OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 10 December 2024

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 10 December 2024

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
35th 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)
*Craig Hoy (South Scotland) (Con)
*John Mason (Glasgow Shettleston) (Ind)
*Liz Smith (Mid Scotland and Fife) (Con)
*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

John Ireland (Scottish Fiscal Commission)
Claire Murdoch (Scottish Fiscal Commission)
Professor Graeme Roy (Scottish Fiscal Commission)
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 10 December 2024

[The Convener opened the meeting at 10:15]

Budget Scrutiny 2025-26 and Economic and Fiscal Forecasts

The Convener (Kenneth Gibson): Good morning, and welcome to the 35th meeting in 2024 of the Finance and Public Administration Committee. The first item on our agenda is an evidence session with the Scottish Fiscal Commission to discuss the 2025-26 Scottish budget and its December 2024 economic and fiscal forecasts, which were both published on 4 December. From the Scottish Fiscal Commission, we are joined by Professor Graeme Roy, the chair; Professor David Ulph, a commissioner; John Ireland, the chief executive; and Claire Murdoch, the head of fiscal sustainability and public funding. I welcome you all to the meeting and invite Professor Roy to make a brief opening statement.

Professor Graeme Roy (Scottish Fiscal Commission): Good morning. Thank you very much for having us along this morning.

Over the past year, the Scottish economy has performed ever so slightly better than we expected in December 2023. Stronger earnings growth, combined with lower inflation, has resulted in living standards recovering more rapidly following their fall in 2022-23.

The United Kingdom autumn budget led to a significant increase in the block grant. There is a large uplift in capital funding in 2025-26 compared with 2024-25, and resource funding has grown in 2024-25 and 2025-26.

However, the overall increase in next year's Scottish budget is more modest due to a weaker net tax position than was forecast last year. In short, although the income tax net position for 2025-26 remains positive, at more than £800 million, the Office for Budget Responsibility's forecast for UK income tax revenues has improved by more than our forecast for Scotland, which has led to a fall of £575 million compared with the position when the 2024-25 budget was set.

In total, real-terms growth in funding between 2024-25 and 2025-26 is estimated to be 2.1 per cent. That figure is boosted by real-terms capital funding growth of 12 per cent. In contrast, real-terms resource funding is projected to grow by only 0.8 per cent. Once we account for social security commitments, resource spending in other areas is falling in real terms by 0.3 per cent.

The Scottish Government has announced adjustments to income tax thresholds, which will reduce tax bills for people on lower incomes and freeze thresholds for taxpayers on higher incomes. Overall, those changes are expected to raise £52 million in 2025-26 and are relatively modest compared with some of the changes in recent years. Overall, we estimate that policy differences between Scotland and the rest of the UK since the start of tax devolution are adding £1.7 billion to Scottish income tax revenues. However, because of relatively slower growth in the Scottish economy, the income tax net position is lower. We estimate that that economic performance gap will be about £840 million in 2025-26.

On spending, the Government has included a comparison between the 2025-26 budget and the autumn budget revision for this financial year. That is a presentational improvement, and it should allow a more up-to-date comparison to be made between future plans and the latest information for the current financial year. However, the figures do not include the £1.3 billion increase in funding since the ABR.

There are also some challenges in tracking the consistency of the internal transfers that have been made during this financial year with the plans for next year. Therefore, our classification of functions of Government—COFOG—analysis removes those internal transfers and provides a comparison with spending levels in 2022, based on higher-level categories of spending. That analysis is therefore useful for tracking spending over time.

The largest percentage increase in resource spending is in social protection, which covers social security spending, but there are also real-terms increases in health, education and transport.

In August, we highlighted the challenges that public sector pay was posing to the Scottish budget. The Government has set out its policy for public sector pay of a 9 per cent increase over the next three years, with 3 per cent allocated to next year. In the report, we discussed three key risks. First, there are risks that pay bill growth might be larger than budgeted for—for example, we assume that other factors, such as progression, add an additional 1.5 percentage points to pay costs. Secondly, we have seen that the public sector workforce has grown in recent years, and the Government has not included any information on its workforce plans in the budget. Thirdly, the UK Government's changes to employer national insurance contributions present a further challenge. The Scottish Government will receive some compensation from the UK Government, but the level of that compensation will be confirmed only next year. We know that Scotland's larger share of spending on public sector wages means that full costs are unlikely to be covered.

As we have discussed previously, social security is taking up a growing share of the budget, with spending next year forecast to be £1.3 billion higher than the corresponding funding provided by the UK Government. The new policy to expand pension-age winter heating payments contributes £69 million to that gap in 2025-26. Our forecasts do not include any costs for the Scottish Government's plans to mitigate the two-child limit and universal credit from next year. We were told of those plans on the Thursday before the budget; as that was very late in the process, we were unable to produce a full costing. We think that the policy presents a fiscal risk. Our illustrative analysis suggests that social security spending could increase by around £150 million in 2026-27 because of the policy, and it will rise to around £200 million by the end of the forecast period. To assist the committee with budget scrutiny, we will publish a paper on the mitigation of the two-child limit on 7 January, before the cabinet secretary gives evidence to the committee.

The Convener: In future, we will have to ban you from those opening briefings, given that you have answered half the questions that I was going to ask—of course, many of those figures are in the documents already—but we will try to progress, nonetheless.

You talked about the £1.3 billion in the autumn budget revision, which we discussed at some length in the session that we had in private before you came in. As you said, looking at the ABR, the Government has moved some way towards assessing next year's budget compared with its most up-to-date position, but it seems that it has only gone halfway there. Can you elaborate a wee bit more on that issue and the difficulties that it causes you in setting out your forecasts for next year and assessing where we are?

Professor Roy: From our forecasting perspective, it does not have too much of an impact. It comes more into our ability to scrutinise and show to the committee and the Parliament what is happening to particular portfolio allocations. In figure 2 on page 14 of our report, we show what is happening to the big portfolios between the autumn budget revision—the latest figures that are published—and what is planned for next year. However, because it does not have the £1.3 billion that will be updated later in this financial year, the figure shows higher growth between what is reported in the ABR this year and what is planned for next year.

To be fair to the Government, to have had, at the point of an autumn budget statement, such a significant uplift in a year—which, therefore, is to be allocated between now and the end of the financial year—is a relatively unusual instance. There is an opportunity for the Government to set out more about what it has planned, although it will obviously update us on that when it comes to its spring budget revisions. However, it means that simple questions, such as whether portfolio X will go up by a certain amount, are difficult to consider at this moment in time, because we need to wait to see how those additional funds will be allocated.

The Convener: When we were taking evidence on the ABR, the Government told us that it did not really know where it was going, which can perhaps explain why it has not provided all the information that we would require on those portfolio spends.

Over the years, the committee has expressed concern about the fact that we get the exact same transfers from one portfolio to another occurring every year. The committee has been concerned, first, that the Government does not put the amounts into the portfolio line where they will ultimately go to be spent, and, secondly, that that distorts the pictures that we have here. In your report, for example, we have figure 2, but figure 3 is particularly illuminating if it really shows what the Government's direction is. For example, I note that, in that table, most budgets are growing by between minus 9 per cent and plus 8 per cent compared with 2022-23, with the one notable exception being social protection, which is growing by 36 per cent. How fiscally sustainable is that, given the current economic situation in Scotland?

10:15

Professor Roy: Do you mean the growth in social protection?

The Convener: Yes.

Professor Roy: Ultimately, the Government has to balance the budget, so everything is sustainable in the sense that it is a choice that is made and other choices have to be adjusted in order to pay for that.

As I said in my opening remarks and as we are seeing, the social security budget is taking up more of the overall Scottish budget. As you know, there is a gap between the funding that is flowing through and the commitments on social security. According to the most recent outturn data, for last year, that was about £900 million and we think that it will rise to about £1.3 billion next year. The causes for that are a mixture of payments that are unique to Scotland, payments that are designed to be a bit more expansive than those in the rest of the UK, payments that are designed to offset decisions at the UK level, such as the two-child limit, and the different system of delivering social security. It is a policy choice and, obviously, it was designed because the Government has broader ambitions around tackling child poverty and poverty more broadly. However, that comes with an opportunity cost, and that is the £1.3 billion that needs to be found either from higher taxes or from cuts in expenditure or relatively less growth in expenditure elsewhere.

The Convener: Resource funding is increasing by 0.8 per cent in real terms, but are you saying that, once we take out social security spending, there will be a 0.3 per cent decrease, so there is a shrinkage in what Scottish ministers have to spend in the forthcoming year?

Professor Roy: Yes.

The Convener: Okay. What we see in the capital budget is really interesting. There is a big boost of some 12 per cent in real terms, which is very impressive. It does not quite match the 2022-23 capital allocation, but it is a significant increase on what we have in the current year. However, by 2029-30, that declines to only 6 per cent above the current year. Is that unusual? One would have thought that it would be the opposite, because projects have to be signed off, funding has to be allocated, procurement has to be secured and all the rest of it. Is that an unusual picture?

Professor Roy: It is certainly different from the picture that we had at this time last year, which was a 20 per cent real-terms fall over that time period. It is much more positive on that basis.

A few things are going on. The biggest driver of the capital budget is still the capital departmental expenditure limit—DEL—allocation in the Barnett consequentials that flow from the UK Government. That profile largely reflects the UK Government's plans for public spending. We will have the update in the spending review for spring and summer next year, which will provide much more detail behind that. That picture is largely driven by what is happening to the block grant.

Some of the uplift between this year and next year is inflated by discretionary choices that are made by the Scottish Government. For example, using the ScotWind money means that the capital budget rises, and the Government is increasing its planned borrowing next year relative to this year. That adds to the increase next year relative to what happens later in the remainder of the forecast period.

It is a mixture of one-off adjustments into next year that are made by the Scottish Government to boost capital spending and of the DEL profile of the UK Government.

Claire Murdoch (Scottish Fiscal Commission): We often see as well that, when the Government sets its budget, it plans to borrow the maximum or quite near the maximum. Then, as the financial year goes on and perhaps not all the capital money is spent, it reduces those borrowing plans through the year. That is what has happened in 2024-25; the Government planned to borrow more, but it has now revised that down to £300 million. Therefore, we might expect to see a reduction in that capital spending number in 2025-26 over the financial year. That would free up some money, from ScotWind or from borrowing, which the Government can put into subsequent financial years.

The Convener: Thank you. John Ireland, do you want to come in? No? Sorry—you are just wiggling your pen about. Remember, this is like an auction—if you touch your nose or anything like that, I will bring you in and expect you to buy a clock or something.

You touched on income tax, which I think is worth exploring. You have explored that in some detail in your report, but could you talk us through the income tax position a wee bit more. I am also very interested in the impact, as you see it, of income tax on behavioural change, as we are a year on from last year's increases to the two highest tax rates in Scotland.

10:30

Professor Roy: Do you want me to talk about the net position?

The Convener: Yes.

Professor Roy: As you know, the net position is the difference between two moving parts: what is happening to Scottish income tax growth relative to what is happening to UK income tax growth. We have revised our income tax forecasts for next year upwards, but the forecast assessment for UK income tax revenue is much more positive. We talk about the factors behind that from page 91 onwards. There are three or four areas to highlight.

First, you will recall that, when we gave our update on our forecast evaluation report in the summer, the UK outturn data was healthier relative to Scotland as a result of the revisions by His Majesty's Revenue and Customs to how much UK tax had been collected for financial year 2022-23, which uplifted UK income tax revenues relative to Scotland. That was bedded into the forecast horizon. It works out to be a deterioration of about £350 million for this year and next year in the net tax position because of the higher outturn data. Secondly—and we emphasised this last year, but it is very important to be aware of, because it is an asymmetric risk to the funding position for the next few years—it is important to highlight the earnings growth differential between us and the OBR. You will recall that we have been more optimistic in Scotland about what might happen to earnings growth throughout the next few years relative to the OBR. As we highlighted, there is a risk that, if we get closer to the OBR's forecasts and become more pessimistic, or it becomes more optimistic and its forecast gets closer to ours, that would erode the net tax position, which is what we have seen.

We have become more optimistic about earnings this year, but the OBR has become even more optimistic than us and its forecasts are much more in line with ours, which eats into the net tax position by about £200 million this year and £300 million next year. There is an asymmetric risk that the difference between our forecast earnings and the OBR's earnings continues for the remainder of the time horizon. If we become more pessimistic or the OBR becomes more optimistic and aligns with our position, as we have seen this year, that will have a negative impact on the net tax position in future years. Those two elements explain a large element of the revision to the net tax position.

Finally, changes in UK Government policy that have been announced such as the changes to the rules on non-domiciled residents and clamping down on tax evasion will have a disproportionate impact on the rest of the UK. There are more top earners in the rest of the UK, and those measures are targeted at them. That is why the net tax position has worsened and it is projected to do so into next year. I am happy to pause there, convener, for you to ask any questions before we get into the behavioural piece.

The Convener: No, I think that that is quite clear.

Professor David Ulph (Scottish Fiscal Commission): In the past, our more optimistic forecasts have been based on evidence that Scotland has a relatively tight labour market, as has been suggested by various surveys that we have looked at. With the fiscal stimulus in the rest of the UK, the labour market in the rest of the UK could also tighten up, which is why Professor Roy indicated that there is a risk that earnings growth will become more in line in Scotland and the UK. That positive factor contributing to the net tax position could systematically disappear over the course of the horizon.

The Convener: Paragraph 67 of your report says:

> "We estimate that the behavioural response reduces overall yield of the policy by £10 million in 2025-26, with this behavioural response reaching £31 million by 2029-30."

How much are the two higher rates—the additional advanced rate and the top rate—perceived on paper to contribute to income, and how much do you believe is being lost to behavioural change as a result?

Professor Roy: Do you want the explicit estimate of how much comes from the additional rate and the top rates overall, or the change itself?

The Convener: I would like to know the change within each band. My understanding is that there is a significant difference between the impacts of behavioural change in the two.

Professor Roy: I can get you the estimates of how much is raised by each band and by taxpayers in each element. Perhaps Claire Murdoch and John Ireland can find that for you.

As for the specifics of behavioural change, you are right: we think that behavioural change is likely to be much more significant among people in the top tax rate, largely because they will have more opportunities to change their earnings—they are perhaps not in traditional salaried jobs—and because they will probably have the most discretion to change their behaviour, to move around and so on. We have set out our estimates for behavioural change, but we are not suggesting that we are likely to see significant behavioural effects this year, because of the freezing of the bands, compared with what has happened in the past.

The Convener: I am sorry—I appreciate that, but is the issue not that the impact is built into the bands themselves? Now that we have had a year of this, have you been able to assess what the impact has been?

Professor Roy: There are two things. I was talking about what we think might be the behavioural change from this financial year into the next, but what you are asking is a much more strategic and structural question about whether, with the succession of changes that have been made over a period of time, we are building up to more significant behavioural change in activities.

The ability to track that sort of thing is still in its early stages. For example, we will not have full outturn data on the changes from last year until July 2026, because we have to wait for the self-assessment returns in January and so on. There is quite a delay, in that respect.

We have HMRC's tentative evidence from tracking the changes in taxpayers over a longer period. That was done for one financial year—2018-19—and it showed some behavioural effects that were not inconsistent with what we use in our analysis.

On the broader structural question about successive behavioural change, that is something that we will be assessing over the coming months and years.

Professor Ulph: One of the problems with trying to assess the cumulative effects of all the policy changes is that, once the changes are made and people respond to them, we use the tax revenues that emerge as the baseline for our future forecasts. Therefore, they are baked into the baseline, so it is hard to work out retrospectively how much of that baseline is attributable to actual behavioural effects. It is quite hard to evaluate systematically our forecasts of the behavioural effects against the actual outturn of the behavioural effects, because we bake all the actual behaviour into the baseline.

The Convener: Thank you for that. It is certainly an issue that we will revisit.

Another significant area of revenue for the Scottish Government is non-domestic rates, in which I see that a quite significant increase is anticipated not next year, when you say that revenues will fall from £3,175 million to £3,052 million, but the following year, when you expect them to jump quite significantly by about 14 or 15 per cent. What is the reasoning for that? I see that they kind of level out after that.

Professor Roy: Is the question in the context of non-domestic rates and total revenue?

The Convener: Yes—in the context of non-domestic rates. Why is there such a big jump in your forecasts between 2025-26 and 2026-2027?

Professor Roy: That partly reflects changes in the appeals cycle and when actual revenue is expected to come in. That is why we expect the figure to drop slightly into next year. It is also partly linked to where we are in the process cycle.

The Convener: That is fair enough. That is clear. You do not expect a massive retail boom or something like that, with everyone coughing up hugely higher rates. You have more or less explained that it is to do with the cycle.

You said that you have not included figures on national insurance contributions in the report. The Scottish Government has suggested that the increase in NICs will cost the public sector about £549 million. There are organisations within the public sector, such as the Convention of Scottish Local Authorities, that argue that their share will be significantly higher than the Scottish Government has estimated. Either way, the UK Government does not seem to be keen, for whatever reason—maybe because of the size of our public sector—to fully fund that £549 million, if that is indeed the figure, although discussions are continuing. What impact is that likely to have in terms of the overall budget?

Professor Roy: We are still waiting to find out exactly what the level of compensation will be for the NICs increase, which puts the Government in quite a challenging position. The Government is having to wait for the exact number to come through. From its perspective, that uncertainty makes planning difficult, in terms of portfolios.

We also highlight that as being one of the risks in the public sector pay policy. There is what the Government is hoping to try to achieve with its 3 per cent pay award—the 9 per cent over three years—but an additional cost will have to be included in the pay bill because of the national insurance contributions. If the level of compensation does not cover all of the increase, there are questions about where the money will be paid from, essentially, and what implications more broadly that could have for public sector pay, the workforce and so on.

The final thing that I come back to is the very first question about what is happening to portfolios and whether we are able to look at a portfolio and see how much it will go up relative to this year. That is another thing that is not yet in the comparison. There is an issue around the £1.3 billion that was not allocated in the 2024-25 number, but there is also an issue around the fact that, in 2025-26, there is not an allocation for national insurance. I think that we will have to wait a few more months before we are able to do a proper comparison on what has happened to spending portfolios between this financial year and the next.

Our intention is to do that around the medium-term financial strategy, so we will be able to say much more about what has actually happened to expenditure between the current financial year and the next. We will then know exactly where the £1.3 billion has gone and what has happened in relation to national insurance.

The Convener: The third sector and organisations including universities have said that the increase will cost about £210 million and are pressing the Scottish Government to fund that, although, of course, it is a Westminster decision.

The private sector does not seem to be being talked about too much, but we have heard that there could be an impact of up to £1.5 billion on that sector. Given that the OBR has said that 75 per cent of the cost of the NICs increase will fall on workers and 25 per cent on business investment, will that impact on your projections for Scottish economic growth, productivity and income tax revenues?

Professor Roy: That is in our forecast—it is included as part of our analysis. It will have an impact on the economy. For example, it could put additional pressures on earnings and could put pressures on levels of employment.

At the same time, we have to remember that there is also a quite significant fiscal stimulus coming in. Although the UK Government is raising national insurance contributions, it is also spending a lot more, which is likely to be the dominant factor for the economy over the next couple of years. That spending increase is bigger than the tax increase so, at the macro level, that is likely to have a positive impact on the economy in the near term.

There are also broader more structural questions about what might happen to productivity and so on over the longer-term horizon. However, alongside that, we have to factor in things such as the capital spending increase and whether that can be used in a way that will help to boost productivity and growth over time. It is a bit of a case of giving with one hand and taking away with the other.

10:45

The Convener: That is why I was looking at the overall net position. A significant fiscal stimulus is important, but I am not seeing any great increases in economic growth over the four years. In fact, the Office for Budget Responsibility seems to think that, although there will be a boost initially, it will, in effect, tail off over the next three to four years. Is that your assessment?

Professor Roy: We have a slight uplift in our economic forecast between this year and next year. In the longer term, economic growth is less about what is happening to aggregate demand—that is, the levels of spend in the economy and, ultimately, productivity, participation and so on. It becomes less about the totality of the spend and more about what the money is being spent on, such as capital investment. If you spend the money on capital investment now, that will have an immediate impact on the economy, but if you spend it wisely and improve connectivity and efficiency in the economy, that will lead to benefits beyond the forecast horizon. That is why the longer the term that we look at, the more the supply side of the economy really matters.

The Convener: What impact do you think the increase in social security spend is having on the economy and productivity?

Professor Roy: We think that it broadly has a neutral impact, so we do not adjust our forecasts based on that. It comes back to the fact that you are spending £1.3 billion more on social security than there is funding for, but that means that you are spending less elsewhere, so it does not really change the totality. That is another case in which the policy objectives that might have an impact on the economy are outside our forecast horizon. In tackling child poverty, the impact on child poverty and on the economy is not over the next five years but over the next 10, 15 or 20 years, and that lies outside our forecast.

That starts to stray into our work on fiscal sustainability and the work that we will be doing next year on things such as ill health and its impacts. That is where you will see greater connectivity between things such as social security and economic outcomes.

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

Liz Smith (Mid Scotland and Fife) (Con): Good morning.

Professor Roy, in the media, you said that you had a week and a day's notice from the Scottish Government about the decision to mitigate the two-child cap. I assume that that was on the Tuesday, the week before the budget.

Professor Roy: Can you say that again?

Liz Smith: You said in the media that you had just a week and a day's notice.

Professor Roy: We got notice of the two-child limit a week and a day after our deadline, so we got it on the Thursday. The budget was on a Wednesday, and we got notice on the Thursday before that. The week and a day refers to the difference between our deadline, which was 19 November, and when we received the report, on 28 November.

Liz Smith: That is helpful. Before that time, did you have any indication that that might be in the Scottish Government's policy?

Professor Roy: No—we had no indication whatsoever.

Liz Smith: You indicate that, on 7 January, you will publish a policy document entitled "Mitigating the two-child limit and the Scottish budget". I assume that that prediction is based on the data that the Scottish Government would need to have from the Department for Work and Pensions being available by that time.

Professor Roy: We will cost what the Government says it wants its policy to be, and we will cost that from 2026-27. We will run that through all our social security spending lines, so you will get not just the cost of the mitigation, but what that adds to the total social security bill and what that revised bill will be.

We will not make any judgment about whether it can be delivered, or the administration of it, or who does that, because that lies outside our remit. We will just take the policy as being what the Government would like to deliver, then we will, essentially, model it. We will highlight where there are areas of challenge within it.

Liz Smith: I understand that, and I know that you cannot comment on the specific intention of the policy. However, am I correct in understanding that, for the policy to proceed, it is imperative that the Scottish Government has to hand the data that the DWP currently holds, in order to make that transfer to Social Security Scotland?

Professor Roy: Yes, that is my understanding. The Government has been quite clear that it needs the data. Certainly, we have not seen the exact detail, and the question of which organisation would administer it—whether that would be done locally by Social Security Scotland or by the DWP—has to be resolved. We will model and estimate the specifics of the Scottish Government's intention to mitigate the two-child limit based on the data that we have, and it will be up to the Government how it actually delivers it.

Liz Smith: Based on your research on other policy areas, is it feasible to have that data and a recommendation on how much the policy would cost in a fairly short timescale?

Professor Roy: It is more for Social Security Scotland and the Government to consider what data they explicitly have for that purpose. We will model the policy based on what we have, but that is quite different to whether the Scottish Government has the administrative data to deliver the policy and get the money into people's bank accounts.

Liz Smith: Exactly. That raises the question of the fiscal sustainability of the policy. There have been widely different estimates of its cost. The Scottish Government originally said that it would cost £100 million to £150 million, but it seems to be changing its estimate. The Institute for Fiscal Studies said that it would cost somewhere between £200 million and £300 million, and your estimate is around the £300 million mark. Why is there such a wide gap in the various estimates?

Professor Roy: Just to be clear, our illustrative calculation, which the team did very quickly and at the last minute, is that the policy would cost £150 million into 2026-27, up to £200 million. That is not yet an exact costing; we will need to work through that. As we mention in our report, we would like to have included the figure. One of the issues that you have highlighted is that our role as an independent fiscal institution is to give costings. It is helpful that the Government has said that it will use our costing, but you are right that when other numbers are available, there is potentially confusion, or at least some debate, about the numbers. Ultimately, the Government will use our numbers.

Liz Smith: It is confusing, particularly when we are trying to look at the three-year projection, rather than just the one-year projection. Does not having the figures in the current budget information pose a serious problem for how the Government will be able to operate?

Professor Roy: We highlight in our report that we would like to have included a costing. The Government has stated a policy ambition and set it out in the budget, so we would like to have costed it in our analysis. Our job is to prepare for this committee accurate analysis on the commitments that have been made and our numbers do not include a commitment that has been made in the Government's headline tables. We would of course like to have included analysis of that commitment and we will do that as quickly as possible. On 7 January, we will update our numbers to include that commitment.

Liz Smith: That is helpful.

The Scottish Government has said that it

> "will continue to take a responsible and capable approach to Scotland's finances as new budget pressures emerge."

This committee said:

> "We do not consider that to be an adequate response and therefore repeat our request that the Scottish Government now carries out this full assessment."

When it comes to major decisions, particularly on social security, which, as you have rightly said, is an increasing element of the Scottish budget, do you share the committee's concern that that information was not provided quickly?

Professor Roy: Are you referring to information on the two-child limit?

Liz Smith: I am referring to the fact that you did not have enough information about how the policy might be implemented.

Professor Roy: As I said, the decision about implementation is less for us than it is for the Government. Ultimately if there is a cost to delivering the policy, it would be reflected in our spending analysis and it would be factored into the cost for Social Security Scotland of delivering it. We do not take too much interest in whether it can be delivered or how that will happen, other than to say, "This is the cost of doing it." The issue that we have highlighted is that, if the Government is making a policy commitment, even beyond the next financial year, we would like to cost it, because it is our job to do so.

I should say that the process that we had with the Government, up to that final late notice of policy, was exemplary. We got all the information that we needed. There was a modest extension in a couple of areas where we were in regular dialogue with the Government, but that is entirely fine under the protocol. We got the information that we needed in relation to core elements of public sector pay, with the exception of workforce, in order to do our forecasts. We got everything that we needed, but that final policy came well after our deadline. It is an important principle that we do not include something that comes well after our deadline, so we did not include it. In addition, from a practical point of view, we have not fully gone through the modelling to capture it all, or done the due diligence and the peer review with Government analysts to check our calculations.

Liz Smith: Given that the two-child cap has been in place for some time, technically the Scottish Government could have made that decision before now, so did it surprise you to suddenly get that information?

Professor Roy: Ultimately, our job is to cost what we get from the Government. We would like to have included that cost, and I think that we should include it, and that is what we will do. We were well past the deadline, so you can probably guess that it was not something that we expected to happen.

Liz Smith: Thank you.

Craig Hoy (South Scotland) (Con): Good morning. On the two-child cap, the finance secretary said at the weekend that she would look to introduce the payment before the following financial year—that is, in the financial year that we are discussing now—if it was possible to do so, and that she would make provision for that. Have you seen any such provision in the Scottish Government's budget?

Professor Roy: I think that there is a line in the Scottish Government's budget that talks about that ambition. On what we are asked to cost, we will set all of that out in January and we will highlight potential risks around that. My understanding is that we are modelling the policy that is coming in in 2026-27 and the costs behind that.

Craig Hoy: Presumably, it would be prudent for the Scottish Government to allocate something for the preparatory work and the planning for and the construction of administering the benefit in Scotland, however it ends up doing it.

Professor Roy: Yes, and I think that, from what the cabinet secretary has said, there is some allocation. She has allocated about £3 million to do some exploratory work around all that, which will obviously depend on discussions with the DWP once the Government starts to think about how it will deliver the benefit. As I said, we are not party to that—we take the policy and it is up to Government to administer it. For example, there will be a budget line for Social Security Scotland for the administrative costs of delivering Social Security Scotland. That is not a number that we forecast—we forecast the cost of the policies that Social Security Scotland delivers.

Craig Hoy: In relation to the broader language around the long-term sustainability of benefits, which the convener alluded to earlier, the Government characterises that as investment. Are you content with using language about investment in relation to social security? Normally, you would think of investment as something that gives you profit or advantage. Are you comfortable with that language?

Professor Roy: To be honest, yes. Economists talk about investment in different types of capital—human capital, physical capital, natural capital and social capital. I do not have a problem with that language of investment from a technical point of view. Clearly, there is a political narrative that sits around that, which is for Government and the Parliament to debate. However, from a technical point of view, I think that talking about investment is fine.

Craig Hoy: On overall sustainability and the impact that the benefit has on the rest of the budget, at what point should we start to feel uncomfortable about what we are having to move from other areas into that position?

Professor Roy: Ultimately, that is a decision for politicians and policy makers to make. We are keen to cost the proposals and look at the funding element. Everything in public finances is about choices and the opportunity costs. It is entirely legitimate to decide to make those additional commitments relative to the funding that is flowing through, but that has implications elsewhere in the budget. That is the point that we are trying to make there.

There is an important broader point about sustainability. David Ulph talks about this really well, so he might want to come in. Once the Government sets a policy on social security, it is committing to spend whatever is needed based on the take-up of that policy, so there are potential risks if there is a higher inflow, an ageing population or a decline in health. That is when it becomes quite different from other aspects of public spending.

11:00

Craig Hoy: Before Professor Ulph comes in, can you say how easy or difficult that is to model? I presume that there will be a behavioural impact, in the same way as taxation has a behavioural impact.

Professor Roy: In our estimates, we capture what we think will happen with people flowing into the different payments. We model inflows, such as the take-up of different benefits, and we model outflows. In turn, those are driven by trends in ill health, for example. The data shows that there has been a significant increase in the number of people flowing into adult disability payments. That trend is evident across the UK, because of things such as a decline in mental health following Covid. All those factors have an impact on take-up.

In many ways, the policy solution is to think about the causes of people getting into difficult situations in the first place and how to transform those situations. That is why our highlighting the opportunity cost is important, because what is spent on health, education and the broader economy really matters in relation to the inflows of people into some of the payments.

Professor Ulph: I will elaborate a little on what Graeme Roy has said. The system for adult disability payments is now maturing. Up until now, we have been looking at the rate of successful applications. Initially, we thought that the reforms that were made to delivery would cause more people to apply for adult disability payments in Scotland than would have been the case if people had stayed on personal independence payments. That has been broadly confirmed by the data.

We are now moving into a later phase with adult disability payments in which the initial decisions on awards are being reviewed, and we have a light-touch regime in Scotland. We have seen some quite striking data this year. In our initial assessment, we thought that about 5.4 per cent of the additional applications would be turned down on review, because of the light-touch regime, but it turns out from the data that less than 2 per cent of the applications have been turned down on review. We have therefore revised down our assumptions about the number of people leaving the stock, but we think that our initial judgment was probably right. The 2 per cent figure might just be a one-off this year, and we are increasing that figure back up to about 5 per cent over the lifetime of our forecast.

That aspect of our initial judgment has been broadly borne out by the data. That means that people stay on adult disability payments for longer than would have been the case had they stayed on PIP, because the DWP rate of refusal on review is about 18 per cent, so there is a massive gap between Scotland and the rest of the UK. That will lead to quite a steep climb in the number of people on adult disability payments compared with what would have happened under PIP. The gap between Scotland and the rest of the UK, as well as the amount of spending that falls purely on the Scottish budget, will probably kick up a little bit over the next few years.

Craig Hoy: I presume that that is a significant risk to the sustainability of the benefit.

Professor Roy: It is about the inflow and the outflow. If there is more inflow and less outflow, there will be additional spending relative to the funding that comes in. We have highlighted and slightly modified our assumptions on that basis. Our figure for ADP is up towards the end of our forecast horizon, and that is one of the reasons why.

Craig Hoy: I will turn to tax. Pages 148 and 149 of the SFC's briefing show the forecasts for freezing the higher rate and advanced rate tax thresholds. Prior to your coming in to the meeting, we were advised that in 2025-26 the tax take for the higher rate would increase to £78 million and in 2026-27 to £215 million. After that, the figure in effect plateaus and grows in real terms. I presume that that is because we would expect the tax thresholds to rise at that point. Is that right?

Professor Roy: First, well done for getting to page 148 of the report. We assume that the Government's policy is to freeze the thresholds in 2025-26 and 2026-27, and then we go back to our baselines, which are that the thresholds essentially increase in line with inflation.

Craig Hoy: You note that the increase in take over the two years is significant, so I presume that a canny finance minister would look at that and think that that is quite a good way of plugging any gap.

We touched on it earlier, but the behavioural impact seems to rise proportionately. There must be a tipping point. How difficult is it, from a forecasting and modelling point of view, to look at what the behavioural impact of tax will be? Is it, in effect, a Donald Rumsfeld unknown unknown, and you just have to pluck a number out of the air?

Professor Roy: On your first point, one of the things that we are seeing is the real effect of what we call fiscal drag. There is an interesting statistic in one of the supplementary tables that shows that in 2016-17—the first year of tax devolution—about 300,000 people in Scotland were higher-rate taxpayers, or at least paying the higher rate of tax. We think that that will rise to 700,000 next year and, towards the end of the forecast period, it will rise to 800,000. Many more people are now moving into paying higher rates of tax, because, if the higher rate tax threshold is frozen at £43,500, for example, people who get pay awards will start to move into that band. That is where a lot of the revenue is coming from, and those numbers are quite significant, because large numbers of people are moving into paying the 42p rate rather than the lower rates.

How we model behavioural change comes back to the answer that I gave to the convener. I did not get a chance to finish my answer on that, so I will come back to touch on a couple of points. If the Government tells us that it has made a policy choice, we will estimate the static effect of that and how we think people's behaviours might change because of that policy change. The convener touched on a useful point, which is that, if that is the case each year, what is the cumulative effect? That is where you have to do a different type of analysis, which is more about looking at the sustained behavioural change relative to the collection of taxes that have taken place over time.

The caveat with that is that we need to wait until we have enough time to do that with the data. The data comes with a lag, because for each tax year we have to wait 18 months before we get the outturn data and then we have to wait to get the detail, but we will be able to start to analyse that quite soon. HMRC is pulling together a longitudinal data set that will let us and academics start to do that, so we will be able to start to test the much broader question whether we have seen people changing their behaviour over a sustained period of time and whether that is a marginal change, which is that people are working a bit more or a bit less, or an average change, which is that people choose to work or not, or to relocate.

Craig Hoy: It seems that you get the proof only after the problem has arisen, so you have lost that tax and that taxpayer, and you are unlikely to get them back.

Professor Roy: I would not use the language about proof of a problem; that is obviously a judgment. Of course, it is only ex post that we will know what the effects have been.

I have one caveat to finish all that. The net tax position is still positive. The Government is still raising revenue to spend on public services that it would not otherwise have had if it had not increased taxation.

Professor Ulph: I will just elaborate a little on the cumulative long-term effects of tax changes. The issue arises mostly when we think about people relocating between, say, Scotland and the rest of the UK, because they think that the tax position in the rest of the UK is more advantageous. There are two issues there. One is that people have to try to think ahead and consider, if they make such a move, whether the position might reverse in future. They might need quite a few years of experience of the difference in the tax regime in Scotland vis-à-vis the rest of the UK to be confident that the effect looks like a long-term one. Also, if they relocate, their spouse will have to relocate and the kids will have to change schools. Those are big long-term decisions for people to make, and it just takes time to organise that. That is what we are trying to capture in looking at some of the longer-term effects.

A crucial aspect for the taxes that we have at the moment is that lots of people may have multiple residences. People working in Edinburgh may have a pied-à-terre in London, and they can nominate which is their residence for the purposes of tax in Scotland. They can move that around—they can nominate one place one year and, later, they can nominate another residence. Such people are much more flexible and do not have to relocate the entire family to do that.

There are different ways in which the long-term cumulative effect might work on different individuals.

Craig Hoy: I turn to the ScotWind moneys. The Government plans to use £300 million of that for capital expenditure on renewables next year, but there is nothing planned for 2026-27. Given the Government's push for net zero and expanding Scotland's renewables base, is there a particular reason for using £300 million one year and nothing the next?

Professor Roy: To be fair to the Government, it will probably take a decision on that next year as it starts to think about the budget for 2026-27. Alongside the ScotWind money, there is capital borrowing, so a bit of budget management has to go on. You wait and see what your DEL allocation is and what the pipeline of work is for capital investment, and you then think about whether you want to borrow for that or use some of what is essentially your ScotWind piggy bank money to invest in it. There will be a decision about that, so I assume that the numbers will change. As Claire Murdoch said, the borrowing number will change, and the planned ScotWind number will also change.

We have spoken about this before, but I think that, as a general principle, using one-off licence funding for long-term investment is a more sensible use of public finances than using it for short-term resources.

Craig Hoy: My next question probably strays into the realm of policy choice but, given the scale of private sector investment in renewables—for example, SSE is investing £24 billion and Scottish Power is investing £20 billion—and the strong pipeline of work in the private sector, would there be merit in the state using its capital resource in areas where it is difficult to leverage private sector capital investment?

Professor Roy: Yes—that starts to get into our climate change work about fiscal sustainability and the balance between private sector investment and public sector investment. You are right that a large part of the heavy lifting around the energy transition will be in the private sector, and we will pay for that through consumer bills. It is then about how much the public sector money can be used to leverage in and maximise private investment, so that we get the supply chain, the jobs and the economic prosperity as a result.

You are right that there are tricky areas where it is more difficult to leverage in such investment, but there are also the investments that the public sector needs to make to get to net zero. We know that we need investment in things such as public sector buildings, housing and land use—we spoke a lot about investment in that when we were at the committee previously. The Government could start to use the proceeds from the licences for private sector companies to invest in those sorts of things.

Craig Hoy: I have one final question about rates relief for hospitality. Initially, I think that the sector had an expectation that the relief that was granted might have been a bit more generous than it ended up being once the numbers had been crunched.

Remote hospitality venues and those on islands will still get 100 per cent rates relief, whereas other hospitality businesses will get 40 per cent relief, up to a rateable value of £51,000. However, the retail and leisure sectors have been excluded. Has the Government given any indication as to why there is a special need for remote and island hospitality businesses to get that relief, but not those in urban or other rural areas?

11:15

Professor Roy: We do not get an explanation for the rationale; the Government tells us what its policy is and what it wants to do, and we model that. You are right that the rates relief differs from the UK policy, but we do not have an interest in the justification for policy decisions.

John Mason (Glasgow Shettleston) (Ind): To go back for a minute to the two-child limit, did the Government give you any reason as to why it made its announcement on that so late?

Professor Roy: No.

John Mason: Looking forward to next year and the UK Government's spending review, are we any clearer about the timescales for that? It has been suggested that that would take place from April to June. I imagine that it will have an impact on the work that you and the Government are doing.

Professor Roy: John Ireland was telling me about it as we were walking through security, so there may have been some updates today.

John Ireland (Scottish Fiscal Commission): I think that the Chancellor of the Exchequer has announced the start of the UK spending review process, but I was listening to a short radio programme, so I did not get any more information about when it will be published. I do not know whether there is information on that in the longer announcement.

John Mason: What do you assume the timeline will be? Will it be three months until we get the Scottish figures?

Professor Roy: That depends on how the UK Government does the spending review. In civil service language, spring takes you right up until June. It will depend on the timing and the information that is subsequently provided to the Scottish Government, which will allow it to go through the spending review process.

We know roughly that the UK Government is talking about moving to a three-year process, but we also need to wait and see what that would mean in practice, and how much certainty and cover that would give the Scottish Government. As we said before, anything that the UK Government does to provide multiyear settlements would be a very good thing. The onus would then be on the Scottish Government to follow suit and for it to prepare those sorts of multiyear spending reviews. I would hope that we would have an important role to play in that and that we would be able to help by setting out and tracking our spending analysis over a longer period. The committee will want to raise the question of how quickly the Scottish Government would get that done once there is clarity on the UK Government's timeline.

John Mason: We are all dependent on the UK Government. Do you not have a clear timeline for all of that?

Professor Roy: No, but we are keen to be involved.

John Mason: You pointed out that it is positive that we now have a public sector pay policy, but there are some caveats. You and the Scottish Government are assuming that there will be a pay envelope of 9 per cent over three years, or a 3 per cent pay uplift for one year. It has been mentioned that 4.5 per cent would be the average pay growth, which is not in the forecast figures. Can we infer that the assumption is that there will be a reduction in staffing?

Professor Roy: The Government has not set out a workforce policy and has not published what it thinks will happen to the workforce. In our modelling and analysis, we assume that public sector employment will be broadly flat, but the Government has not set out its intention. I think that it plans to publish something much more detailed in the spring on public sector pay and workforce, so I hope that there will be more information in that.

You have highlighted that there are several risks. The Government has set out a public sector pay policy, but what will happen to the workforce because of it? Clearly, if you are investing more in public services, expanding the national health service and increasing expenditure in it, that begs the question whether the size of the workforce will increase. If that happens, there will be potential fiscal risk as a result.

You mentioned the 3 per cent pay award, which is the basic pay award, but factors such as progression and movements in bands can have an impact on all of that. There is also the question of whether the 3 per cent pay award can be delivered. That is clearly the policy but, in recent years, we have seen that negotiations can sometimes run ahead of policy. The final part is the national insurance contributions.

If the allocation does not meet all the costs because we have a larger and better-paid public sector, and if the money does not flow through from the negotiations with the UK, all those additional pressures on the totality of the pay bill will need to be met by finding money from within budgets.

John Mason: Something does not add up if you are assuming that staffing will stay roughly the same, yet all those extra costs are coming in. How does that fit in with the figures?

Professor Roy: In looking at the public sector pay policy, we assume that the workforce will be broadly flat. The third element is what you spend on stuff. Therefore, it is implicit that not all of the increase that might go to portfolios will actually be spent on additional services. It is not really for us to set out the specifics of all of that. Ultimately, it is for the Government to be clear, not only on pay but on workforce.

John Mason: Professor Ulph, do you have something to add?

Professor Ulph: Yes, I will elaborate a little. The assumption about the workforce remaining flat is built into our modelling in relation to what is happening to earnings in Scotland, both for the macroeconomic performance and for the purposes of forecasting tax revenue.

Because the public sector is such a large part of the workforce, we need to make some assumptions about what will happen to the size of that workforce in order to project what will happen to earnings and to the economy as a whole. We do not make any assumptions about what is happening area by area, whether in health, education or other parts of the public sector. We make a broad macro assumption, rather than a detailed assumption about what is happening to spending in those different areas.

There will be acute issues to be faced in trading off performance against affordability, because we know that there are staff shortages in certain areas. It will be necessary to think about how to plug those shortages in order to maintain performance on, for example, waiting times in the NHS. How do we balance performance against the pay consequences? Something has to give somewhere if it does not all add up.

John Mason: That takes me on to another point that I had intended to raise later. We are talking about a shortage of staff in the public and private sectors. Is the situation different in Scotland from in the UK? We get the impression that fewer immigrants come here because it rains so much and so on. Are the gaps greater in Scotland?

Professor Ulph: It is hard to say area by area. There are also regional disparities in Scotland. For example, the NHS seems to be more short staffed in some regions than in others. As the picture varies quite a bit by region, a complex strategy for how to manage the workforce needs to be developed, both in Scotland and in the rest of the UK. Such matters are difficult to manage.

John Mason: That is right.

Professor Roy: More broadly, we can see from the data on the economy overall that the labour market is tighter in Scotland than it is in the rest of the UK. That has a positive impact on earnings, but it shows up in gaps in particular sectors. That is the case not only in the public sector but in the private sector. Those gaps are to do with a mixture of demographics and the post-Brexit situation. All those types of issues are rolled up into the challenges of a labour market that is exceptionally tight.

John Mason: So you think that the labour market is a bit tighter in Scotland, even though it is hard to pin that down.

Professor Roy: Yes. If you look at, for example, vacancies and at where employment and unemployment are, that tends to suggest that the labour market is tighter in Scotland than it has been historically and is tighter than in the rest of the UK. You see that through earnings. Organisations are having to increase salaries in order to attract people into jobs, which boosts earnings.

John Mason: We have spent a bit of time looking at your forecasts on earnings and those of the OBR, which are different. Some of that is real—it is not just about your opinions but about the fact that the labour market is a bit tighter.

Professor Roy: Yes. We see that from the earnings data. For the past couple of years, earnings in Scotland have outperformed earnings in the rest of the UK. That has helped to contribute to the growth in the net tax position. Some of that is to do with policy and some of it is to do with earnings growing more quickly in Scotland. That has led to the positive net tax position.

The point is that the OBR has become more optimistic about the position in the rest of the UK.

Potentially, there is still a gap between us and the UK, but it has closed. The obvious question to us forecasters is, what happens next? As we move through the forecast horizon, the OBR forecasts lower earnings than we do. If the two positions happen to coincide, the projected net tax position will weaken.

John Mason: I will jump back to the question on the increase in employer national insurance contributions. There seems to be quite a big gap between the suggested cost of that, which is £500 million, and the funding that is being offered, which is £300 million. That is not just about Scotland having a few more public sector workers, is it? Do we know whether the English departments are also not being fully funded?

Professor Roy: I do not know where those numbers have come from. I have seen the Scottish Government's published number of £500 million; I think that the £300 million has been in press reports.

I cannot say whether the comparison would be there. The only broad comment that we would make is that public spending is higher in Scotland, so any Barnett share would necessarily be less than the money that was potentially required. If public sector pay is higher in Scotland, it necessarily follows that the allocation will be slightly less. The fact that there is a differential makes sense, but we do not know what the actual number is or will be.

John Mason: There is quite a big increase in capital funding this year. Will that have an impact on economic growth?

Professor Roy: That goes back to my point about demand and supply; we would feed that into the demand side. That funding is part of the fiscal stimulus that will kick in through the budget next year, so, all else remaining equal, the economy will grow more quickly because of the fiscal stimulus that the capital investment gives. Using ScotWind money and things like that will all have a positive impact on the economy at the margin.

The key question, which is the more interesting one, is whether that funding will be spent wisely and thereby enable the Government to improve the supply side of the economy over time. That would typically fall outside our forecast horizon. The OBR says something similar, which is that the boost to capital will boost long-term economic performance but that that will lie outside the next five years.

John Mason: Where do financial transactions come in? We heard a lot about them in the past, but we have not heard very much about them this year.

Professor Roy: They are still there. They are not as significant as they have been in the past, but they are still part of the overall block grant funding that comes to the Scottish Government for its capital budget.

Claire Murdoch: At the budget last year, the Scottish Government assumed that no financial transactions were coming from 2025-26 onwards. However, the UK budget has since confirmed some financial transactions, which result in consequentials, which will come in 2025-26. The Scottish Government has assumed that that level will remain for the rest of the forecast horizon.

John Mason: A lot of that went into housing and house-building capacity, did it not?

Claire Murdoch: Yes. The financial transactions were more significant in the past, but they are still helping to boost the capital position. Previously, we saw a larger reduction in capital funding over the five-year period, and part of that was the removal of financial transactions funding. The return of that has helped to lift up the capital funding outlook over five years.

Professor Ulph: Some of the capital investment might not just improve productivity and economic growth; it could also contribute to other objectives, such as those on net zero and on sustainability, which are not necessarily captured by gross domestic product and GDP growth. To an extent, spending is on mitigation or adaptation. That could help to meet the long-term goals on climate change.

John Mason: I presume that that would be affected by whether the Government decided to build more poor-quality houses and fewer passive houses or high-quality houses.

Professor Ulph: Yes.

John Mason: You say that house prices have been more resilient than you expected and that that has had an impact on land and buildings transaction tax. Will you comment on that? In the past, we have had doom merchants saying that our higher rates of LBTT would scare everyone off and that no one would buy a house, but that is clearly not the case at the moment.

11:30

Professor Roy: In relative terms, the LBTT forecast is the one that we have revised the most compared with what we said this time last year. A really interesting chart on page 112 of our report shows that. This time last year, we said that we had started to see a slowing in the housing market because of the cost of living crisis, higher mortgages and so on. We thought that that would lead to a modest fall in house prices and transactions. We were not talking about a huge fall; we were talking about house prices going back to where they were a couple of years ago. We were not forecasting a collapse—just a position of offsetting some of the really rapid growth that we have seen.

Actually, the data that we have observed shows that transactions and prices have continued to increase. There was a pause during the cost of living crisis and when mortgages increased, and then those rises have just kicked on. We did not get that judgment right, and I think that the Bank of England has said the same thing, as has the Office for Budget Responsibility. In part, that seems to be as a result of the resilience in the housing market to even big shocks, such as a massive increase in mortgage payments and a real cost of living crisis. People are willing to prioritise housing payments over everything else, which has made the housing market more resilient. That led us to revise up our LBTT forecast.

Because our forecast was too pessimistic and the OBR's forecast was also pessimistic, the impact on the budget is mitigated, because the block grant adjustments work in the same direction as us. Therefore, those forecasts do not have an impact on the budget. Our forecast assumes continued growth, but we move back to roughly where the trend was, which is slower growth, and the housing market remains a bit more resilient. That is an interesting reflection to make in thinking about the future because, even when there are big shocks to the economy and the housing market, the housing market remains quite resilient.

This is a really interesting question, not only for us but in relation to how much of people's earnings is flowing into housing costs and what the implications of that are for the long term. The data that we have seen is really interesting.

Professor Ulph: That phenomenon is seen not only in Scotland and the rest of the UK. In other countries around the world, people have been surprised about the resilience of the housing market to the cost of living crisis. It is causing a lot of people to scratch their heads and to try to work out what is going on.

The Convener: We used to hear about Giffen goods—when the price went up, people bought more of them.

Michael Marra (North East Scotland) (Lab): We are at that point in the meeting when I will just ask questions about things that we have already covered—probably things that I did not understand. We will go back to a few of them.

The convener touched on the in-year position this year. In its initial response to the budget, the Institute for Fiscal Studies said that the Scottish budget for 2025-26

"excludes £1.3 billion of funding that Budget documentation implies that the Scottish Government still has to allocate to services this year."

It went on to say that,

"despite previously suggesting it had already accounted for the top-up to its funding announced in the UK Budget in its financial planning for the current financial year, the Scottish Government is, in effect, planning to carry forward £400 million for use in future years."

Can you set out your understanding of the in-year situation and what we might see in terms of carry-forwards?

Professor Roy: I might bring Claire Murdoch in on the specifics, but, broadly speaking, this goes back to the first point about what is in the budget documents. Our documents used the ABR numbers. The UK Government budget happened after that, and it contained £1.3 billion for Scotland. The Scottish Government then said where some of that money will go—on pay, for example—but there is an amount left that is unaccounted for. We will get all that in the spring budget revisions. Claire, do you want to add to that?

Claire Murdoch: Yes. That is on the spending side. On the funding side, we present the latest position, which adds complications. Where we are looking at growth rates on the funding side, we are saying how much money we think that the Government will have to spend in 2024-25.

A couple of things are going on with regard to the IFS statement on how the Government is releasing money for future years. The Government has made some changes to its borrowing plans in 2024-25 in relation to both resource and capital. It has lowered its planned borrowing, so that gives it some capacity to borrow in future years, but it also means that it has lower repayments, which, again, frees up a bit of resource in future years. It has also lowered its planned use of ScotWind money, which has allowed it to move some of that money from 2024-25 into 2025-26. The Government has told us that about its funding plans, but it has not said how the remaining money will be allocated. The £1.3 billion is predominantly resource funding. There is a small reduction in capital, but the rest is resource.

Michael Marra: What is the relationship between the £1.3 billion and the £400 million with regard to the IFS statement? You are saying that it indicated certain things.

Claire Murdoch: The £1.3 billion increase is after accounting for that £400 million. The Government could have spent more money in 2024-25 because it could have borrowed more in 2024-25 for resource and capital and it could have used all of the ScotWind money in 2024-25. The

Government has chosen not to do that. It has chosen to bank that and use it in future years.

Michael Marra: How much of what is being carried forward will be available in future years?

Claire Murdoch: I would say all of it, but that is not entirely true where the Government has reduced resource borrowing, because it can access that only when there is a forecast error. All the ScotWind money that the Government is not using will be available in future years, and it is choosing to use some of that in 2025-26.

Michael Marra: What is the figure for that?

Claire Murdoch: The Government has £219 million of ScotWind money available that it is not using in 2025-26. Where it has reduced its capital borrowing plans, it can also access that capacity when it chooses to in future years. The resource borrowing reduction would only be available if a forecast error arises in future years. Resource borrowing limits are sufficiently large that they are unlikely to reach the aggregate cap in the same way that might happen with capital.

Michael Marra: There is probably still some level of on-going confusion—not just in my head but, more generally, in relation to the statements that we have had from the Government regarding the allocation of money and the assumptions that it has made. However, we can take that up with the ministers.

Professor Roy: The final bit to add to all of that is what goes into the reserve. It is about the current plan for the reserve and what will be left once we get to the end of the financial year.

The broad point that Claire Murdoch made goes back to the cabinet secretary's statement. At the time of the update in September, the Government planned to use the ScotWind resource. However, if additional funds flowed in, it would not use all of that ScotWind resource, so some of it is being banked for the future.

It is the same with reducing borrowing. If you have more money, you normally try to reduce your borrowing element, which means that you are not spending the money this year, but you could use that borrowing in future years.

Claire Murdoch: It is always possible that the Scottish Government will make slightly different decisions when it comes to presenting the spring budget revision. By then, it should have supplementary estimates from the UK, so it will have confirmed levels of UK funding. It might also know how various capital projects are going and whether it needs to borrow the full amount.

The Government is changing those things as it goes, and some of that is reasonable budget management, but some of it also makes it a wee bit harder for all of us to track what is happening and whether things are going up or down.

Michael Marra: We will move on to pay policy. It is good that we have a public pay policy, but I have to say that it felt a bit thin to me—it is written in a very big font. We have already covered the lack of progression in the numbers. How does it compare with what you would expect from a public pay policy? You have already mentioned head count, but are there other issues that you would like to see covered and which would give you a less bare figure?

Professor Roy: The basic pay award is definitely an improvement on what we had last year. It also arrived on time, so it was able to be incorporated. You probably want to be able to scrutinise a total public pay bill that shows pay progression for workforces. From a scrutiny point of view, it would be really useful to have the total pay bill broken down across portfolios, so that you are able to track where the money goes. That really matters for things such as the national insurance increase, so that you can see how much of any uplift to the health budget will flow through and how much will go on public sector pay. Having all of that information at a portfolio level would be most helpful from a scrutiny point of view.

Michael Marra: What if the amount allocated is insufficient? You clearly think that it is insufficient, so what does the Government do?

Professor Roy: You would then be back to the question of how you manage the plans around that expenditure within years. We highlight where the risks would be. It comes down to arithmetic. When you have a budget that is relatively fixed, if your negotiated basic pay awards are above your pay policy, you have to find that from somewhere else. If you have not accounted for progression, you will have to find that money from elsewhere. If you have no plans to increase workforce but workforce increases, that all has to be found from within your budget. In normal years, that can be managed, and it happens all the time—it is just budget management within a year. Clearly, when that becomes more challenging—as happened last year—and runs well ahead of what was planned, the Government has to make bigger announcements and changes.

Michael Marra: The justification for not producing a public sector pay policy last year or the year before was that the Government did not want to set a floor for negotiations. Part of the feedback in the committee's discussions was that it might be sensible to set out some options for mitigations that could be used in the budget in the event that it exceeded the policy. In essence, the Government has given you a number that would set a floor, which you immediately think is not sufficient, but it has not done any of the other things that are needed to try to deal with that.

Professor Roy: We have not explicitly said that we think that it is insufficient; we have said that there are risks if the Government does not manage to keep to that number.

Your broader point gets into how you manage negotiations. The point is that, when you discuss public sector pay with people, your choices will have costs elsewhere. There is a need to be more transparent about saying what the total public sector pay bill, including workforce, is and that, if we provide more for public sector pay, that has implications for the workforce or for services. If you set all of that out, you can be much more transparent about how you have discussions with unions and employers more generally.

Michael Marra: I will ask about the more general, longer-term position. What impact does the budget have on sustainability, on which you reported previously?

Professor Roy: I highlight the point that it is less about what the totality of the budget is spent on and more about what you target for reform.

From the work that we have done, we know that health is the biggest driver of fiscal risks over the medium to long term. More money is going into health, so the question is how we use that to improve the health of the people of Scotland and make the system more efficient. We would not get into the detail of that—that is not for us. We note the £30 million-worth of efficiency work, but we would not go into the detail.

There is obviously more money in the net zero portfolio, which goes towards the climate change work. The Government made some improvements in the presentation of the budget document, which included more detail on where the climate change money goes, but it is still not sufficient to enable the committee to examine whether that spending is making genuine and substantive progress in our work towards delivering net zero. There is probably still quite a bit of work to be done on that.

Michael Marra: The £30 million that you mentioned is 0.05 per cent of the overall budget. It is not really a plan for reform. You have previously set out the issues with reform, but you have also set out the headwinds and direction of travel on the social security budget as a share of the overall budget and the relationship to the block grant allocations. Does the budget not just reinforce some of the problems that you identified rather than address them?

Professor Roy: A lot of the stuff about reform is not about spending money on reform. There is an argument that, if you are spending money on reform, you are into a vicious cycle. A lot of it is about how you change how you do things—if there is £20 billion in the NHS, it is about how you change how you prioritise that £20 billion. That is where the longer-term assessment of what you are spending the money on, where the change is happening and whether you are improving outcomes is probably much more valuable than looking at the totality of particular numbers.

11:45

Michael Marra: The IFS said:

> “It does not inspire confidence that much-needed reform will actually happen.”

That was its initial response. The Fraser of Allander Institute said:

> “difficult decisions have been kicked into the future rather than planned for.”

That related in particular to the large negative reconciliations that you have already referenced. Is that a concern? You have identified that as a risk, but do you agree that there does not seem to be a plan to deal with those big risks?

Professor Roy: On the reconciliations, we think that there will now be a negative reconciliation for the current year that we are in, because of UK decisions. Those will not come in for another three years, so the Government will have to sit down and plan for all of that. It is perhaps less about kicking the can down the road and more about this being something that the Government will have to get ready for. However, there are limits on what it can do to get ready—because of the fiscal framework, you cannot stick lots of money into a bank account and wait for something to happen.

The broader issue, which goes much more into our long-term fiscal sustainability work, is that there are big structural changes in society—in relation to demographics, net zero and ill health—that need to be planned for over a number of years, not just in the budget but in how we deliver public services. That is less about spend and more about what you are spending the money on.

Michael Marra: The final area is the sequencing of reports. We have previously talked about the differential between the OBR’s work and your work being a significant problem, but that was in relation to the huge delays—the snapshots were being taken at different times, so there was great variation. It seems that we are, on this occasion, in a slightly better position in that regard, but that you disagree with the OBR on some of the assumptions.

Professor Roy: The timing is better—we do not have the same issue about timing this time. The reason for the revision in the net tax position is not because we disagree, but because the UK has done better than forecast. We have revised up our earnings forecast for Scotland, but the UK has done even better and is revised up by more, both historically in the outturn data and in relation to what will happen next year. That is less about a disagreement and more about the fact that the UK has done better than the revision in Scotland.

As you move towards the end of the forecast horizon, you get the issue that we have a slightly different earnings forecast from the OBR. We are more optimistic than it is, and if those two align, there will be a risk to the net tax position at the end of the forecast horizon.

Michael Marra: On how we match up some of the reporting, I could give you numerous quotes from the Auditor General and other people about the lack of transparency around the process. We have talked a little bit about the spending review process that the UK Government is undertaking. It is taking a zero-based budgeting approach across all departments. Is there a concern that we might get into a situation where we wait for those figures in Scotland and, rather than having a process that underpins a reform and an understanding of the finances of each part of the budget and what we are spending money on, we just accept those figures as targets to run towards?

Professor Roy: I will answer more broadly. There is much more that we could do around the long-term planning for spending. You are right that it would be unfortunate to wait for the exact numbers from the spending review and almost take them as a budget allocation and set budgets for three years on the back of that. There is a window of opportunity to take a step back and consider what we are spending money on, what our overall likely funding envelope is, and how we start to make potential changes within that.

The spending review will give us rough changes, but, more broadly, the conversation about the totality of the existing money that we are spending does not need to wait for the spending review.

Michael Marra: So your message to the Government would be that you want to see a process for that now, rather than wait until we get those numbers.

Professor Roy: Yes, but there is also a broader issue, which is what we—and the committee, I think—have said not only about having adequate time to look at long-term fiscal sustainability work but about the need for a clear budget process that does not collide in December and a meaningful medium-term financial strategy that is an update. Then, for example, we can articulate where spending has changed beyond budget plans. We did a fiscal update last year, and our intention is to keep doing that, to show what is happening within year and stop it just being all about what happens in December when a budget is published. The spending review would fit into that whole process.

Michael Marra: Are you confident that there will be an MTFS in 2025?

Professor Roy: We are working on the basis that there will be one.

Michael Marra: Many of the previous excuses have been, “There’s been a fiscal event, so we’ll have to wait till after the spending review,” then, “We’re right up against the autumn budget, so we might as well put it off till after that,” and then, suddenly, “It’s the pre-election period.” Is that a risk? Should we ask the Government to set out in writing, to the committee and to you, a clear timetable for the spending review and the MTFS over the next year? You must have had a conversation with the Government about what that process looks like.

Professor Roy: We will be working on the basis that there will be an MTFS next year. When we are chatting about our planning, we talk about the fact that we will have to get the report on social security in January. We will aim to publish when the Government publishes the MTFS. That is our working expectation. We will also provide an update over the summer, based on the in-year situation. I have certainly not heard anything to suggest that an MTFS is not happening—we have not been told that one is not happening—so we will work on that basis.

Last year, we would not have worked on an MTFS—whether or not the Government had published one—because it was a pre-election period. We will publish something in the spring, and our expectation is that the Government will publish an MTFS.

Michelle Thomson (Falkirk East) (SNP): Good morning. Thank you for joining us.

On page 9 of your report, you state that there is

“a material limitation to information available to the Scottish Parliament for its scrutiny of the Budget and in the spending analysis we can do.”

I think that that is in reference to the £1.3 billion resource increase. Following on from Michael Marra’s comments, what is your assessment of the data gaps in the budget that pertain to that statement? What is your general sense about that?

Professor Roy: First, the move to reporting against the 2024-25 ABR, rather than the original 2024-25 budget, is much better, because it means that we are able to see the changes within-year, which is what we have all been calling for.

We highlight two areas that make that difficult. One is the big Barnett consequentials that came after the UK’s autumn budget. We think that the committee should be able to look at the growth and the changes. You would want to know what was being spent or planned to be spent this year. That is the first bit.

The second bit is that there are some technical issues about the baselining of in-year transfers. Some of them are in the ABR for this year, but they are not in for 2025-26, which means that the number for 2025-26 will look slightly different. Our point in all of that is that it is difficult for the committee to look at a portfolio or a level 4 line and say, for example, that the number has gone up by this amount. We think that that is difficult and we need to think about how we can improve that.

Michelle Thomson: Yes. The Scottish Parliament information centre made that comment in its assessment of the budget. Things have moved forward, but there is still further to go in terms of tracking actual spend.

Professor Roy: To be fair, it is very unusual to have such a big in-year increase in Barnett consequentials. That has made this forecast really challenging to do, because £1.3 billion is not allocated in the baseline year that you are looking to compare with. Hopefully, in future, that will be less of an issue, as we move to spending review periods. Also, you will not tend to have that radical reset of fiscal policy in there. However, there is still an important principle about what baseline you want to have. Ideally, you want the latest position—the latest thinking of the Government—as your baseline. You also want the numbers for 2025-26 to include not just plans, but, as the convener said, any in-year transfers that the Government knows already that it is going to make—it should just set them out now.

Michelle Thomson: You have commented that the amount of capital funding that is available is much clearer but that the rate at which it can be spent is less clear, because it is front loaded. Does that add to the overall opaqueness?

Professor Roy: The main issue with opaqueness that we highlight is on the resource side, which is where there are in-year transfers. The capital budget is less affected. The big front loading is largely because of the complete turnaround of UK Government policy, with the new UK Government deciding not to go through with the cuts to capital spending but to increase that spending, and the Government's decision to borrow more to fund capital investment, with ScotWind resources being used for that. That means that there is quite a big increase next year, which, as the Scottish Government's plan sets out, means that a lot of the projects that had been paused or delayed will now come on stream.

Michelle Thomson: When I searched your report, I found that you mentioned "risks" in a number of paragraphs, including those relating to the pay bill, pay policy, NICs, the income tax net position, the mitigation of the two-child cap, energy prices, supply chains and interest rate rises. However, from reading those paragraphs, because they are in long form, I did not necessarily get a great sense of what you consider the probability of each of those risks to be and what the impact will be if those things happen.

For example, on page 71, there is a throwaway comment about energy prices and supply chains, and you mention that there could be trade wars as a result of the election of the new US President. If something like that were to happen, that could have a pretty catastrophic impact. Could you give a sense of that impact? Your report is already quite lengthy, but I did not necessarily get a sense of your thinking from reading it, so perhaps you could give us a bit more flavour.

Professor Roy: That is a fair point. We will think about how we articulate clarity on what we mean by "risks", because some of them are quite different.

When we talk about fiscal risk in the context of the two-child limit, we know roughly what the number is, and we are saying that there is a risk in the context of the figures not being in the budget documents, so the Government needs to plan for that. On that risk, we were quite confident about the number.

You are right that, if there are trade wars and energy crises, the potential totality of the numbers is much bigger, but there is, I hope—touch wood—a lower probability of those things happening.

When we talk about economy risks, we typically talk in more general terms about whether the pace of growth might be slower than we have forecast. We have to be a bit more general about that. Our economy forecasts are all very straight and nice, but we know that that will not be the reality. It is more about variability. Some of the fiscal risks are more targeted, and we generally know the numbers.

That is why we use woolly language, but I am happy to take away your point and think about how we articulate that.

Michelle Thomson: Yes—especially in the context of a yearly fixed budget.

I want to pick up on some language in the report that I think is slightly disingenuous—I hope that you do not mind me saying that. You use the term "economic performance gap" in a number of places, and you are making the point that the Scottish Government will raise an additional £1,676 million in income tax but will benefit by only

£838 million. My challenge to you is that, if every region of England was subjected to the same fiscal framework mechanism, there would always be an economic performance gap, because of the gravitational economic pull of London and the south-east. That is a function of the fiscal framework. I would appreciate your thoughts on that. I know that, technically, what you have said is correct, but there is a multitude of reasons why that situation occurs.

Professor Roy: Our language—using the term "economic performance gap"—is not meant to be a pejorative comment or reflection on Government policy. It is a calculation for working out, if Scotland had the same earnings growth and economic performance as the rest of the UK, how much higher income tax revenues would be in Scotland.

12:00

It is purely a technical measure for isolating the policy effect so that we can model how much more the Scottish Government is raising by taxing people differently than the rest of the UK. We can capture that effect and then the differences, because, over the successive years, earnings, employment growth and so on have not been the same. It is purely a technical measure and is not meant to be a commentary on Scottish Government performance or UK Government performance in Scotland or anything about the Scottish economy.

You are right about the fiscal framework. The broader point—this is where the fiscal framework is really important—is that the net tax position is driven by two elements: the performance of our economy relative to the rest of the UK, and the tax choices that we make. Whether we like it or not, the framework that has been signed up to is our tax performance relative to the rest of the UK and, as you commented, the rest of the UK includes London. If London grows strongly and the City of London does well in earnings, under the framework, we have to match that performance, in relative terms, in order to be no better or no worse off. That is the nature of the framework that we have.

Michelle Thomson: London will always grow strongly relative to everywhere else, so that is a baked-in inconsistency. Anyway, I feel that we have strayed off topic, but thank you very much for that.

For my last question, perhaps you can confirm for me something about rates relief. When we are looking at the reliefs in Scotland compared with what is happening in the rest of the UK, the finance secretary suggested somewhere—unfortunately, I could not find her exact comment; perhaps it was in the question-and-evidence session after the budget statement—that the relief could not be projected or put in place in quite the same way as it could in the rest of the UK because of a material difference. Could you give us a bit more information as to why that was the case? We know that some reliefs have been put in place in rural areas and so on.

Professor Roy: John Ireland or Claire Murdoch might have some of the detail on this, but I know that part of the issue is that the relief system is quite different in Scotland than in the rest of the UK in some key areas; for example, the small business bonus scheme is more expansive than elsewhere in the UK. That means that some businesses that qualify for reliefs in England and Wales would not qualify for them if they were in Scotland, because they would already be in receipt of another relief in the small business bonus scheme. That is why comparisons around non-domestic rates relief in Scotland and the rest of the UK are always quite difficult to do.

The big difference with regard to this relief in Scotland is that it relates to hospitality but does not include retail and leisure. There will be people in the retail and leisure sectors who benefit from the policy in England, but they are already in receipt of reliefs in Scotland through things such as the small business bonus, so it is quite difficult to compare the difference.

Michelle Thomson: I think that my colleague Ross Greer wants to come in on that, so I will leave it there.

Ross Greer (West Scotland) (Green): My question is on that point, because a lot of the larger substantive issues that I was going to ask about have been well covered already.

It is not about the relative worth or otherwise of the policy, because I understand that that is not for the witnesses to comment on, but about the transparency and presentational issues around things such as the hospitality relief. As you point out, Graeme, a huge number of the businesses that would be eligible for that already receive substantive relief through SBBS, and many of them receive 100 per cent relief. Is there a presentational and transparency challenge here, given that reliefs are layered on top of each other and there is a fragmented NDR relief landscape?

Professor Roy: I wish that my colleague Francis Breedon was here. He loves non-domestic rates, and this issue is his big thing.

The reliefs system is exceptionally complex and quite difficult for people to understand. For our part, we just model the gross revenue that we think will be raised from non-domestic rates and then offset the various reliefs that could affect that revenue. However, the process is very complicated. It gets into things such as appeals and changes to the valuation roll, so it becomes quite an opaque and challenging system. However, it is the system that we have.

Ross Greer: That was the final question that I wanted to ask. Otherwise it has all been well covered.

The Convener: Okay. I have a couple of questions, the first of which is about LBTT. You expect significant growth in LBTT, from £911 million to £1,019 million. One aspect of that is the additional dwelling supplement, the rate of which will increase from 6 to 8 per cent, and the revenue from which is expected to grow by £32 million in the next financial year. Do you envisage any behavioural change as a result of that increase? There have certainly been some rumblings about that over the past few days.

Professor Roy: We model potential effects of changes in behaviour, such as changes in potential demand. We also model other potential changes. For example, if fewer people buy additional dwellings, that potentially opens up properties for people to buy in the first place and not as additional dwellings. We capture behavioural change in relation to ADS and the broader LBTT, and it all comes together.

The Convener: My other question is about the labour market. On page 78, you say that you expect earnings growth in Scotland to continue to grow faster than that in the rest of the UK, and that unemployment will be lower than that in the rest of the UK, although there will be some loosening of the labour market. We discussed with the Institute for Fiscal Studies the issue that more than a quarter of people in the UK who are of working age are economically inactive, and the fact that the difference between Scotland and England in that regard is about 1 per cent. We touched on the fact that our four-year degrees might have something to do with that. I know that you, Professor Roy, have said previously that our approach takes a year out of the working life of a substantial number of the population. I am wondering what effect that has.

Also, how does Scotland's expenditure on social security impact on the number of people who are economically inactive, if at all?

Professor Roy: On the broader point about the labour market, I will recap some of the key points that we make in the report. We think that the labour market is tight in Scotland and is arguably slightly tighter than it is in the rest of the UK. That has a positive impact on the earnings differential. The most recent data shows that, in the past couple of years, Scottish earnings have outperformed those in the rest of the UK, which has helped to improve the net tax position. However, particularly this year, we have seen a real narrowing of that gap. Scottish and UK earnings are not that different, which is a potential risk in relation to the net tax position.

On the broader point about inactivity, there has been a lot of commentary about that. The figure has been relatively stable and flat over the longer term, but we are seeing that many more people who are inactive are saying that that is for reasons of ill health. That is an interesting dynamic that we need to understand a bit more. Is that removing people even further from the labour market? What are the potential challenges in that?

On how that links to social security, on the one hand, people who are inactive for ill health or disability reasons perhaps flow into receiving some of the payments that we have in Scotland, which will support them while they are inactive. The Government's longer-term strategy is about improving conditions and incomes for people who may fall into or be in inactivity, which might help them to move into the labour market over the medium to longer term. If you can tackle things such as poverty at source and improve the lives of people who are living in poverty, they will be more likely to be able to get a job and improve their employment prospects over time.

As I said, in our forecasts, we tend to think that all of that is roughly neutral, because it involves spending in one place and reducing spending elsewhere. The key will be whether, over the longer term, we can identify improvements in participation rates—that is a bit like the conversation that we had about tax. For example, with families with children or people who are inactive or in ill health, can we prove that participation rates have improved over time as a result of the policies? That is for the Government to demonstrate.

The Convener: I realise that the issue is really complex because, if people have better incomes and perhaps less anxiety and can buy better-quality food, one could argue that they will be less likely to be a burden on the NHS and so on. That is one way of looking at the matter, but it is about how we quantify that in human and economic terms.

Professor Roy: Yes. It comes back to the point about tax that we were chatting about earlier. There are ways that you can do it—there are interesting research questions that involve looking at people's behaviour over time to see whether the system in Scotland delivers different outcomes from an equivalent system in the rest of the UK, which you can then attribute to policy.

The Convener: I am about to wind up the session. Do you have any further points to make? In doing so, you can make a plug for your presentation tomorrow at half past 8 in the Holyrood room.

Professor Roy: I have no further comments. The session has been really helpful. I again thank the committee for its critique of our work and for its scrutiny, which are really helpful. We look forward to seeing you tomorrow for breakfast—it is very early.

The Convener: It is not that early—it is at half 8 in the morning and there will be bacon rolls, scrambled egg rolls, rolls and sausage and all that stuff, so people can skip breakfast and go straight there. I look forward to seeing you and everyone else there tomorrow morning. Thank you very much for that.

As that was the only public item on our agenda, I will now move the committee into private session.

12:11

Meeting continued in private until 12:19.

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Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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