

The Convener: So, when the draft budget is published every year, we would hope to see something like that, from a Scottish perspective.

Claire Murdoch: If you want to track climate mitigation over time, the climate change plan should set it out for 15 years, and in the budget you should be able to see whether the Government is spending what it has committed to spending. The same goes for outturn data; we all know that what is in the budget is not necessarily what is actually spent over the year.

John Ireland (Scottish Fiscal Commission): The Government produces a climate change plan every five years. In the past, that plan has contained a list of policies and proposals, attached to which there ought to be a mitigation figure so that we can see the impact on Scottish emissions. We are asking for a cost to be attached to each of those policies and proposals. Ideally, it would show the split between the public and private sectors, but certainly it should show the total cost.

That is just a step forward. It is consistent with how the UK Government approaches its carbon budget, so ideally there would be a common framework in that regard.

The other piece of information is something that Claire Murdoch touched on. Every year, there is an annex to the budget documentation that talks about the Government’s climate change expenditure. That is a very broad definition—it categorises all items of spend with regard to whether they are negative, strongly negative, positive or strongly positive for the climate or the environment. That is not really tied in at all to the climate change plan, so we are asking for that annex to be explicitly tied to the plan.

Previous parliamentary committees have asked for a proper evaluation framework when the Government has produced its climate change plans, and that would be another mechanism for doing that. The key, however, is to take the climate change plan that the Government has committed to—or is required to—produce, and ensuring that that has the right information in it, and then carrying that over into the budget documentation.

The Convener: There is a net zero portfolio in the draft budget, but we do not really have anything in the other portfolio sections that looks specifically at climate mitigation.

You talked about public and private sector costs. Interestingly, figure 3.3 on page 33 of your document shows that about 30 per cent of the total cost of capital investment required on the balanced pathway from 2020 to 2050 is in private sector electricity supply; the figure is 20 times greater than the figure for public sector electricity supply. That is not only 30 per cent of the total cost—it is also reserved, which shows the difference in the interaction.

That graph is quite interesting, because if we look at the total costs for the devolved sectors, we see that almost half of those in Scotland are public sector costs, but less than one tenth are reserved sector costs. Does that make you think that the public sector in Scotland has to take a greater lead than it is currently doing?

Professor Ulph: When we were looking at the split between the public and private sectors, we were just using the split that the Office for Budget Responsibility used when it produced its fiscal sustainability reports. We did not want to introduce a further complication in our analysis by using a different definition of public sector versus private sector, so we just followed the OBR's splits in constructing our figures.

11:15

Professor Roy: The general principle of the broader point is quite interesting, in that the nature of the sectors that are devolved means that they are more likely to have heavy lifting from the public sector. As David Ulph said, we are using exactly the same ratios that there would be in England, for example. Buildings, land use, surface transport, waste and agriculture are, largely, devolved sectors but, in general, the OBR and others have looked at sectors that are more likely to rely on the public sector to take more of a lead.

In contrast, for example, investment in electricity supply—given the nature of electricity and the large consumer market—is much more likely to be done with capital from the big utilities companies. Of course, we all pay for that through our bills, but the private sector is largely doing that investment.

What is really interesting about the report is that it is only when you sit down and think and work through it that you realise that a lot of the sectors that are devolved are sectors where the onus is on the public sector to do quite a lot of the investment.

The Convener: Yes, indeed. There is 43 per cent public share in Scotland, which is quite a lot.

Colleagues want to come in, so I will ask a final question, which is regarding the offshore energy industry. Forty-three per cent of UK oil and gas jobs are located in Scotland, so what challenges does that present for moving to a just transition and net zero?

Professor Roy: We have discussed that much more in the context of our economic forecast in "Scotland's Economic and Fiscal Forecasts", and we will expand on it more in the upcoming forecasts in May.

The story is that Scotland has huge potential—in the green economy, renewables and offshore renewables—to grow new sectors, new jobs and new investment. The key is transitioning from our current energy sector in oil and gas to the new opportunities. The opportunity there is to use our legacy, assets and skills to create greater market share and punch above our weight in those new sectors and industries of the future. That is where the prize is for Scotland's economy. It is easy to say all that, but there is risk, and the challenge is how we do it. How do we continue to support that transition for those high-value jobs?

You have seen from our forecasts, before the most recent figures, the gap that has been opening up between Scottish and UK earnings. A large part of that has been explained by what has been happening in the north-east, and that has, therefore, been explained by what has been happening in oil and gas. For short-term economic and tax reasons, managing the transition is a risk for Scotland's economy, given our disproportionate weight on oil and gas jobs and, crucially, high-paying oil and gas jobs. That is the big adjustment and transition that needs to be managed carefully.

The Convener: You have said that the oil and gas sector accounts for one in 200 jobs in the UK and one in every 30 in Scotland, but what share of taxation comes from that sector?

Professor Roy: It is difficult to get the exact numbers, in part because we get data by region. We can get—and have published in the past—data from His Majesty's Revenue and Customs about, for example, the north-east region and Glasgow. Where people work in that sector but locate somewhere else, it is more difficult to work out. As you know, income tax is collected on the basis of residence rather than the location of the employer. Lots of people who work in the oil and gas industry live outside the north-east and outside Scotland, so it is difficult to get an exact estimate. That is why we tend to use the north-east as an example, to give us a signal of whether the sector is dragging on Scottish tax receipts or adding to them.

The Convener: Is it disproportionate?

Professor Roy: Yes—of course. Average wages in oil and gas are way above the national average so, if Scotland has a disproportionate number of those jobs, it matters for the income tax revenues that we are collecting.

The Convener: Ross Greer will open the questions from committee members.

Ross Greer: I am interested in what I think is a bit of a contrast between your report and the CCC report last week. I think that you have the balance better and I acknowledge what you said about having worked with the CCC.

Although I agree with the broad criticism in the CCC's report that we are off track, I note that it was quite critical of the Scottish Government for highlighting the impact of United Kingdom Government policy making—particularly financial policy making—on Scotland's ability to meet its own targets. However, as you have outlined this morning and in your report, we require a disproportionate amount of spend, but the fiscal framework does not take that into account and the devolution of the relevant powers is not uniform. The CCC made some pretty sweeping comments about the fact that transport, land use and decarbonising buildings are devolved.

This might be just a reframing of some of the convener's initial questions but is it fair for me to conclude that, as matters stand, it is effectively impossible for Scotland to meet its climate targets and, therefore, for the UK to meet its targets, given how critical Scotland's targets are to them, without a significant devolution of financial powers to the Scottish Government, an adjustment to the fiscal framework and more direct funding from the UK Government? Is it the case that something that is entirely within the gift of the UK Government needs to change? It is one thing to say that Governments need to co-operate, but we are not talking about two equal partners that have an equal amount to contribute. Are you saying that something needs to change at UK level, whether it is devolution of powers, increased block grant or whatever?

Professor Roy: I would not say that, although you probably expect me to. In our report, we simply set out the interlinkages and the potential read-across areas.

Ultimately, there is a choice: Governments can choose to make more progress on buildings and on transport. The Committee on Climate Change makes a judgment that we do not make about whether the Government is making progress on that. We are trying to highlight the scale of investment that is needed by the public sector overall, and where there are areas in which Scotland might need to make more investment relative to the rest of the UK.

On the issue of targets, in order for the UK to get to net zero by 2050, Scotland has to meet its 2045 target. In many ways, Scotland is committed to doing more heavy lifting, and the Government has set that out. With that comes additional cost and the need for additional investment.

Professor Ulph: We are saying two things in the report. First, we make the point that, because of the limited ability to transfer funds between periods, it matters a great deal to Scotland when the UK Government makes certain decisions, how it splits those decisions between devolved and reserved areas, and between the public and private sectors. All those decisions set the fiscal context in which Scotland has to make its decisions.

Secondly, we are trying to illustrate the scale of some of the investment that might be required by the Scottish Government. That will tell you what must be balanced against other priorities that the Scottish Government has.

Ross Greer: You mentioned that split between the public and private sectors. I am interested in what you said about the fact that the report makes presumptions to mirror the OBR's presumptions about all the necessary funds coming entirely from public spending. I would be keen to press you a bit on the logic behind that, particularly with regard to land use, land-use change and forestry—Lulu CF, to use your pronunciation of the acronym.

The Scottish Government has already started some quite significant pilot work in private financing around nature. There is a significant political debate to be had around that—I believe that the Net Zero, Energy and Transport Committee is having that upstairs right now—but I am interested in why your report makes the assumption, particularly in relation to land use and so on, that the work will be entirely publicly funded, given that a £2 billion pilot using private financing has already taken place, which shows that what is already happening in that regard is not small fry.

Professor Roy: The honest and short answer to that is that we wanted to be transparent and simplistic, because it gets complicated quickly. Part of it was that we wanted to highlight that this is a big issue to discuss, given Scotland's geography, its share of forest and the potential value for Scotland of forestry.

You are right that we follow the OBR in assuming a 100 per cent public share, but in no way are we saying that that is what will happen or, more importantly, that that is what should happen. We are saying, if there were a 100 per cent public share of investment, what additional investment would need to go into Scotland.

Having done that, we are hoping to pass the issue over for conversations about how that could be done. What is the best way of doing it? Can you secure private investment that could reduce public sector share? What would that look like? How could we be part of the process? How quickly could it happen? What is the nature of all that? I think that you are probing at exactly the right things. We set out what we have done really transparently. You can play around with the numbers and get something different.

I come back to the key point that the level of investment is significant, and the Government needs to set out in detail how we are going to secure that level of investment, whether from the public sector or through finding potentially innovative ways to secure it in the private sector. You could do that with all of the areas, where we have put in assumptions. You can play around with the different assumptions that are there.

Claire Murdoch: I will just add that, in figure 3.8, we look at the LULUCF category using a very simplistic illustration. If, following the assumption that we used in that figure, only 60 per cent of LULUCF was funded by public sector investment, there would still be a big gap between what was spent per person in Scotland and what was spent per person in the rest of the UK. We could have made a different assumption in that category, but the broad principle would remain that having such a big difference in what needs to be invested means that you would need a much bigger private share to bring it down to a comparable level. In that sense, we want to highlight the fiscal risk that will occur, even if you have some tweaks in how you deliver that to the private sector.

Ross Greer: Thanks. For my final question—I recognise that I am to some extent repeating myself—I am interested in the conversations that you have with the UK CCC. Last week's report was incredibly valuable, and I agree with it as a reflection of the past 25 years and of a complete failure to meet the demands that the science has set out, but it left me with a lot of frustration.

We need to triple the amount that we spend on peatland restoration. You know that there is not £40 million of capital money just rattling around, so that will need to come from somewhere. For decarbonising buildings, it is not tens of millions but tens of billions of pounds that we are talking about. Is it not entirely unrealistic to expect the Scottish Government—keeping within the envelope that is available to it under the current confines of the fiscal framework—to deliver, in particular, the capital investment that is required to meet the demands of our climate legislation and the UK Government's climate commitments?

Professor Roy: Again, I do not disagree your the general point, but what we are trying to say is that huge investment needs to be made in the Scottish budget in this area. We gave the number of about 18 per cent of the capital budget, which is a good illustration of that.

That poses tough challenges for Government. Our report has to be read alongside not only the Committee on Climate Change's report, but what the OBR is saying about the UK. You have to read all three reports together. While the Committee on Climate Change is pushing the Scottish Government, and we are pushing the Scottish Government for greater clarity on this, the OBR is saying very similar things about the UK. The OBR report has a stark number showing that, if we have unmitigated climate change, debt will explode to nearly 300 per cent of our economy. That is completely disastrous purely from the point of view on public finance, not to mention everything else that happens to the economy and society.

In order to be fair, you have to read our report alongside what the OBR is saying about the UK and what the Committee on Climate Change is saying not just about Scotland but about the UK. That is where the broad conclusion comes from that, from a public finance point of view, this area is a significant fiscal risk for Government that requires huge investment across a variety of diverse areas. That becomes even more complicated when you look at it in a devolved context. When you look at it in the round, you get a slightly broader view than one that is specifically critical of the Scottish Government.

Professor Ulph: When we say that the requirement equates to something like 18 per cent of the capital budget, we want that to be understood in a context where capital funding could fall in real terms, at least over the next five years. That is largely driven by decisions taken by the UK Government to cut capital funding. It is against that background that some of the figures need to be understood.

11:30

Ross Greer: That goes back to the point that Professor Roy was making about the choices facing Government. We cannot not build new hospitals. The cost of decarbonising hospitals is massive, but the challenge is how to balance the long-term unavoidable necessity of tackling that while keeping everybody alive in the interim by meeting all the other needs of society.

John Mason: I confess that this is not my area of expertise and I am perhaps not understanding some things. On land use, I get the point that we have 32 per cent of the UK landmass, but do the dramatic figures suggesting that we should be spending so much more per head than the UK take into account the state of the land as it currently is? Presumably, some land needs work done on it but some does not.

Professor Roy: Claire Murdoch can perhaps provide some more detail but, broadly speaking, the way to think about it is that the Climate Change Committee has looked at the total additional economy-wide investment that is needed in different sectors to get the economy to net zero. That is what we start with, and that will include all the stuff that you are talking about, such as the investment that has to go into the restoration of peatland and, in forestry, the types of trees and preparing the land. That is all in there.

We then ascertain what the public-private split of that is likely to be and we consider the potential fiscal consequences. That is quite different from aspects such as timber production; it is purely about the issues that go into the investment of preparing land for forestry to help soak up CO_2 emissions and into investment in peatlands.

Would you like to expand on some of the detail, Claire?

Claire Murdoch: Essentially, the Climate Change Committee considers four main areas where the costs arise. Some of that involves changing the use of land to forestry, planting new woodland, improving tree density, restoring peatland to stop emissions being released and planting bioenergy crops to replace fossil fuels. Those are the main categories that the CCC has considered, estimating the share of the costs that would need to fall in Scotland relative to the rest of the UK.

John Mason: If we take forestry, I think that we have been planting more trees than elsewhere in the UK, but that is not enough, in a sense, because the potential for tree planting in Scotland is presumably huge, and it is bigger than in the rest of the UK.

Claire Murdoch: Yes.

John Mason: That is helpful—thank you.

You have talked about damage, adaptation and mitigation. On adaptation in particular, you have said that you need more plans, costs and data. Is it the case that it does not matter how much data we have, because we are still very uncertain about where we are going? Can there ever be enough data to give us solid projections?

Professor Roy: There are two things that I would say in response. First, there will always be uncertainty around that. Indeed, that is one of the big fiscal risks that we highlight. We need to prepare for that uncertainty, and Governments will have to manage budgets in a world of uncertainty, particularly looking ahead to some of the costs. That is where the greatest risks are. We have already spoken about damage with the convener, and about how asymmetric shocks are, by definition, uncertain. The Government will therefore have to think about how it plans for such things in time.

Very little detailed information is provided by the Scottish Government on likely investments and adaptations, so we could make a lot more progress there. John Ireland was talking about the climate change plan, which is where the Government can start to cost that out. The Government can make more progress and be more transparent about where some of the investments and adaptations will be, and start to give more of an indication about that.

My answer is in two parts. First, more data will be really valuable, and it will help us to get more clarity. However, there will always be uncertainty, and the Government has to plan for that.

Professor Ulph: One advantage of adaptation as against damage is that you can, in principle, plan ahead and decide what investments you will make in adaptation. The problem with damage is that you might just get a storm in one particular year and there is no way to anticipate when that will occur.

The real uncertainty around adaptation is that we do not know how rapidly the climate will heat up. The scale of adaptation might have to be adjusted in the future, once you learn what other countries are doing and, therefore, the potential scale of adaptation that you need to make. There is uncertainty around adaptation, but it is an uncertainty that you can do some planning for.

The problem that we face at the moment is that we know almost nothing about what the Scottish Government's plans are to enable us to put any figure on the likely scale of investment.

John Mason: Should we expect more of a plan when we get the medium-term financial strategy later this year?

Professor Ulph: I am not sure when we will get enough information from the Scottish Government.

John Mason: Would it be part of the medium-term financial strategy, or is it a completely separate thing?

Claire Murdoch: The Government currently has a draft Scottish national adaptation plan. One of the things that we can ask for is that, when it publishes the final version of that plan, that has costings in it. At the moment, there are some rough costings on some policies, but not a comprehensive estimate of what the policies in the plan will cost overall and when those costs will be incurred.

John Mason: Do we know what kind of timescale are we talking about for that?

Claire Murdoch: The plan will be published in its final form in September 2024.

John Mason: So the Government is committed to that.

Professor Roy: There are two parts to that that I think would be helpful to the broader debate on public finances and to the work of this committee. There are specifics that go into a budget, which involves looking at the next five years—or, more often than not, the next year—and understanding the detail in that. Then there is the broader work, which is about the fiscal sustainability stuff. That is more around pre-budget scrutiny and looking ahead to where the big investments are coming. That is where more information and something such as the adaptation plan can inform the broader thinking about how much of the total capital budget will have to go into adaptation and mitigation over the next five to 10 years, and then—to go back to Mr Greer's point—about what is left for everything else and how to make those choices.

John Mason: Okay. Perhaps you could just clarify something for me. One of the phrases that is used a few times is "balanced pathway scenario". I am sure that everybody else understands it, but I do not. Will you clarify what a balanced pathway scenario is? Is it a CCC term?

Professor Roy: It is, yes. Broadly speaking, the CCC has five scenarios. The one that we use is the balanced pathway, and there are also scenarios for which there are differences in behavioural change and levels of investment. Claire, could you explain the technical detail?

Claire Murdoch: It is based on the UK's sixth carbon budget, which is about what the UK needs to do over the next few years and then about the level of investment that is required each year to get to 2050. To use a slightly simpler term, it is essentially the CCC's central scenario of how the UK can achieve net zero by 2050.

The CCC looks across the different sectors at where and when the investment needs to happen in order to hit all the interim targets, including at the UK level, and at how that investment is best traded off between sectors at different points in time. We have taken those cost estimates, which the CCC produces for the UK and for Scotland, and we use the Scottish figures to estimate the Scottish Government's costs.

John Mason: The public share of investment in buildings is a figure of 43 per cent. The convener touched on that, but I am not sure that I understand that either. Is the 43 per cent a rough figure as to what the public sector commitment would be?

Professor Roy: It is an illustration based on differences in split among different types of building. Again, we take the relative balance between the public and private sectors from the OBR. You can start to play around with the different shares, so that you can think about having more private investment or more public investment, for example. If the total investment is £36 billion, we use it simply to say what the relative public sector share might be in that.

What is crucial is how that then leads into the funding that potentially flows into that area. Again, we use exactly the same share as for the rest of the UK, so, potentially, the same public sector investment that goes into that area would flow through in relation to funding in Scotland.

John Mason: Are you saying that the figure is not based on ownership, but on an estimate of where the expenditure would come from?

Professor Roy: Yes.

Claire Murdoch: It is an average share across the residential and non-residential sectors. In the public, non-residential sector, we assume that the public sector pays 100 per cent of the costs while, obviously, the private sector bears more of the costs for non-residential private buildings.

In the residential sector, there is a share for the public sector, which will pay some of the costs. The OBR highlights things such as lower-income households, for which you would expect the public sector to take up more of the costs, whereas high-income households would pay the costs of decarbonisation themselves.

John Mason: That is what I was wondering, because a lot of private owners would not be able to afford very much investment.

A lot of the report is looking at additional investment. However, we are already spending quite a lot on, for example, agriculture, with the replacement for the common agricultural policy. How does that interact here? Is that a factor? That money is already going out, but we can tweak it a bit as to how it is used.

Professor Roy: The easiest way to think about it is that we are looking at the additional investment that the economy needs to make between 2020 and 2050 in order to hit net zero. Some of that investment is additional—that is, new—but some of it could come from changing investment that is already in place in order to target mitigation. For example, if you are spending money on public transport, is all of it public transport that will get you towards net zero? That would be an additional investment in public transport and net zero, but you would be cutting investment elsewhere. It is not about looking at the budget and saying that this is raw additional investment, but about looking at the totality of the investment in the economy that is needed to get to net zero. Some things will net off.

John Mason: That is helpful.

Professor Ulph: I will just add that the Climate Change Committee says, “Here is the level of emissions in 2020. If we’re going to get to zero net emissions by 2050, how much do emissions have to fall year on year between 2020 and 2050?” The CCC is calculating the additional investment to get that additional reduction in emissions, year on year. That is the figure that lies behind this. We fully accept that there was already a significant spend to get emissions down to the 2020 level compared with the 1990 level; we have already brought emissions down a fair bit.

John Mason: Are you saying that the CCC is looking at what spend is needed, rather than where the spend comes from?

Professor Ulph: Yes.

John Mason: Okay, thank you.

Michelle Thomson: Good morning. First, I put on the record my thanks for the report. It really fills a gap, and I think that everyone should read and understand it. I am heartened to see that you are doing the session for MSPs tomorrow. I would like to see further iterations of the report, because it is so helpful. The CCC should also read the report, because it gives much more insight into the complexity of a fiscal framework with that level of granularity. Will you have meetings with the Scottish Government about it? I hope that you will, because it is so valuable.

Professor Roy: As always, we have engaged constructively with the Government, which has helped to inform our work. Ultimately, this is our report, but the conversation with the civil servants is always really helpful. I learned a lot from doing this work with the team, even just through chatting through the results with them, and I know from the conversations with them that they have found it really helpful, too.

Thank you very much for your kind words about the report. Part of the work will be to try to socialise it as much as possible with a broad and diverse group, which will include key public bodies and key stakeholders such as the Government and the Climate Change Committee.

Michelle Thomson: Given what it sets out, we almost wish that we had had the report before the recent review of the fiscal framework. That would have been valuable.

Professor Roy: I come back to the convener’s earlier points. I certainly had not thought about how all those points interact in the detail in the transition to net zero and about what that means in a devolved context.

The broader point is that a lot of the work around fiscal sustainability in a devolved context has not been done; David Ulph and I have been chatting about that. There are some examples, such as Canada, where fiscal sustainability has been looked at in a devolved context, but no one has thought about it in any great detail.

11:45

A lot of that area is new, and it is only when we start to dive into something like demographics, as we did last year, or climate change, as we have done this year, that we see wrinkles, lumps and bumps that we would otherwise have thought were not important. This work is designed for the long term, to help this Government, and the Government after it, to think about what needs to be done. In time, that should lead to debates about the optimal structure of public finances.

Michelle Thomson: That leads on to the perennial challenge that always comes up with this committee, which is the need for a much more strategic long-range look at public sector finance. That is often expressed as the need for multiyear funding.

Do you anticipate that you will have any discussions with the UK Government, given the critical dependencies that you have set out, in the sense that one needs the other? Do you anticipate that you will be able to have discussions with the UK Government and/or the Treasury?

Professor Roy: It is not our job to influence the UK Government in any way, but we speak to the UK Government, and we present our results and findings, as we always do after a budget or after a report such as this. It is always engaged and keen to learn insights. Ultimately, it is up to the UK Government and its ministers to decide what to do in all of this.

This work is really new, and I think that it adds a lot to the debate and understanding around the whole area. What strikes me is that it is so different from most of the other policy areas that we talk about—for example, health is devolved and fuel duty is reserved. If we look at the broad context around net zero and climate change, however, it comes crashing across devolved and reserved responsibilities in a way that is much more complex than any other area that we have looked at.

Michelle Thomson: As you alluded earlier, your report refers to working with a debt to gross domestic product ratio of 90 per cent as a normal baseline, as against the startling figure, if it was all public investment, of 289 per cent. That figure, more than anything—I know that it is the OBR's figure—makes clear the need for private investment as well.

Does your report accentuate the fact that the volatility in the public sector funding environment will have a direct influence on the confidence of private sector funding to come to the fore? Am I correct in that assumption?

Professor Roy: In the broader context, yes. One point that we have not made, which it is important to get on the record, is that we assume that doing nothing on climate change is much worse for the public finances than doing something. We almost kind of park that and say that doing nothing is completely unthinkable, so we are going to look at making progress. It is important to remember, however, that it is not a question of saying, "Well, this looks quite challenging—let's just not do it", because the consequences for the public finances and for the broader economy and society are much worse.

You are getting into the broader point about what Government does with all the information. We see the relative scale of the public sector investment, and the relative importance of the public sector, so how does Government think about using not just its spend, but its role as a leader and an enabler, to unlock private investment and capital investment?

On Mr Greer's point about looking at land use and forestry, a significant chunk of investment needs to take place. If we assume that all of that is from the public sector, it will involve tough choices about what the public sector spends its money on. If you can, therefore, you should think about how you can get innovative funding coming in, such as through the public sector putting in an amount of money and then leveraging private sector investment—that is an option.

There is clearly a political debate to be had in that regard, but we hope that the numbers show what the picture is. There is also a public finance debate, which needs to be balanced between different aspects. If you can secure private investment in some areas, that means that more public investment can go into other areas. If you do not, however, there will be less public investment in other areas.

Michelle Thomson: You kind of make my point for me, when we look at the lack of longer-range thinking. The Scottish Government set up the Scottish National Investment Bank, for example, using financial transactions. This year, we have seen a change to financial transactions and their ultimate withdrawal. The Scottish Government's ability to have a sufficiently long range to be able to match or attract and use leverage for public sector funding is quite diminished without that longer-term aspect. Your report makes that starkly clear, not least with the reminder that you cannot carry forward across years.

Professor Roy: There is a broader point that I will add to that. We have just started doing the fiscal sustainability reports, and I have been encouraged by the way in which the committee has engaged with and supported us in doing that work. It is really important that the Government and the Parliament engage in and debate such issues and work through them, and that the Government responds in a way that takes the principles that we are trying to set out and does much more forward planning.

I note the committee's comments in its pre-budget report about the Government needing to respond in detail to the fiscal sustainability reports, and about the Parliament needing to have a full debate on fiscal sustainability. It can only be healthy if we at least discuss those issues.

Therefore, there are the technical issues about the budget, but there is a much broader conversation that we need to have about the scale of those numbers and how we respond.

Michelle Thomson: I could not agree more.

Professor Ulph: Either this committee, or some other committee, needs to start taking evidence about the potential blockages in getting private sector investment—what is working well and what is not working well in that area. We need evidence from people who are in the sector about the challenges that they face in making that investment.

Liz Smith: I have a question, which is one of clarification. Professor Roy, you raised an interesting point about future Scottish budgets and said that it would be helpful if we could see the numbers on how much has been spent to mitigate climate change. Should that be done within each portfolio of the existing budget, or are you suggesting that there should be another section in the Scottish budget that shows a cumulative total?

Professor Roy: That is a good question. I do not have a specific view on it. I am less worried about how the information is presented—whether there is a specific line within portfolios or whether the information is all collected somewhere else. The key thing is that it is transparent, visible and, crucially, consistent over time. The fun that we all usually have is with the changing definitions and portfolios and so on. My only plea is that the information is transparent and stands the test of time.

John Ireland: It is really important to track through time the granular detail of the policies and proposals in the climate change plan that the Government publishes. Whether that is done in the budget documents, as you suggested, or in an annual evaluation report that the Government publishes is less important. What matters is that the detail in the plan is reported on through time, so that we know how each line is moving with regard to the investment that the Government is making.

Liz Smith: That is very helpful. I asked the question because, as you know, there have been quite a few situations in which we have questioned how easy it is to track money through the Scottish budget. It is good to know from your expertise whether that is better done in one unit or throughout the system.

Michael Marra: I thank the witnesses for the really useful discussion so far. Given all that you have said and the content of the report, do you still believe that the 2030 target is credible?

Professor Roy: Again, we do not comment on that. We are trying to look at the public finance elements of it. We take the projections and push them through. We are using the balanced pathway scenario, which does not have Scotland meeting the 2030 target, so those numbers are underpinned by Scotland not meeting the 2030 target.

We highlight that, if we were to try to meet the 2030 target, that would require more investment. It would require not only more investment to accelerate and make up lost ground but more expensive investment, because the nature of the projections are such that certain technologies are embedded in them. Therefore, more investment would be needed there.

Secondly, because reserved policies would not make the target—we assume that the policies are constant—we would have to overcompensate for that.

To answer your question—without answering it, as it were—I say again that our projections do not have Scotland meeting the 2030 target. If the Government wanted to try to do so, it would need more investment than has been set out in the report.

Professor Ulph: Perhaps I can just add that, in our report, we say that, on the balanced pathway, we see Scotland meeting its 2030 target of a 75 per cent reduction in 2035. By then, Scotland will, according to the balanced pathway, have spent £6 billion between 2020 and 2030 and a further £6 billion between 2030 and 2035. That means that average annual spend will double from just over £600 million a year between 2020 and 2030 to £1.2 billion between 2030 and 2035, because it will get progressively harder to bring down emissions in order to meet the target.

However, as Graeme Roy has said, if you were trying to meet the 2030 target, you would have to spend considerably more than £12 billion by 2030, because you would not have the benefits of technical progress, which would bring better ways of meeting emissions targets, and you would not get the benefits that come with reserved areas, as you would have to do it all through devolved spending. In short, devolved spending would have to go up to more than £12 billion to meet the target by 2030.

We are not saying that that is impossible—we are just highlighting the scale of the financial challenge that Scotland would face.

Michael Marra: You say in the report that meeting the 2030 target

> “would require technologies and other changes to be more advanced than set out in any of the CCC’s pathway scenarios to reach net zero”.

Just for clarity, are you saying that those technologies are not sufficiently advanced and that it is going to cost more money to do things with existing technologies?

Professor Ulph: Yes.

Professor Roy: Exactly.

Michael Marra: So, there is a cost to acceleration. That is very useful.

As a broader question, how does this work map on to the SFC’s other work? The commission has set out the long-term fiscal scenarios for Scotland, but Professor Roy said that he has learned a lot from this process, too. Can we expect very substantial updates with regard to the longer-term challenges in the next iteration of your 2050 vision?

Professor Roy: We are trying to do a couple of things. First, every second year, we will be publishing a much more detailed long-term projection. At the moment, that is still largely based on demographics, but for next year, we will be putting a bit more on health inequalities and public health into that projection, largely because we know a lot more about those things and because there is a lot more data on the subject.

Then, every other year, we will do the sort of thing that we are discussing today, in which we take more of a perspective on an issue. In other words, we will take a step back and say, “Actually, let’s think about, say, climate change and what the fiscal risks could be.” We do not have enough data or information on such issues to be able to plug them into our more detailed long-term projections, so what we are doing with these types of reports is highlighting the big issues.

I hope that, in time, as we get more information and detail, we will be able to pull things together into a much more detailed and long-term projection, but for the moment, we will, to an extent, be riding the two horses of highlighting certain issues and doing our long-term projections. We will necessarily have to focus on a smaller set of issues, though.

Michael Marra: Just in closing, I would say that your observations on interoperability and the reliance on a collaborative approach between the UK and Scottish Governments, not least with regard to the fiscal trajectory that the country has to follow to meet these challenges, are absolutely right, but do you feel that institutions outside the fiscal framework are reflecting the same concerns? Do you think that ministers and senior civil servants are having these discussions about the scale of the challenge and how, between the devolved institutions and Whitehall, it might be met?

Professor Roy: To be honest, I cannot comment on that in any detail, as we have just published this report. However, I hope that, by highlighting the need for interactions and issues with targets, responsibilities and funding elements, our report will inform those kinds of conversations and discussions.

I go back to the point that you have to look at this report alongside the Committee on Climate Change’s own report and what the OBR has been saying at a UK level. When you look at all of those things together, you see the key message—that is, the scale and urgency of the challenge—but also the need for planning and co-operation. If this report can help with that planning and co-operation, I will be delighted.

Michael Marra: Thank you.

The Convener: That concludes questions from the committee. It is interesting to see the huge amount of money that this is going to cost, given that Scotland produces 0.1 per cent of the world’s emissions and oil production currently stands at 108.6 million barrels per day. It really is a global issue, and we can but play a part in resolving it.

Professor Roy, do you or your team wish to convey any further points to the committee before we conclude?

Professor Roy: I do not think that there is anything else, other than to thank the committee for its support for our work on fiscal sustainability. That support has been really encouraging, and it has given us a lot of confidence to do this work and to move into new areas. We would not have been able to do that without the committee’s support, so thank you very much.

The Convener: Thank you for yet another excellent report. We have a commitment from the Deputy First Minister to having a debate on fiscal sustainability between now and the summer recess, and we will continue to press for that.

Thank you for all your evidence and for answering our questions. I hope that members will be able to come to the Scottish Parliament information centre event from 8.30 to 9.30 tomorrow morning in the Holyrood room. Bacon rolls and scrambled eggs are included, and I look forward to seeing you tomorrow.

With that, I move the meeting into private session. The public proceedings are finished for the day, and there will be a five-minute break to allow the witnesses and the official report to leave and to give members a natural break.

12:01

Meeting continued in private until 12:27.

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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