



OFFICIAL REPORT
AITHISG OIFIGEIL

DRAFT

Finance and Public Administration Committee

Tuesday 3 March 2026

Session 6



The Scottish Parliament
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website—
www.parliament.scot or by contacting Public Information on 0131 348 5000

Tuesday 3 March 2026
CONTENTS

SCOTTISH FISCAL COMMISSION (FISCAL SUSTAINABILITY).....	Col. 1
INFRASTRUCTURE DELIVERY PIPELINE 2026.....	39

FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
9th Meeting 2026, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Michael Marra (North East Scotland) (Lab)

COMMITTEE MEMBERS

- *Patrick Harvie (Glasgow) (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:

- Ian Hughes (Construction Industry Training Board)
- Claire Murdoch (Scottish Fiscal Commission)
- Peter Reekie (Scottish Futures Trust)
- Professor Graeme Roy (Scottish Fiscal Commission)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 3 March 2026

[The Convener opened the meeting at 09:00]

Scottish Fiscal Commission (Fiscal Sustainability)

The Convener (Kenneth Gibson): Good morning, and welcome to the ninth meeting in 2026 of the Finance and Public Administration Committee. We have received apologies from Craig Hoy.

Under our first agenda item, we will take evidence from the Scottish Fiscal Commission on its report “Fiscal Sustainability Perspectives: what Scotland’s finances mean for the next parliament”, which was published last week. We will also take the opportunity to explore with the SFC issues to be included in our legacy report for our successor committee.

I welcome, from the Scottish Fiscal Commission, Professor Graeme Roy, the chair; John Ireland, the chief executive; and Claire Murdoch, the head of fiscal sustainability and public funding.

I invite Professor Roy to make a short opening statement.

Professor Graeme Roy (Scottish Fiscal Commission): Thank you, convener. I give apologies on behalf of my two fellow commissioners, Dr Eleanor Ryan and Justine Riccomini, who both had prior appointments that clashed with this evidence session.

The report that we published last week brought together our fiscal sustainability work with our five-year forecasts to set the context for the next session of the Scottish Parliament. It is a further development of our work to improve scrutiny, as it brings together many of the themes that we have raised over the course of this parliamentary session.

The incoming Scottish Government will face a number of structural issues. Our latest assessment is that the funding available to the next Government will remain tight. Current plans suggest that average annual growth in day-to-day resource spending will be just 1.1 per cent in real terms over the next five years. From 2027-28, the Government’s capital budget is projected to fall in real terms.

In contrast, demand for public services is expected to rise. By the end of the next

parliamentary session, in 2031, we expect that nearly a quarter of people in Scotland will be over 65 and that a million people will be receiving disability payments.

At the same time, we point out how policy choices that have been made in this parliamentary session will have implications for the next parliamentary session, too. For example, the legislative targets for reducing child poverty by 2030 and achieving net zero by 2045 will require additional investment, particularly given that interim progress reports have pointed out that much quicker progress is needed if those targets are to be met.

Alongside financial pressures, there are pressures on public services, particularly on the national health service and local government services, which have yet to fully recover from the position before the pandemic.

Throughout our evidence sessions with the committee, we have discussed the size and cost of the public sector workforce. Available evidence to date suggests that there has been some limited progress in workforce reductions and pay restraint, but we highlighted the risks relating to the current Scottish Government’s pay assumptions for 2027-28 when we published our forecasts in January. Managing those pressures will require difficult choices to be made.

Our report calls on all political parties to be realistic and open when making new commitments ahead of the May election and to set out a clear and credible plan for how they will ensure fiscal sustainability.

The new Scottish Government will need to explain how it intends to address fiscal pressures, and that needs to be done in a way that enables the Scottish Parliament to debate and scrutinise the most effective responses.

That leads me to the legacy issues on which the committee has been taking evidence in recent evidence sessions. We agree with witnesses who have stressed the importance of shifting the focus of budget scrutiny to the medium and long terms. Progress has been made on issues relating to the presentation of the budget and budget revisions during this parliamentary session, but there is still work to be done. On-going questions about transparency and consistency in relation to the budget presentation detract from wider issues of scrutiny and evaluation.

I thank the committee for its work and the support that it has given to me and the Scottish Fiscal Commission over the past five years. I am conscious that, although some members are seeking to return, some are retiring, so I look forward to them reading our reports on the beach.

I thank Michelle Thomson for her work on improving understanding of Scotland's budget within the United Kingdom framework. She has pushed us hard on issues such as diversity and tax-based performance gaps, which has been helpful and welcome.

I thank Liz Smith for her support on access to data. Her questions about policy and inactivity have also been helpful and welcome.

I thank John Mason for his healthy scepticism of any forecasts, projections or pay policy analysis, which has also been welcome.

Our work has evolved since 2021. We now publish regular reports on fiscal sustainability and we have expanded our commentary on the Scottish budget. All those developments have been thanks to the committee's support. The committee's persistence in pursuing improvements to the budget process and its recommendations on how our work can allow for better scrutiny have been invaluable in improving how we operate as the independent fiscal institution for Scotland.

The Convener: I want a eulogy in case I do not come back. Unlike those folk, I have to go in front of the voters, along with Michael Marra and Patrick Harvie.

Anyway, thank you very much for that opening statement. It is actually very helpful. There are a number of issues that you did not touch on; for obvious reasons, I will probably move to those first. For example, in paragraph 1.23 in your report, you said in reference to the thresholds at which tax is paid that

"the divergence in the thresholds has led to the number of higher rate taxpayers in Scotland becoming larger, and rising faster than in the rest of the UK."

You go on to talk about how, just a few short years ago, people working in the Scottish public sector were paid, on average, £400 a year more than people in the public sector down south. They are now paid £1,500 more, on average. Is that having an impact in terms of the number of people who are moving into the higher bands? They are getting paid more, but are they moving into a higher rate of tax at the same time.

Professor Roy: You are right. The big change in tax policy over the past few years that has generated lots of revenue has been not so much about the additional rates and bands as about the effects of fiscal drag coming through.

The Convener: Sorry—I meant the fiscal drag in terms of the threshold, of course.

Professor Roy: Exactly, and you can see the particular effect of that. Because of where the income distribution is, you have more people in

and around those middle-income ranges, so if you freeze those rates for longer, more people will move on to that higher rate. That now includes many more people who are working in the public sector, relative to where we were in 2016-17.

The average wage for a teacher, a charge nurse or a police constable is now around that level at which you start to move into higher rate tax bands. From that base, and if the thresholds remain fixed, in any pay future award, they will be paying the marginal increases of that pay award at the higher rate, and the Government will essentially recycle some of that back into the budget.

The Convener: Okay. So, the proportion of people who are going to be higher rate taxpayers will exceed the proportion down south, whereas it used to be lower.

Professor Roy: Yes, the percentage of higher rate taxpayers is now higher in Scotland than in the rest of the UK. The UK is also freezing thresholds, but we have frozen them lower and for longer. The key thing is that that is how the Government is raising revenue—the Government is choosing to do that in order to raise revenue to then reinvest in public services.

The Convener: You did not touch on capital funding in your opening statement. We are going to be talking about the infrastructure delivery pipeline in the next session, but you say in paragraph 1.50 of the report that,

"In 2023, around half the projects in the 2021 Infrastructure Investment Plan had been affected by cost increases or delays."

I was first elected in 1992 and I do not remember a time when that did not happen, not just in Scotland and the UK, but elsewhere. Where are we in relation to that particular issue? It seems to be almost built in—not deliberately, of course. It seems that delays and cost overruns are almost *de rigueur* in infrastructure investment. Is it a serious concern? Has the problem grown? Has it stayed the same? Has it become less of a problem in recent years? Where are we on that, and how do we compare Scotland to, for example, high speed 2, the rest of the UK, or whatever?

Professor Roy: Claire Murdoch and John Ireland might want to come in on some of the specifics, but, in principle, there are always going to be delays and cost overruns, particularly in major projects and complicated projects.

The Convener: That was not the case with the Forth road bridge project, so it is not inevitable.

Professor Roy: There are exceptions to it, but part of the general problem is how this links in to funding and, in particular, some of the lumpiness of the funding coming through. We have spoken before about the previous UK Government's

decision to front load capital budgets into the early part of the spending review and then to have them fall away towards the end of the spending review. From a planning point of view, that can be quite difficult, because you are then trying to accelerate projects with potential costs. You are trying to move them on quickly, but then, as you see from our work, the real-terms capital budget falls over time. The ability to plan out a pipeline of investment is not just about what you do on the spending side of things; it is also about the overall funding projections, and that is where it gets quite tricky.

The Convener: In paragraph 1.51, you point out that 93.5 per cent of the Scottish capital budget effectively comes from Westminster, so we are basically at the mercy of the decisions that are taken there. That was a big feature of your presentation last Thursday. I think that we all accept that we are having a real-terms reduction in capital, and it is probably deeper in real terms than you say, because we use a gross domestic product deflator, which I have talked about before. That means that delays and cost overruns have an even more adverse impact on maintenance and new capital projects, does it not?

Professor Roy: The Government can try to smooth that out through what it does on the capital borrowing side. That is what it has done historically—it has moved capital borrowing up and down on the basis of particular trends. That is one of the things that the next Parliament will have to deal with, as we have highlighted.

The current Government has big commitments and big plans, including around infrastructure, with some big projects that need to be delivered. However, current funding projections mean that careful prioritisation will be needed. Some projects will not be able to go ahead if the overall budget declines in real terms.

The Convener: You talk about the devolved public sector workforce having some 468,000 full-time-equivalent workers and how that figure has been growing by 100,000 or so under devolution. Some of that is accounted for by the extra powers that have been devolved, but a lot of it is due to the NHS, the ageing population, the need for a larger workforce and so on. People become older and frailer and need more support.

However, in paragraph 2.7, you highlight a reduction in the police and fire services workforce from 28,500 full-time-equivalent workers 12 years ago to 26,675 in 2024-25. Would one not expect that anyway? We went from having eight police boards to having just one, so we no longer have eight headquarters and all of that infrastructure, which meant having eight chief constables, eight deputy chief constables and so on. Is such

merging of funding streams in order to be more efficient and have larger overall bodies not what the Scottish Government should do, given that it aims to reduce the workforce by 13,600?

Professor Roy: That is partly right. There have been efficiencies and rationalisation in areas such as police and fire services. A key part of that goes back to what has been happening to the budgets overall. Earlier in the report, we talk about funding being relatively tight for the current parliamentary session. If we prioritise health and social security, it is simply arithmetic that other areas have to pick up the slack. Areas such as local government and justice naturally have to have less growth or find savings if other areas are prioritised. We then see falls in those workforces.

We make two broader points on workforce. The first is that the ambition to shrink the size of the public sector is different from the trends that we have seen since devolution. It is quite a different approach, and there are big questions about how we should do that and what the potential implications of doing it are. The second point is about how we do that strategically. We have heard about prioritising non-front-line workers, but what is a non-front-line worker and how might losing a non-front-line worker impact on services? We can probably list people who we think are front-line workers—nurses, teachers and so on—but what other roles sit around those that are needed to deliver public services? How do we concentrate and do that in a strategic way that fits with ambitions around public service reform and prioritisation of key portfolios?

The Convener: Frankly, I am not convinced that such labels are helpful, because one cannot work without the other. I would have thought that it is always about a team approach.

You started your opening statement by talking about growth, and what you said seemed quite pessimistic. Both the UK and Scottish Governments are committed to growing the economy, but you expect only about 1.1 per cent growth in day-to-day resource spending over five years. Pre-crash, it was an average of 2.9 per cent, which seems like the sunny uplands compared with where we have been for the past 15 or 16 years.

There seems to be a clash. You say in the paper that, as we move forward, the workforce relative to the dependent population will decline because of demographic change and so on. At the same time, we also have new technology. I appreciate that, for folk who are working in social care, it is a lot more difficult to increase productivity than it is in some kind of advanced manufacturing facility. Why do you feel that growth will be stuck at 1.1 per cent?

Is there no way to escape that fairly depressing trend?

09:15

Professor Roy: If you look at our data, you will see a chart showing that living standards grew by about 3 per cent per year in real terms during the first decade of devolution but have grown by an average of less than 1 per cent per year since then. That is quite stark and shows some of the broader challenges of poverty, having high-quality jobs, and the ability to generate tax revenue for investment. We are in the situation that we are in because of growth challenges in the economy.

That challenge is not unique to Scotland but is faced by most high-income economies. Some of it is demographic and is caused by an ageing population, but the key factors are weaknesses in growth and productivity. Economists think that growth will bounce back at some point, but it has not done that yet. The next hope is that tech will get our productivity back up and running. There is lots of policy work: the UK Government industrial strategy really tries to focus on that, and the Scottish Government is doing similar things.

One reason why we do not know where tech will go or what the effects of it will be is that we do not know how much the revolution in artificial intelligence and the shift into tech will be what we call labour enhancing or labour replacing. We do not know how much it will make us more effective in what we are doing, leading to improvements in economic growth, and how much of it will just replace what we are already doing, with the effects essentially cancelling each other out. You only have to look at the current stock price of some big companies to see that people have placed a big bet on the first of those options and think that AI will be labour enhancing. However, if you look at recent stock prices, you will see that some people might be taking a slightly different view or feeling concerned about whether the payoff will be as big as we hope.

The Convener: There is also the issue of broadening the tax base, which we might come to in a few minutes.

I found it really quite touching that you wrote in paragraph 3.1 of your report something that you have reiterated today:

“Political parties need to be clear about what the Scottish Government can afford and the impact on public spending for people in Scotland. Manifestos should make clear if any additional spending commitments set out would need cuts to other areas of spending or raising more revenue to fund them.”

I thought that it was quite sweet and innocent of you to write that.

Professor Roy: We get to hold you to account at the ballot box.

The Convener: I know that our manifesto will meet those criteria.

Professor Roy: There is a really important principle.

The Convener: Yes, there is.

Professor Roy: We make two points. One is that we are facing a challenging fiscal situation, which sets the context and constrains the narrative. Our second point is about whether there is a long-term plan for fiscal sustainability. I do not have the expertise to know whether you can work on that in the heat of an election campaign, but, when the new Parliament and Government come in, they will see the reality of what is available in the fiscal envelope, and that is when the rubber will hit the road.

The Convener: Parties err on the side of optimism because voters do not want to hear that things aren't really going to get much better for the next five years, which is effectively what you are saying. There is a real issue with trust and delivery and with whether everyone can say what they need to say.

One thing that shocked me is something that we have discussed before to some extent and that is stark in the figures that you have set out. When writing about social security and adult disability payment in paragraph 3.19 you say:

“We estimate the number of people receiving ... ADP has increased from 320,000 in 2021-22 to 475,000 in 2024-25. The percentage of working age adults in Scotland reporting a disability rose from 19 per cent in 2020-21 to 28 per cent in 2023-24.”

That figure is still rising and you go on to say that you anticipate

“that the total number of people receiving disability payments in Scotland will exceed one million by 2030-31.”

I know that adult disability payment is not means tested, which means that people who are working can also be on that payment. People often get that payment for life, although it can be reviewed every two to five years. Why are so many people on that payment? Are so many people in society really suffering from a disability?

Professor Roy: The number of people receiving the disability payments is lower than the number of people who report having a disability. That suggests that large numbers of people have a disability but are not in receipt of those payments. One feature of the trend that we are seeing is more awareness of the potential opportunity to access payments and of the differences in systems, which are now leading to

higher inflows into the payments, not just in Scotland but across the UK.

As we have discussed before, we are seeing a rising trend of people saying that they have a disability, particularly in relation to mental health and wellbeing. In respect of young people, that is particularly worrying. We have previously spoken about child disability payments and so on. Again, the situation is not unique to Scotland. Lots of work has been done to examine the decline in mental wellbeing across different countries. It used to be that the graph of wellbeing was a U shape, with people having higher levels of wellbeing when they were young and then when they were old when they had relatively high incomes, and lower levels of wellbeing when they were working and in middle age. That U shape disappeared, and there are now relatively low levels of wellbeing at a relatively young age.

One interesting policy question concerns the long-term effects of that. If there are significant inflows of young people into disability payments, with young people reporting disabilities in mental health and wellbeing in particular, what are the long-term effects of that on society, public services and the economy? The data shows the inflows over the past few years, and the obvious questions are about what is driving that and what we can do upstream to improve policy or take action so as not to have that considerable inflow.

The Convener: The rise seem to be inexorable. Are we really becoming a sicker society in such a short period of time? One could argue that there was a significant increase during Covid—I do not think that anyone would disagree with that—but Covid is now some years in the past. Of course we realise that it had an impact on the younger generation, but this is not just about younger people, is it? The data would not concern 28 per cent of those of working age if it was only about young people.

Professor Roy: No, it would not.

There are two parts to it. First, in a chart in our report, we consider the uplift in—

The Convener: It is in all age groups, is it not?

Professor Roy: Yes—across all age groups.

There are two parts to it. First, the biggest uplift is among young people. That pressure is concerning. Secondly, with the proportion of people on disability payments rising with age—as we would expect, as we get older—there is a fiscal cost as our population ages, so even if we maintain the same levels of disability prevalence, but the population ages, it will cost more money and put more pressure on public finances. Because our population is ageing more rapidly than that of the UK overall, there will be a net fiscal challenge: the

flows coming in will not match, because England and Wales do not have the same population profile.

The Convener: That is an issue. You say at paragraph 3.37 of your report that

“the funding the Scottish Government receives from the UK Government because of its spending on climate change mitigation”—

this being in a somewhat different area from social security—

“would not be sufficient to cover the total costs faced by the Scottish Government.”

We are in a situation where we will potentially end up with a growing fiscal gap. Do you see that happening?

Professor Roy: This is where the nature of the fiscal framework does not always link through to where some of the pressures may be. The largest part of the budget remains the Barnett payments, which are a population share of equivalent spending in England or in England and Wales, depending on the element. If more investment is needed in Scotland for climate change, for instance, a Barnett consequential of similar investment in England or in England and Wales will not match the additional spending that would be needed in a Scottish context.

I was down in London yesterday, and in the chats that I was having, a number of people kept pointing out that Barnett gives Scotland a higher percentage of spend in the first instance, but that just means that any growth from this point will only be a per capita share, while some areas will need a higher share than that.

The Convener: In one of your Scottish Parliament information centre seminar presentations, which covered the long-term impact of climate change, you said that the UK cannot reach its climate goals unless Scotland reaches them because of the disproportionate amount of work that needs to be done on, for example, peatland restoration. Is that factor being taken into consideration?

Professor Roy: You are right. We have said that it not just that the UK needs Scotland to meet its climate goals but that the UK needs Scotland to meet its climate goals earlier. The target in Scotland is important for the UK to meet its goals.

This is an issue in which there is an interconnectedness between Scotland’s fiscal framework and a shared policy endeavour with some policy responsibilities that are reserved and some that are devolved—we talked about that when we did our climate change work. For Scotland to meet its net zero target, decisions need to be taken by the UK Government on

energy, the grid and transport. Scotland needs decisions by the UK Government to feed through. On the spending side of things, how much and when the UK Government spends on net zero and climate change mitigation will have an impact on how much money the Scottish Government has available.

Equally, you are right that what the Scottish Government does will have an impact on whether the UK will meet its targets.

This is a classic area in which such coordination and interconnectedness rub up against the fiscal framework. In the future, it might be an area in which there are genuinely shared policy priorities that require the two Governments to work in lockstep to meet the targets that are set out. Whatever people think about the constitutional settlement and the politics that are involved in that, it is a simple, mechanistic fact that certain decisions need to be taken at certain points in time by different tiers of Government—including local government—in order for collective targets to be met.

The Convener: Thank you for that response. I have just two more questions. In paragraph 3.41, you stated that spending on the Scottish child payment will be £552 million by 2030-31, which will be an increase. Given that the birth rate is at a record low level, one might have expected that sum to fall, unless poverty is expected to rise. Why is the sum going up?

Professor Roy: A large part of that—Claire Murdoch can correct me—will be due to the effects of inflation.

The Convener: The sum is not in real terms, then.

Professor Roy: It will largely be due to our assumption about rising inflation rather than falling—

The Convener: Sorry, I just assumed that it is a real-terms figure.

Claire Murdoch (Scottish Fiscal Commission): It is a nominal figure.

Professor Roy: Yes, it is a nominal figure.

The Convener: Okay, that is fine—apologies.

In paragraph 3.28, on local government services, you stated that

“the Improvement Service reported that in 2022-23 and 2023-24”—

that is a couple of years back—

“(the most recent data available) more performance indicators declined than improved ... 45 per cent compared to 39 per cent”.

Will you tell us what you think the reasons for that

are? Is that balanced? For example, were the 45 per cent of indicators that declined in large or small areas of local government spending, or were they equally balanced? Some indicators might be quite small while others might be significant. Will you tell us a wee bit more about that picture?

Professor Roy: The general point that we made is essentially twofold. One aspect is about the legacy for the next Parliament, which will face and inherit pressures, particularly in areas such as local government and health services. Local government is a particularly interesting area because it has been under pressure with regard to budgetary allocations in the current parliamentary session. The tight settlement in the spending review and the prioritisation of health and social security means that local government will again be under significant pressure. Simple cash and funding is one of the big factors that is driving the decline.

Claire, do you want to come in on some of the specifics?

Claire Murdoch: Those figures are based on reports by the Accounts Commission and the Auditor General. We are highlighting their conclusions that the declines are important findings, that public services are under pressure and that performance is declining in more areas than it is improving.

The Convener: Governments, wherever they are, always talk about reducing spending or keeping spending the same, and, if they increase it—I say that because, if we look at the big picture, we can see that there are real-terms increases—that increase might be less than is required. However, efficiencies do not always follow: the fact that you are spending less money in an area does not mean that it will become more efficient.

09:30

Professor Roy: I agree. One of the really interesting things to pick up is that the Government has set out quite an ambitious efficiency-saving target. The spending review is underpinned by £1.5 billion of efficiency savings. The Government has started to set out in broad terms what that would look like in individual portfolios, but there has been no detail about what the savings will be and how they will be monitored over time so that, if there have been, for example, £1 billion-worth of efficiency savings in health, we can see what they have been and what the consequences of them have been. That will have to be considered at the start of the next parliamentary session.

We can say that we are going to make efficiency savings to get the budget to balance and then allocate all funds to the various elements. However, you are right to say that, if we just move

on to the next budget and say that that is what we are spending and we will make some savings in certain ways, there will be no read-through to how the money has been spent and what the outcome of stopping spending money on certain elements has been.

The Convener: It all comes back to outcomes.

Thank you for those responses. Michelle Thomson will ask the next questions.

Michelle Thomson (Falkirk East) (SNP): Good morning, and thank you very much for your kind comments. I would like to confirm that I am not retiring—I will just send that signal to the marketplace. In return, I thank you very much for all your efforts. I have seen some great stuff emerging over this parliamentary session.

I want to take things up a level. Obviously, we are focusing on your publication, but our conversation now has to take place in the face of the considerable uncertainty introduced by global events over the past few days. We can be pretty certain that what is happening will flow through into the economy in terms of inflation, and that there will be a short-term impact on supply chains and so on. However, there might also be a longer-term impact in terms of increased defence spending. I would appreciate your thoughts on what the impact of the situation might be. We have some models to draw on, such as what has happened as a result of the Russia-Ukraine conflict. Have you started modelling scenarios? You might not have done that, but I would appreciate your thoughts, anyway.

Professor Roy: That is a really interesting question. As is the case with the productivity assumption, we always hope that the next few years will be more stable globally, as that is one of the key things that will help economic growth to recover. Such shocks have an impact on growth in various ways, as they dissuade investment and create uncertainty, which acts as a brake on growth over the medium to long term.

There are probably two or three key ways that the current situation will flow through into the Scottish budget. First, you are right to say that Scotland will not be immune to any global economic slowdown that might occur and that there will be an impact on the Scottish economy and Scotland's trade. There is always a slight quirk or disconnect with regard to the outlook for the Scottish economy when things occur that have an impact on energy. When energy prices rose after Russia's invasion of Ukraine, we saw that that had an impact on Scotland, particularly in the north-east.

Overall, there will be an impact on economic growth, and there will be effects on individual

sectors such as trade, tourism and the like. I mentioned the broader point about the drag on investment from the uncertainty that is created.

All of that is on the growth side. On the inflation side, you would expect that anything that leads to higher energy prices will flow right the way through into inflation. Inflation is still above trends—it is still sticky—so that might lead to more aggressive action from the Bank of England to try to pull down inflation, which might lead to effects on interest rates.

All those effects will impact on the economy, which, in turn, will have an impact on the UK's fiscal position. Even before we think about the reprioritisation of spending, everything that I have set out means that the fiscal targets will be a little bit harder to meet. That is not so much the case on the spending side or the revenue side; it is more to do with the fact that the economy will not grow as much as we might have thought that it would, which gives us less fiscal headroom. That then feeds through into what might happen with future plans around spending, which might lead to shifts in where money is allocated. One of the reasons why the block grant is growing so slowly relative to the overall growth in public spending is that the Government is prioritising defence and security spending relative to other areas, which means that there is less money flowing through to education and such things, which in turn leads to effects on Barnett. Overall, it is still very early days, and we need to wait and see what happens, but those are the sorts of things that would act as headwinds for the outlook for the Scottish budget and the economy.

As to what we will do about it, we will monitor things. The Office for Budget Responsibility report is out today. It will probably not have much in it, because it will have been written before the weekend; the Chancellor of the Exchequer will probably provide an update on the Treasury's assessment of how the situation will feed through. That will be the first signal of any UK-wide macro effects at the margin, but it will probably take a few months. It is the sort of thing that we will work on over the summer to see what the effects will be before we publish our updates later in the summer.

Michelle Thomson: Either way, the effects will not be good and will add to an already constrained situation in a number of different areas.

Professor Roy: It is interesting to look at the analysis on living standards in the report. We show that there was growth all the way up to the financial crisis. Since then we have had the uncertainty around Brexit, Covid, the Russian war in Ukraine and the energy price collapse, and now we have the situation in the middle east. There has been a constant series of shocks that have had an impact

on the Government's ability to manage the public finances and grow the economy.

Michelle Thomson: Is there a risk—for a multitude of forecasting agencies, not just your organisation—in the wish that things would turn a corner and go back to a certainty that, in reality, is just not going to arise? Is that something that you are aware of in your organisation? As you said, post-2008 there have been non-stop productivity issues but there is an idea that we are going to return to a world that arguably no longer exists.

Professor Roy: Yes. I was studying at uni when we were in the nice decade, everything was stable, and we had cracked macroeconomics.

Michelle Thomson: An end to boom and bust, I seem to remember.

Professor Roy: An end to boom and bust, yes—there were all those good phrases. You are right—we have seen a general weakness in productivity plus the succession of shocks that feed through to the economy. The challenge for us—this is something for us to think about, and we have tried to do a bit more on it—is that we have to forecast a point estimate for the economy and for revenues, because that is what we are there to do, because that underpins the budget. You are right that, as of today, we do not know exactly what the economy will do next year, given everything that is going on. It is highly uncertain and there is a challenge for us about how we communicate that uncertainty and how we present it in a way that does not just say, “Well, it could be anything,” but gives people reasons why it is not guaranteed that growth will be 1 or 1.5 per cent. There is a lot of potential movement around that.

Michelle Thomson: It was good that the convener brought up the point about climate change, but the other issue is technology. There are many reports emerging with amazing projections around what AI will ultimately do to the labour market and how that will flow into the wider economy. I appreciate—I have probably asked you about this before—that it is impossible to forecast that with any degree of accuracy. However, there will be a tipping point where, without giving that consideration, we are all living in an utterly meaningless bubble because there is no certainty whatsoever. How do you manage that?

Professor Roy: Some of this is about putting things into context. This is just a personal view, but I think that some of the stuff about AI—for example, how much it will radically change everything, at least in the short to medium term—has been overegged. However, it might well have an impact; indeed, we highlighted in January the OBR's work on this and its suggestion that AI might boost productivity towards the end of the

forecast period. We say in our commentary that we believe something similar.

The key thing—this brings me back to what I said to the convener—is whether the improvements that we are seeing in tech and digital at macro level are labour enhancing or labour replacing. That will be the key effect at that overall level. Within that, though, there is a really big distributional question: if AI replaces labour, who benefits? The answer is, not the workers who are being replaced, but the people who own the capital and who are doing the replacing. How we ensure that those effects are distributed fairly over the long term will probably be the big policy question, not just for Scotland but at the macro, global level.

Michelle Thomson: Getting back to the matter in hand, I want to ask about something that Liz Smith usually brings up—the behavioural impact of fiscal drag. I know that you routinely factor that in and make an assessment of it, but have you given any further thought to the quite stark differential between Scotland and the rest of the UK with regard to the number of people who are being pulled into the higher-rate tax band? Is that increasingly becoming a concern? How are you treating it?

Professor Roy: We monitor that all the time. John Ireland might want to come on in this, too, but we always look at tax elasticities and check that they are still based on the right evidence.

The really important issue is the type of people who will pay the higher tax rates and what flexibility they have to change their behaviour. We tend to assume a much higher elasticity of response at the top end of the income distribution, because those people tend to have greater flexibility to adjust their tax affairs, whether it be to self-incorporate, to relocate or to work fewer hours. The vast majority of people affected by fiscal drag and the freezing of the higher-rate threshold will be those in salaried jobs who will have much less flexibility to take action or do anything in the short run.

In time, we might see certain effects at the margin—for example, the removal of things such as part-time working, flexible working and early retirement—but, for the most part, we are not likely to see radical or huge changes in behaviour, because of the nature of the labour force and the types of people going into the higher tax bands.

Michelle Thomson: That leads me to my final question. You talked at the start about my pushing on diversity; I did a routine keyword search of your report and I noticed that the word “women” is mentioned once, “disability” is mentioned 28 times, and “child” is mentioned 40 times. It was a bit hard to search for “ageing”, because you use different terms.

Thinking about the challenges that we face—particularly with the cuts to health and social care, which we know will have a disproportionate impact on women, given their caring roles, how many are in those sorts of professions, the poverty effects and so on—I have to wonder why we are blind when it comes to any such data in your report. I have highlighted this issue before, but can you tell me what your rationale is in that respect? I would like to understand it. Moreover, might you consider doing something about that in future, given the disproportionate impact that we are seeing in certain emerging scenarios? I do not think that your report gives us that data or that insight, which I am sure that you have.

Professor Roy: It is a fair challenge. Partly, it is to do with the fact that we are looking at the macro effects. When we look at particular child or disability issues, it is because we have picked them up in the public finances. However, you are right. More could be done to look at the inclusive effects, the effects on growth and whether, say, cuts to local government budgets are having a disproportionate impact. We have said that, if there is a demand for that sort of thing, we might start to feed it in and look at it in, for example, our long-term fiscal sustainability work.

Part of it comes back to the quality of data, and we have talked about some of the real challenges with labour market data. That would be the obvious place to look at gender differences, but we have faced some really big challenges in that respect. I hope that that will start to turn around, which will mean that we can take a better look at different rates about effects on the economy and what sectors are most likely to be exposed to economic shocks. We would probably pick that up in our fiscal sustainability report.

09:45

Michelle Thomson: You could also help me in what has ultimately been my failed mission to get the Scottish Government to routinely disaggregate and collect data by sex. It does so in many areas, but not in others.

That is me, convener.

The Convener: Thank you. We will go to Liz Smith, followed by John Mason.

Liz Smith (Mid Scotland and Fife) (Con): Good morning. Thank you for your kind remarks. I also put on the record my gratitude for all that you, Professor Roy, and your colleagues have done for this committee. Your work has been extremely important to the Parliament, so thank you very much for that. I am not sure that the data that you have presented to us means that there is enough for all of us to retire, but thank you very much for all your work.

I will concentrate on the section in your report about the in-tray for the Scottish Government. The convener quite rightly pointed out paragraph 3.1, which says:

“Political parties need to be clear about what the Scottish Government can afford.”

That is absolutely true. All political parties should—they do not always do it, but they should—make sure that, when they are presenting their own policies in manifestos, those policies are properly costed. It is also important to note here, and this is a message for members in the next parliamentary session, that when Governments state their overall objectives—we have four from this Government: tackling child poverty, ensuring economic growth, having sustainable public services and addressing climate change—those are all ambitions and aims, not the specific policies that underpin what we are trying to do.

When any Government sets its priorities, do we have enough data to tell us which policies are providing the best outcomes when it comes to delivery, and do we have enough data on which policies have been deprioritised because they do not deliver in the same way?

Professor Roy: The short answer is that we do not have that data. It is not routinely published or collected by the Government in that way. It is for the Government to evaluate and track policies. The climate change policies are probably a good example of that. We said what the Government needed to set out and that it needs to be able to trace through the policies and their effects on the reduction in emissions. We also told the Government that it needs to get that information to speak to the budget, so that we can open up the budget document and see exactly where the money is going and how it flows through to the policies, which then flow through to what is happening to emissions; however, that has not happened.

Liz Smith: I know that you cannot comment on what policies the Government should choose, but would your advice to those in the next parliamentary session be that greater care should be taken to set out in the budget what the priority policies are and to provide the evidence that underpins them, so that there is better delivery of the policy outcomes?

Professor Roy: In general, anything that improves transparency or helps scrutiny is welcome. For example, for big-ticket items, what are your collective policies? How much are they costing? When will they be delivered? What is the effect? That can be done. You can do an appraisal of what you think the effects will be, you can monitor whether the effects are as expected, and then you can evaluate whether they have had the

necessary impact. It is entirely possible for policy makers to do that.

Liz Smith: I am asking the question on the back of the comment that political parties need to be clear about what Government can afford. Part of making spending decisions depends on which policies we feel are making the greatest impact in what we are trying to achieve. Over my 20 years in this place, I have found that that is quite difficult to track, which makes it difficult for MSPs, but particularly for the Scottish Government and this committee, to be able to drill down sufficiently on where we are getting the best bang for the buck with public spending. Given all the challenges that you have set out in your report, it is vital that we try to do a bit more on that.

Professor Roy: There are two parts to that. I understand that the Parliament and MSPs have limited resources to do that sort of dive, but the Government has the resources to do that if it wants to and that might give a future finance committee the opportunity to really scrutinise priorities. What we said about climate change was a good example of that. The committee could ask what the Government is spending and when, how that is being tracked, what the Government is not doing and what it is evaluating and could ask it to be open about how that works.

The medium-term financial strategy could do that and we have said that we think that we could have more of a role in the MTFs to track and to do a bit more scrutiny of Government spending. That will always be relatively macro, whereas you are talking about getting into the weeds to work out details such as whether an extra £100 million for tackling child poverty would best be spent by uplifting the Scottish child payment, by supporting breakfast clubs or by giving money to local government.

Liz Smith: That is exactly my point. We need to find more detail on that to ensure that we are spending money in the best way possible.

My other reflection is that the next Parliament will face several seriously big challenges and that one of those is to make a decision on universal payments. There is a lot of commentary at the moment about what universal payments deliver and how well they deliver it. Will it be easier in the post-election period—as opposed to now, during the pre-election period—to get cross-party evidence, or additional evidence from outside, to help us understand the universal issue? There is an argument that we cannot possibly afford all the universal payments that we have just now without considerable implications for the rest of the budget.

Professor Roy: There will be a policy decision about the relative focus and we would not

comment on whether that was the right thing to do. However, I can make a couple of general comments.

Universal payments cover a lot of things that have quite significantly different costs. It is important to work through what we mean and what the potential implications are, which goes back to your first question about evidence. What is the evidence that a universal payment is having the desired effect? Is it having a skewing effect? How much does it cost? What could be saved? What might be the opportunity cost of spending that money somewhere else?

Our numbers suggest that the next five years will be really challenging, so we may have to start having conversations about the fact that, from an arithmetic point of view, continuing as we are will be really challenging and that things will become more tricky if we do not take different actions. We might start to think about where we could do something different or about how much of what we do is a priority and whether we might spend the money somewhere else.

Liz Smith: That is very helpful.

My final point is about the fiscal framework, which, technically, is also in the next Government's in-tray. I am not asking you to say what the policy behind that should be, but would you like the Scottish and UK Governments to address any aspect of the structure of the fiscal framework?

Professor Roy: John Ireland and Claire Murdoch will want to come in on that, so I will be really quick.

There is the broad challenge of how the Government balances its budget every year, whether it has the levers that it needs for cash flow, budgeting and monitoring and whether those are flexible enough. In recent years, we have seen the Scottish Government increasingly using things such as ScotWind as balancing mechanisms. If the Government does not have enough in reserve, cannot borrow enough and does not have the ability to have an overdraft, it can say that it will use ScotWind as a balancing item. That just does not feel right, so there is a question about how much flexibility the Government has to manage the budget.

The timing of fiscal events will always be tricky. More certainty around fiscal events and more time between a UK fiscal event and a Scottish fiscal event, so that the Parliament has time for scrutiny, would seem to be obvious asks. I do not know whether Claire Murdoch and John Ireland have a wish list, too.

Claire Murdoch: With many of the things in the fiscal framework, we can explain the effect of the way that they work, but, ultimately, those are

matters for political negotiation. Both sides engage in political trade-offs that determine how the framework works.

Other than on the issues that Graeme has already talked about, it is a bit hard for us to make recommendations about how things should work, but, given the interlinkages that there are between the Scottish budget and the UK budget as a result of fiscal devolution, the point about timing is probably one of the most important ones.

Liz Smith: Thank you.

John Mason (Glasgow Shettleston) (Ind): You said that I was healthily sceptical, so I will continue in that vein.

We have looked at all sorts of things, including commissions, and the point has often been made that there is a need for public inquiries because there is a lack of trust in the public sector. However, the confidence that people have in the SFC—along with others, such as the Auditor General—is exceptional. That is very commendable, and all of you are to be thanked for creating that position, which we want to continue.

Returning to my healthy scepticism, there is a section in your report on the impact of UK Government fiscal decisions. I am interested in that whole space, which we have touched on previously. We can plan all we like, and we can believe that we have a certain deficit or budget gap, only for the situation with regard to winter fuel payments, the two-child limit mitigation or welfare reforms to suddenly change. How do we get the balance right in that regard?

Professor Roy: That is a great question. The first few years of the big tax and social security devolution measures were all about the Scottish Government doing things differently. A lot of our discussions were about what the Scottish Government had chosen to do, the cost of that and how the cost had increased. However, especially in the past year to 18 months, it has become evident that we are dealing with an interdependent process in which UK Government decisions have a big impact on the Scottish budget.

That has come through in relation to social security, in particular, but it could also have come through in relation to tax, because, back in October, there was talk about income tax changes at the UK level, which would have had an immediate and significant impact on the Scottish budget. That is the nature of the framework. If the UK Government takes decisions in areas that are devolved, that will have immediate consequences for the Scottish budget.

That brings us back to the point about the fiscal framework and what we should do about it. Are there things that could be done that would enable

us to do more planning or to have greater certainty? Obviously, having only one fiscal event a year might help in that regard, as it would enable us to see potential effects. The £1 billion swing that we saw between our forecasts in June and our forecasts in January was largely to do with potential changes in UK Government policy. That is an example of what the Scottish Government has to deal with.

The point of principle is that Scotland should not benefit from or be negatively affected by decisions that will have an impact on England and Wales. That is how the framework works. However, from a public finance point of view and a management point of view, there is an issue with timing, which relates to the ability for such events to move around. That is a particular challenge.

John Mason: In an ideal world, we should ask the UK Government, as part of the fiscal framework, to always give us a year's notice, say, before it makes any change, which would enable us to plan accordingly. Even today, the UK Government could make a dramatic announcement. It has hinted that it will not do so, but, if it did, that would immediately impact us.

Professor Roy: Claire Murdoch might want to come in on that. The timing is key. If the UK Government decides to reform the personal independence payment to reduce payments for people in England and Wales, under the fiscal framework, it is entirely right that Scotland should not benefit from that. If savings are made in England and Wales, Scotland should not continue to receive the same funding. Savings should be made in Scotland, too. It will then be up to the Scottish Government to decide whether to mitigate that.

That is the framework working as it should. The question then is, how much time does the Scottish Government have to plan for that? Again, that comes back to the question of whether, within the framework, there might be greater ways of flexing money within a year. The Government can borrow only for forecast differences in social security that come through in-year, when the block grant is adjusted; it cannot structurally borrow—it cannot say, for example, “You told us about this change in December, but we were not planning for this. You should give us a grace period.” There is no mechanism by which it could borrow to deal with that issue and then pay the money back, with a year to plan and get ready for that.

10:00

John Mason: Am I correct in thinking that, sometimes, when a last-minute change has been made, we have been given a bit of extra flexibility?

Professor Roy: There are some things that would be handled through the Barnett formula, which happened in the pandemic period, when things were done around certainties of payments and so on. There have been changes to different elements of flexibility. There is also stuff within the fiscal framework about delaying the effects of announcements that are made. However, I guess that your broader point concerns something that might be outside that grace period. If there was a big and significant change relative to what the Scottish Government had planned, adjustments would have to be made accordingly.

Claire Murdoch: There is a bit of a strange issue in terms of timing. If the UK Government makes an announcement in the autumn and then we have our Scottish budget, that has to be factored in when the budget is set for the next year. However, if the UK Government makes a change today for next year and then there is provision in the fiscal framework, that means that the Government does not take the hit initially and the change will come through a bit later. The reality of those timing differences in terms of the Government having to manage the situation is pretty negligible, though.

There are small technicalities that relate to whether we have some adjustments. For example, outturn data from the Department for Work and Pensions came in a bit late last year, so the Government has deferred the final reconciliation until next year. That issue came through in the autumn, but we could still have some big changes coming through during the current financial year on social security or the fully devolved taxes that the Government has to manage in-year. There is a bit of imbalance about when the Government can access borrowing and when it cannot.

John Mason: Is that almost inevitable, or could we pin something down in a revised fiscal framework that would tidy it up a bit?

Claire Murdoch: I think that Graeme Roy can answer that.

Professor Roy: The one way that you could do it, from a technical point of view, would be to allow the Government to borrow on the revenue side, not for a forecast error but to address the impact of a major change in policy, or just to enable it to have some funds to manage the situation from year to year.

Claire Murdoch: If the UK Government stuck to its system of having more regular spending reviews, that would be helpful. We had the UK spending review and we had the MTFs, and there have been changes since then. The Government should be planning over a three-year period, and you can see that those uncertainties and changes will have an effect on planning and the budget over

that time. However, under the fiscal framework, the Government can borrow or make those adjustments only for the coming year's budget.

John Mason: Earlier, the convener mentioned the £1.5 billion savings. Paragraph 1.45, on page 13 of your report, says:

"The Spending Review indicates the Scottish Government has identified £1.5 billion of savings".

Is that just savings in a very general sense, with nothing specific being identified?

Professor Roy: We do not know. We hope that the Government has identified specific savings. You may remember that, at the time of the spending review, the Government published a document whose name I cannot remember—it was something to do with portfolio efficiency plans—in which it broke down that £1.5 billion by the savings that it expected to be made within each portfolio. There are two ways in which that could be taken: it could be a macro imposition of how much portfolios must save, or it could be a bottom-up assessment based on what the people who work in the portfolios think could be saved, which adds up to £1.5 billion.

John Mason: On the issue of the population ageing, I am just wondering how much I should worry about that—obviously, I am ageing and am about to retire, so that is one angle. More widely, however, we have figures for the percentage of the population that is between 16 and 64, which traditionally was the working-age population. I guess that we will continue to use that demographic so that we can compare the situation with previous years? Is that right?

Professor Roy: Yes.

John Mason: Practically everyone now works until the age of 66, and the age is gradually increasing to 66 years and two months, or something like that. Does that counteract the problem, or is it still a problem?

Professor Roy: The main effect is on the spending side. You are right that the traditional working age is changing, which might have a marginal impact on income tax revenues over time as people move into retirement at 65 and above. The broader point—and what really matters from a Scottish perspective—is twofold. It is not so much about the population that is aged 65 and above as about the fact that the number of those who are aged 75 and above will increase, particularly in Scotland, over the next decade or decade and a half, which will affect Scotland's share of the population within the UK. It is not just that Scotland's population is ageing; it is that it is ageing more quickly than that in the rest of the UK. Scotland's Barnett share of health spending is based not on age but on population, so we think

that, over the next 10 to 15 years, Scotland's age demographics relative to England's and even Wales's will create a particular pinch point. The population in England and Wales will catch up with ours in the future, but there will be a wedge over the next 10 to 15 years during which Scotland's population will age faster and Scotland's share of the UK population will increase.

John Mason: The fiscal framework is complicated enough as it is, but we could try to build that in. I presume that Governments could discuss whether they should tweak the fiscal framework.

Professor Roy: In principle, you could vary the Barnett formula or do all manner of technical things. I was in London yesterday, and it was pointed out to me repeatedly that the Barnett baseline is higher in Scotland, per head, than in England and Wales, so you would open up a broader conversation about how needs assessment is done across the UK.

John Mason: That is fair enough. The convener also spoke about the performance level of several key public services falling. Let us take health as an example. There are long waiting lists. Is that necessarily because the health service is failing, or is it because people's demands and expectations are increasing? It is good that there is more discussion about mental health than there used to be. There may not be an increased need for mental health services but there is certainly an increased realisation of that need. Obesity, which was not around so much when I started my working life, seems to have increased. Can we differentiate between demand increasing, on the one hand, and the service failing, on the other?

Professor Roy: The reports go into some detail about the different aspects of that issue. Some of it is because of increased demand post-Covid and the effects of ill health feeding through; some of it is due to an ageing population. The average age of the population is quite different from what it was 20 years ago, which is adding more pressure.

We have spoken about this before, and the convener has raised it, but things such as productivity measures within the NHS have been under pressure and in decline, and they have been challenging in recent times. There have been challenges with delivery, delayed discharge and all those sorts of things. When you package it together, those things all mean that the outcomes have been under pressure and the NHS has faced a challenging situation. Added to that is the fact that health inflation is rising faster than the GDP deflator that is used, which is feeding through and adds to the pressure. The NHS may be getting more money, but the ability to spend it on stuff is

under pressure, because drugs and treatments are more expensive.

John Mason: Is the health service different in that you have to put more money in almost to stand still, especially if we have an ageing population and all the other factors you have mentioned?

Professor Roy: Yes. In a country where the population is ageing, even to maintain the same standard you will have to put more money in. We have made some charts that show that the average demand on the health service is increasing, particularly as people get above 75. So, if there are more people above 75, you need to put more money into the health service just for it to stay still. On top of that, things such as new treatments, new drugs and demand prevalence make the situation all the more challenging.

Of course, the real solution to all of that is not to stop us ageing, because that is a good thing, but—and it is easy to say—to ensure that we age healthily. That is the key thing that needs to happen, and it involves not just health spending but spending across all aspects of the public sector.

John Mason: On productivity, is it inevitable that the health service will always be more people intensive? I have an issue with my eye and, when I go in for a test, I see somebody to do with distance, somebody else to do with pressure and somebody else who gives me an injection. It is quite hard to see how the health service could cut down the number of people involved in such things.

Professor Roy: Yes, it is labour intensive. We have talked about some of the effects of productivity in the health system and why it is different from elsewhere—Claire Murdoch might want to come in on that. In most other sectors and industries, technological improvement leads to efficiencies, reduces costs and has an impact on demand. However, historically, technological improvement in health has led to increased demand and cost. For example, a new drug discovery does not necessarily mean that the health service will save money. It might mean that it spends more money. That is the effect over time.

Claire, do you want to come in on that?

Claire Murdoch: You have summarised it, and we covered it quite extensively in our report last year on health.

Those are assumptions, because, ultimately, society and politicians can make choices about whether they continue to fund health in that way. However, internationally, health tends to receive increases in spending beyond what an ageing population alone might imply and we do not see quite the same improvements in labour

productivity, because health is more labour intensive.

John Mason: Are you saying that it is an international issue and that it is not just the case here?

Claire Murdoch: Yes.

Patrick Harvie (Glasgow) (Green): Good morning. I want to touch on two topics: local government and climate.

Your report picks out the expectation that local government is in line for a pretty raw deal over the coming years compared with other areas of Scottish Government spending. That is in a context where we already hear about severe pressures and about some councils facing a genuine risk that they will fail to meet statutory obligations. Quite a few of the witnesses who have spoken to this committee when we have been looking at our legacy issues have highlighted that in terms of the “broken” nature of the council tax—that is the phrasing that comes up most frequently; in other words, the idea that we do not have a functional modern tax system for local government. We have spoken in the past about the fact that you do not make the projections for council tax because it is a local tax, but that seems to me to echo the fact that the Scottish Government has a bit of a hands-off approach. It will set the financial context for local government, and then it is for local government to worry about the consequences. Will you comment on where we stand at the moment and on the likely impact of the spending reductions that you have highlighted on those services?

Will you also comment on how we grasp the challenge of developing a coherent approach to taxation generally? Assuming that there continues to be a majority in the next Parliament for progressive tax as a principle, an element of redistribution to fund universal services and so on, how can council tax, or local government taxation more generally, play its part in a coherent tax policy for Scotland when the current system is so wildly outdated?

Professor Roy: I will pick up the point about tax and say something about what we think we can do in relation to that, partly in response to your question last time but also to give our sense of what we are seeing from other people in relation to local government.

10:15

You are right that we do not forecast council tax. There is a technical reason for that: it is not in our remit. However, when we look at the basket of devolved taxes, we can see that council tax is hugely important. You will probably know the

reasons why better than me, but it always struck me that there is a broad consensus on wanting to reform council tax but we are never able to do it, and that goes way back—

Patrick Harvie: Yes, it is very tiresome.

Professor Roy: —to the first coalition Government. For most people, council tax is the tax that is crying out for reform to make it more effective and to raise revenue. It is more for politicians and policy makers in the next session to think about what to do about that, but there is work that we can and are keen to do much more of, particularly on the spending side in local government. At the moment, we look at the overall outlook for the Government and what it will allocate to the local government budget and then we see that it will pick up the slack. We can do a lot more to look into that and to consider what aspects local government is funding itself and then trace that spending through to outcomes. That is an area that we are thinking about. It was part of the Organisation for Economic Co-operation and Development review of the SFC, and it has been part of our ask to expand our work into spending. That is one of the areas that we will probably focus on over the next year, namely, what more we can say to help the Parliament in that regard in relation to local government. You are right that we have not really looked at that, partly because it has not been in our remit. However, it is sufficiently within our remit, particularly on the spending side, that we can look into that and say much more about it.

Patrick Harvie: Would that work involve looking at the implications for local government services or for the rest of the public sector, too? For example, when local government cannot do X work to the standard that it would wish, that will have a knock-on impact on the health service; when the Scottish Government is trying to put an extra £100 million a year into culture, the danger is that that simply results in councils cutting their culture spending much more than they already were, because they know that the extra money is coming in from national Government?

Professor Roy: There are two aspects to that. One aspect, which is interesting, is what is happening to the overall feed-through of spending, but the really interesting bit is how the areas interact. For example, in some of the big-ticket areas, how do we know what the different spending priorities will be and what the interaction is between those? For example, from the data that is published by the Scottish Government, do we know what local government is saving and which local government budgets are declining but also what else the Scottish Government is spending that is offsetting that? We would be really interested in doing work on that. Education is a good example, because we now have local

government spending on education but the Scottish Government also spending money and transferring revenue. Tracing all that through the process will be quite a bit of work but important and interesting work.

Patrick Harvie: You have spoken about climate already a couple of times during the meeting, mostly in relation to the drive to net zero, how to achieve that, whether the fact that Scotland is behind schedule on that will put UK targets at risk, and the cost of catching up the lost ground and making progress towards the targets. However, the flipside is the cost of inaction. I do not know whether the commission has had a chance to look at the national security assessment of biodiversity loss and ecosystem collapse. If my memory serves me well, it was due to be published in August; a shortened, edited version of it was published by the UK Government in January; and, in the past week or so, the media got hold of and published the full version, which showed that environmental damage could cost up to 12 per cent of GDP by 2030. That will be within the term of the Parliament that we are about to elect, and that is a much more significant economic cost than was previously estimated. Has the commission looked at that? You are not an environmental adviser or regulator, but have you looked at the fiscal implications of the failure that we are already in, in relation to ecosystem collapse?

Professor Roy: Yes, you are right. So far, we have looked at mitigation and what the Scottish Government is doing to transition towards net zero. That is important, because if the Scottish Government is serious about the transition, it will have to invest in mitigation, which will need to be part of the planning, particularly around capital. However, we have always been careful to highlight that it must also consider the adaptation piece and the damage piece. We have always started our climate reports by saying that the cost of inaction is significantly greater than the cost of action. I cannot remember what the number is, but we used an estimate from the OBR that basically showed that, when the damage costs are projected forward, the public finances become unsustainable. We start from that point and, based on those implications, assume that the Scottish Government will do something, then we set out what it needs to do and the investments that need to follow.

When we next do the climate work, we will look much more closely at adaptation. The reason why we have not done too much on it is that, when we did our work, the Government had not really set out any of the detail behind it. However, in our next set of fiscal sustainability reports in the next parliamentary session, we definitely want to update the climate work in order to look at the

costs, the adaptation work and the different scenarios—including what happens if you do nothing—and trace those through.

Patrick Harvie: In a way, the point relates to the question that Michelle Thomson asked about whether a range of factors suggest that the old normal is gone and that we will not return to the period that you described—when you were at university—when there were assumptions that everybody worked with. The phrase “limits to growth”—the idea that breaching environmental thresholds will make growth unsustainable—is now older than I am. Do we need to confront the fact that the ecosystem thresholds have already been breached to such an extent that growth is unsustainable?

Professor Roy : That is a subjective judgment and there are different opinions on that. Our general point is right—in the nice decade when I studied economics, the only thing that mattered was economic growth. You would let the economy rip and, although you might worry about that causing some damage, you would find ways to compensate for that. Now, however, there is a much greater understanding that such an approach is unsustainable. There are also differing opinions about whether we still need growth, what quality of growth is required, whether things can be done differently or whether the focus should instead be on the fact that we have already gone beyond our limits and we need to come back from that.

To bring the discussion back to our work, a useful point to consider in the next parliamentary session—this comes back to Michelle Thomson’s point about diversity—is that so much of what we do is driven by the available data and what the Government presents. One reason why we can work on net zero is that the Government has set out a plan, so we can work with it on the data and present our findings. The reason why we have not done so for adaptation is that the Scottish Government has not presented a plan. The challenge is to ensure that we have the data that is needed to support that work, so that we can consider what the Government is doing about what the costs will be if temperatures rise and what the effects will be on housing, the environment and so on. We can then do our work and think about the public finances that are needed for that work.

However, as you said, we are not environmental experts. To do our work, we need others to do the legwork and groundwork. Documents such as our statement of data needs set out the areas in which we will ask the Government to do more, so that we can carry out our work.

Patrick Harvie: Are you saying that you specifically need the Scottish Government to

commission its own work in that area, or could, for example, the national security assessment from the Department for Environment, Food and Rural Affairs be drawn on to help you to understand the consequences for Scotland?

Professor Roy: Yes. In principle, we use other people's reports, and we do so when we can. For example, we use the OBR's reports and we sometimes adopt the Climate Change Committee's methodology.

What matters for us is the Scotland-specific stuff. I have not read that report, but if it includes something specific on Scotland, we can use it. However, if the Scottish Government can do its own work, publish the necessary data and share it transparently, that is good, because it will help to improve the debate. We will then be able to come in and look at the public finance implications—what the hit to tax revenues or the necessary additional investment might be.

Patrick Harvie: That is helpful.

Michael Marra (North East Scotland) (Lab): I return to this year's budget. You are concerned about the Government's pay policy. You mentioned in your report that most NHS Scotland staff will receive a 0.78 per cent pay rise. You clearly do not feel that the Government's pay policy is sustainable. Is that the case?

Professor Roy: Do you mean for the next financial year?

Michael Marra: Yes.

Professor Roy: You can see from the report that we choose our language quite carefully. The Government has set out a 9 per cent limit for the pay rise over the period. It is really close to that limit. In our report, we use the phrase:

"we think there is a risk that pay awards will exceed 1.1 per cent in 2027-28."

That is why, in our income tax and earnings forecasts, we did not use those projections. When we were forecasting, we went back to our baseline assumption that pay awards will be at least in line with inflation.

Part of the outcome will depend on what is on the other side of the ledger in relation to the workforce and how the Government chooses to address that. Clearly, if the Government takes greater action on the workforce, that can allow it to be more generous within the overall pay envelope that it has set out on wages.

Michael Marra: The external commentators—the Institute for Fiscal Studies and the Fraser of Allander Institute, which you know well—are sceptical about the figures holding for the forthcoming year. They are both predicting the strong likelihood of there being an emergency

budget, whoever forms the Government. Do you think that that is a likelihood?

Professor Roy: The Government has said that it will revise its pay policy as part of the budget that it will publish in the autumn. The question is how quickly it will do that. Obviously, unions will have a role in that.

The obvious thing that we say is that, unless there is a change in the funding envelope, if the Government is to put more money into public sector pay, where would that come from? How will the overall portfolio allocations that it has set out in its spending review balance if it must put more money into pay? We need to remember that pay accounts for more than half of the budget.

Michael Marra: For 2026-27, we will have another budget in which we are hoping that something comes along to bail out the Government before the end of the year. That is the distinct impression, is it not?

Professor Roy: We need to keep our years straight. We are saying that the pay awards for 2027-28 must come within the limit. For 2026-27, the position is balanced and that will carry through. The issue is more about what will happen in 2027-28 as to whether the policy will be achievable.

The broader point is that history has shown that Governments come back and add more money through the spending review—although, given what we have seen over the weekend, where that money is diverted to might be different.

One of the Government's planning assumptions might be that more block grant Barnett consequentials will be coming down the line in 2027-28. The UK Government might have a more generous pay award settlement then, which might help out the Scottish Government. We will not know how the funding will flow until a later point.

Michael Marra: I will come back to those assumptions in a moment.

I am thinking about the broader legacy issues. We have talked quite a bit about ScotWind and how it has been drawn on at different times. As you have already said, it has proved quite useful to the Scottish Government as a second reserve. The reality, however, is that this has been created through a windfall. The political pressure is such that the Government is driving the budget to its limits every year, hoping that something comes along within the year to bail it out. That does not allow for any meaningful strategic planning. We heard that last week from those who are directly involved. It is not a particularly sustainable model for managing a budget, is it?

Professor Roy: There are probably two things that I would say in response to that. First, on the broader point about Scotland, if that is being used as an additional fiscal flexibility, we return to the question of whether greater fiscal flexibilities are needed to manage it. Of course, if the Government is using it as a fiscal-flexibility tool, it is not using it for the purpose that it is hoping to, which is to invest in the transition to net zero and in climate measures. If it simply uses it as a bank, the money will not flow through as it would want it to.

Secondly, on the point about—

10:30

Michael Marra: To me, it feels slightly worse than that, though. If it was an existing fiscal flexibility, the Government would be driving to the extremity of that as well. It is because it is not an existing fiscal flexibility that the Government is using it as a real flexibility. If an increased borrowing capability was put in place, the Government would just max that out, wouldn't it? That is the character of what it does.

Professor Roy: If the Government uses it as borrowing, it has to pay it back. If it wants to use it purely so that it does not overspend, a framework could be set up that would allow it to project spending with quite a high penalty in terms of the interest rate and a requirement for quick repayment. It would not have to be like the position on the capital budget. If the mechanism was purely about balancing spending, a high interest rate could be set, just as people have different interest rates for the overdraft on their current account and their mortgage.

You are right, but it is not surprising that the Government tries to maximise the spend. If it did not do that, it would have an underspend, and what would it do with that? Given the pressures that we see in the budget, going right to the limit is, in many ways, a strategy in its own right for managing the public finances, because the Government does not have the flexibility to save money, profile the spending and shift money between years according to relative priorities. The capital budget is a really good example of that. When the Government gets a big lump of capital, it really wants to spend it, because it cannot say, "We'll hold on to that and spend it in year 4 or 5." It has to spend it in the first year.

Michael Marra: We heard in evidence from the Cabinet Secretary for Finance and Local Government that she does not expect the spending review to last, and we heard evidence last week from various organisations in the public sector that said that they still do not have sight of or certainty about a budget. Is the spending review process performing its function correctly and

adding grant certainty to allow public services to budget for their future? On one side, they are being told that the spending review is not going to work, and on the other side it is not giving them much certainty either.

Professor Roy: We said that the spending review was a step forward in that there are at least broadly indicative outlooks for portfolios, which is better than what we have had in the past. However, the specifics could be a lot clearer. For example, information is still published at level 2. What does that mean for individual public services, public bodies and third sector organisations? How can the Government drill down into the detail and give them the certainty that they need?

We have said to the committee before that the spending review is not a one-off event but a way of planning the spending of Government. It is about how we track what is going on and give more information and more certainty over time. It is not about publishing the numbers and forgetting about them. The process is more important than the numbers, and the tracking through the year is crucial.

Michael Marra: That brings me back to our earlier conversation about whether the current model is fit for purpose in a world of radical uncertainty. It is not that the data is redundant, but it does not deal with the black swan events that are now far more common.

Is there a different model that the Government could use that would, in the long term, structure the devolved finances in the right way to deal better with the issues of radical uncertainty, given that you are highlighting as an institution some of the very long-term trends on climate change, the rate of technological progress and population dynamics? I would postulate that, globally, those are not results of the radical uncertainty but causes of it. However, what are we doing to shift that balance? Is there a different model that we could probe with the Government in discussing how it could approach the public finances to deal with that uncertainty?

Professor Roy: It is a great question. I would like to have a think about that, but I will say a few things in response. What matters in our framework is that, in many ways, that radical uncertainty has a disproportionate impact on the UK relative to Scotland. Any shock will flow through both the UK and Scotland, but there is a protection mechanism in the fiscal framework.

The key for me is what can be done to beef up the MTFS in this context. Given that the budget process is so pressurised and is all about marginal changes and the Government setting out exactly what it will spend in 2026-27, I get that it is difficult to have some of those conversations and to think

about all of that. The MTFS was meant to be all about setting out the things that the Government can be quite confident about and its priorities, to come back to Liz Smith's point about the Government's four priorities and what it is doing about them. We could have an MTFS that looked radically different; it could say, for example, "These are our four priorities, this is how much we are spending in those areas and this is the evidence that we have." That would become much more of a report card and a tracking of how the Government is doing with its relative priorities. It would become more of an assessment of whether its spending commitments will run ahead.

What could the Government do to come forward with a document that was published through the year and did exactly those sorts of things that you are talking about in relation to Government trajectories and plans? Such a document might not go into the short-term minutiae about how a pay award is doing or what the Government is thinking about tax or how the tax revenue is going but would almost abstract that out into being much more about what the Government said it was going to do, what it is spending and whether that is having the desired effect.

Michael Marra: There is a reasonable consensus that we are looking at a low-growth, high-debt global context with huge uncertainty over the decade to come. It just feels to me that our political economy is one of driving budgets beyond their reality and trying to balance them, with no real foresight as to how we might plan to deal with the imperatives that sit underneath, such as climate adaptation, ageing demographics and the pace of change. Does it not need a completely different model?

Professor Roy: Things such as the MTFS could be a way of doing that. Ultimately, what levers does the Government have on the spending side? The revenue side and the funding side will largely be determined through the budget. It comes down to what the Government is spending that £60 billion on and how it is spending it in a way that aligns with the priorities and the big challenges that you are talking about. That is the bit that is still to be filled in, and that speaks to the issues around spending reviews, details within spending reviews, allocations and evaluation about what is having an impact and what is not having an impact, and the quality of the data that lets the Government address all of that. That strikes me as being a different model. It is almost a separate process that sits aligned with and connected to the budget but which is much more expansive in what it tries to drill into and look at.

Michael Marra: I empathise with your economics qualification situation. I submitted my economics thesis at the London School of

Economics and Political Science four weeks before the collapse of Lehman Brothers, so it felt like I had wasted all the money, frankly. However, all these years on, we are not really dealing with the consequences, so there is more for us to reflect on in that area.

The Convener: Of course, it is not just global events. We touched on the fact that the UK Government's policy decisions are having huge impacts. A year ago, we were facing an £800 million reduction because of what we thought were going to be disability benefit cuts, which did not take place, and we did not think that the mitigation of the two-child benefit cap was going to happen. There was a potential £1 billion loss because of income tax changes, and then we had the national insurance contribution increases. The UK Government alone toyed with up to £2 billion of potential detriment to the Scottish budget. That goes back to one of the cornerstones of the fiscal framework, which is no detriment. As we have already heard this morning, in the past year alone, there has been huge turbulence and uncertainty in Scotland's finances because the no-detriment aspect of the fiscal framework has not really been adhered to. The Government could, on a whim, have deducted £1 billion from our budget, if it had decided to cut income tax, which, of course, it did not.

Professor Roy: However, from a technical point of view, that is no detriment, working in the sense that—

The Convener: Yes, from a technical point of view, but, in reality, at the end of the day, we are like a ship that can be tossed any way in a storm.

Professor Roy: Yes, and there are two different points. From a point of principle, if the Government puts income tax up in England and Wales, should the Scottish budget benefit? The framework says no, because that would have an impact, so it should not happen.

You are right about the broader point: with the UK Government having that potential to pull levers, perhaps unexpectedly, how does the Scottish Government manage its budget? If there is a commitment to reduce social security payments in England and Wales, we plan on that basis. If the UK Government does not do that, however, that has an impact on what we have planned. If it toys with the idea of increasing income tax but without saying that it is going to do that, we now have to work things out. It is the budget management aspect that is challenging.

I do not think that that counters the point that Michael Marra was making. That is all there as noise, but there is still stuff that you can do. You have £60 billion to spend. It might be £59 billion or £60.5 billion, but you still have all that money to

spend. Are you spending it on the priorities that you want to target, and are you able to achieve the outcomes that you are expected to achieve? That will not change, whether or not there are movements up or down.

The Convener: We are still talking about big numbers in potential changes to the Scottish budget, whether they are up or down. It is very difficult to plan long term with that lack of stability.

We talk about how productivity is looking fairly bleak, but are there any models in a devolved context overseas that we could look to, to see what others are doing for productivity? I am not talking about Singapore, which is a country with no resources, which is independent and which has increased its per capita income some sixtyfold over the past 60 years, whereas Scotland has managed a threefold increase in the same period—which sounds ludicrous until we look at the figures. There are some countries that have done remarkably well from a poor base, but there are others, in Europe, that are in the same situation as us, as you have said. Germany is having real difficulties economically, for example. Where can we look to find somewhere that is managing its economy effectively at a substate level?

Professor Roy: We have a good understanding of what drives productivity; the question is how we execute it in relation to the effects. A lot of that is quite simple—it is about education and skills. The question is whether you are educating your young people in a way that will let them go into high-productive jobs? Do you have a skills system that is fully aligned with the industry that you need to develop, not just now but into the future? There are some good examples at a sub-central level about where that applies.

In some German Länder, for example, universities and apprenticeships are much more linked up with the industrial base.

The Convener: Although Germany is struggling just now.

Professor Roy: At a certain level, yes.

My second point is that there are certain policy levers that you can use around education and skills; the other aspect is about what has happened to various sectors. Historically, that is where we have struggled, because of the hollowing out of manufacturing and the move into lower-productive sectors relative to our competitors. Germany has always done much better by having advanced manufacturing; it has done really well in that respect. It is struggling because those sectors are now not doing as well as they did in the past. The German automotive sector is lagging behind, with the investment by

Chinese companies in electric vehicles having a disproportionate impact.

One factor is about the levers that you can pull, and a second aspect concerns different sectors. The UK Government has talked about industrial strategy, but how can you develop manufacturing, for instance? You have spoken a lot about investment in manufacturing and in high-quality jobs in Prestwick. That is the sort of thing that drives productivity. If you can do that at scale, that can potentially have a disproportionate impact.

The Convener: We are well over time, which is probably a good sign, rather than a bad sign. It is always good when the committee is interested in what the Scottish Fiscal Commission has to say—that is always the case, frankly. On behalf of the committee, I thank you very much for all that you have done over the past few years to inform us. You have had a very important role to play.

While we may all be in pastures new post-May, I am pretty sure that you will be back before our successor committee. Thank you very much. It is important to have continuity, and I know that the Scottish Fiscal Commission will continue to provide that.

10:44

Meeting suspended.

10:51

On resuming—

Infrastructure Delivery Pipeline 2026

The Convener: The next item on our agenda is an evidence session on the Scottish Government's "Infrastructure Delivery Pipeline" for 2026 to 2030, which was published last month. We are joined by Ian Hughes, the engagement director for Scotland from the Construction Industry Training Board, and Peter Reekie, the chief executive of the Scottish Futures Trust. I welcome you both to the meeting; we are grateful to you for participating. We invited some other bodies, which declined to participate, so your presence is particularly welcome. We will move straight to questions.

The first thing that I will ask is taken from the magnificent 143-page tome, known as "Long-term infrastructure Scotland: supporting a sustainable and thriving future", which the SFT published in January of this year. You touch on the 30-year infrastructure needs assessment and the Infrastructure Commission for Scotland and you also talk about how the

"Needs Assessment aligns with Scotland's revised infrastructure investment framework to inform Scottish Government's draft 10-year Infrastructure Strategy (2026/27–2036/37)."

To kick off, can you touch on where we are with this? It seems that an awful lot of work has gone on and it seems to be quite a crowded space. Where are we in terms of the delivery of Scottish infrastructure?

Peter Reekie (Scottish Futures Trust): First, thank you very much for the invitation; it is always good to come and speak to the committee.

The Convener: It has been far too long, Peter—it has been years.

Peter Reekie: It has been a while. You are right that there is a lot going on but all these documents and publications sit together to show a path of trying to get to a longer-term approach to our infrastructure planning for Scotland. Sometimes we say that this is a long-term game played in a short-term environment. With projects that take many years to deliver and very many years to plan, we need to begin to look further ahead and try to build a consensus about what Scotland needs going into the future.

We were asked by the Government to look independently at that very long-term plan—to look at it generationally. We talk about infrastructure being a generational asset and we are trying to take a generational look at it. There is, therefore, a lot of uncertainty. We cannot say which hospitals, which roads, or which schools we need to build

over the next 30 years but we can build up a picture of what the drivers will be across the infrastructure systems, which have to work together, not as a series of silos. What are the things that will impact across those infrastructure systems, which would allow us to base our decisions on them over that longer-term period?

We have identified key drivers, including the economic shape of Scotland, how that is changing and what we need for the economy. We also need to look at our public services and public service reform, because we have economic infrastructure and we have the social infrastructure that provides the roof over public services, so to speak. Those are internal drivers that we make our own choices on.

Demographics, which Graeme Roy talked about, are also a big driver in all our decision making. More specifically, there are infrastructural drivers such as climate change, which you mentioned, and global security, which I would not have been talking about as much even three or four years ago but which is now having an impact on all infrastructure systems, not just on our defence systems but on cybersecurity for all of our infrastructure.

There are also themes that will allow infrastructure systems to work better together. I am thinking, for example, of energy transition, which you have already talked about this morning, and which is a matter not just for the energy system alone. It affects how we heat all our buildings, our mobility and so on, and it is a cross-system issue that needs to be planned for.

There is also the nature positivity of our infrastructure systems. In that respect, we are thinking not just about our natural infrastructure itself but about nature-positive solutions for all of our infrastructure, the availability of nature and, for our social infrastructure in particular, access to nature. We are also prioritising place, because all our places across Scotland have different needs, and we must look at what we are doing about that at national, regional and local level.

Another issue that you have talked about is how we use data and technology, and there is much that we can do to improve our use of data. For example, there are what we call digital twins—that is, the sensors that you put on your assets to provide you with the data that will help you maintain and use the infrastructure better.

There is also the issue of asset and climate resilience, which is all about how much we are spending on maintaining and enhancing our existing assets instead of building new things. I hope that we will come back to that, because that is a really important subject.

The Convener: Come back to that? We have just started the session.

Peter Reekie: Come on to that, then.

The final issue, for me, is managing demand. As infrastructure folk, we are in many ways predictors and providers, but there are lots of tools available in policy areas that help us think about how we can influence behaviour and to think differently about demand. We cannot, in many cases, direct things to happen, but we can, as well as providing what is needed, use our influence to help change demand dynamics.

Those are some of the common themes that we think will pertain over the 30-year period and which will help us think longer term about our infrastructure systems. It is all about helping the big silos that have to operate individually to think better together; it feeds into the Government's infrastructure strategy, which sets out the prioritisation framework and what will be important over the next 10 years, and that, in turn, feeds into the delivery pipeline and what will happen over the next four-year spending review period.

In other words, we are trying to build the long-term picture that links to the mid-term and short-term pictures. Indeed, part of the consultation on the Government's infrastructure strategy, which is live at the minute, is about how those elements should fit together and what the sector sees as the important elements of our long-term view that should be brought into more immediate prioritisation decisions.

The Convener: I think that, from a layperson's perspective, what people see when it comes to infrastructure projects is an awful lot going into planning and a lot less going into delivery than perhaps should be the case. I do not think that you will be desperately keen to talk about specific projects—and that is not necessarily what we want to do—but I remember the now Lord Cameron, when he was an MSP, asking about the consultancy fees with regard to the Rest and Be Thankful project, and the amount being something like £18 million. A lot of people, like me, were shocked by that and thought, "Was some guy getting paid £1,000 a day or something?"

That might sound simplistic, but it seems like a huge amount of money is going into planning, and projects are not being delivered as fast as they should be. You touched, rightly, on the issue of maintenance and delivery of projects, but in the previous session—which I know that you sat through—we talked about the fact that there always seem to be cost overruns and delays in delivering infrastructure in Scotland. Given that Scotland is going to have at least a 5 per cent real-terms reduction in capital available over the next

five years, we will need more, not less, bang for our buck.

Moreover—and I am probably asking too many questions at the same time, but this is a bee in my bonnet—why is procurement so much more expensive in Scotland and the United Kingdom than it is in comparable European countries? I see you smiling, Peter, but you know that it is true.

Peter Reekie: That is one of those, "Can you solve the world in one answer?" questions.

The Convener: Peter, we have so much confidence in you.

11:00

Peter Reekie: You talk about the time that is spent up front, but there is a saying in major project delivery: "Think slow, act fast." I would not decry anyone who spends a lot of time on project preparation, because that is usually the right thing to do. There is a lot of discussion around our planning system—

The Convener: I understand that, but to interject, I have an A737 road safety project that has been on the planning board since 2004. It is supposed to be in development. It is not vast; it is not the A9, but that is 22 years. Whenever you contact Transport Scotland you get, "This matter has to go through Government procedures." When you try to find out what those procedures are, you are up against a brick wall, so there is a level of frustration there. I know that you think slow, but I am sure that you will agree that there is a difference between slow and comatose. I am not trying to be amusing—I am actually deadly serious about this. The lead time seems to sometimes be disproportionate to the work that requires to be done.

Peter Reekie: There is an important point there about how we prioritise. I always see the project pipeline as a bit like a funnel. It is not a long pipeline, and it has the two elements—the wide, hopper-shaped bit at the top, where many people have ideas and priorities that they would like to see happen, and then the narrow, tube-like pipeline bit, where once we have made a decision, a business case has been approved and funding has been allocated, we move into delivery. It is important that that delivery element is efficient and effective and moves quickly.

The projects that sit in the hopper bit at the top are still subject to prioritisation within a limited budget across the different sectors. We could say that it would be better if nobody talked about any of the projects until we were certain that we knew that they were coming, the funding had been allocated and they were in the pipeline element, but then folks would, very rightly, say, "We want

more information about projects at an earlier stage.”

We should want more information about projects at an earlier stage, but we have to accept that there is uncertainty with that information at an earlier stage. Some projects will move through the hopper element quickly because they are prioritised due to an asset failure or particular policy objectives, but some projects will sit in that wide element of the pipeline for a long time because, although they may be particularly important to some people and some stakeholders, they never make it through the overall prioritisation. They may be taking a long time to get through a statutory or other part of the process. It is not necessarily the case that because a project is being talked about, there is a linear process to get to delivery and that that linear process is taking, as you say, a long time.

The Convener: But when you have gone out to a full consultation and there are no statutory objectors and so on, and people are encouraged to think that something is going to happen but it does not happen year on year, the public, who ultimately pay for it, feel let down and disappointed. I would not be surprised if the cost of all that for the A737 project, since 2004, is more than the cost of the project itself, which was £12 million, which is pretty modest, I would suggest.

There seems to be much more bureaucracy, for want of a better word, in relation to the preparation of projects, which ultimately increases the cost and the delay to the delivery that everyone wants to see, whether it is housing, a school, a hospital, a road or whatever it happens to be. That is what is frustrating. You will have seen how many umpteen times the A9 or whatever has been raised in the Parliament, and that is because members genuinely want to see things happen on the ground.

How can we expedite that process? I am not talking about doing it in a week, but 10 or 20 years is a bit frustrating. There is a huge cost to that, so how can we make procurement more efficient and effective?

Peter Reekie: You talk about acceleration, but you could look at it the other way round and say, “We spend all our budget every year, so it is not possible to do more things sooner, because we spend all the money.” The question you are asking is, “Why do we start so soon on a project that is not prioritised to be delivered soon?”

The Convener: That is only right if you accept that procurement costs are reasonable. I do not think they are reasonable, because—

Peter Reekie: You are saying that we could do more with the budget that is available.

The Convener: Yes. How do we get more bang for the buck? Procurement costs are disproportionately higher in the UK, including Scotland, than they are in other countries—clearly they are. I went to the Faroe Islands and looked at the cost of their tunnels. They built a 22km tunnel for €600 million. How much would it cost to build that here—how many billions?

Peter Reekie: A lot of material is available on that, as you well know. Some of that is about the planning process. Some of it is about environmental mitigations, which are the right thing to do for the long term.

In the SFT, we are particularly keen on delivering things as programmes, because doing so gets us efficiencies. To use the language of the sector, if we do individual projects, it is like building a prototype in a muddy field every time. It is quite an inefficient way to deliver. That is why we are keen on things such as housing.

One of the reasons why we have thought about the very long term is that, if you are able to start something and keep going—some of the programmes in rail are perhaps a good example of this—you carry out a process repetitively and that delivers the efficiency. The elements of standardisation of design and moving into off-site manufacturing come into it, so that assets can be created in an industrial environment rather than on a construction site. However, that approach is only possible if you can aggregate demand over a longer term and create a programme of activities.

There are ways to improve construction productivity overall. Skills is a big part of that, as we will no doubt come on to. However, we think that we need to create programmes for the long term for activities—whether those be building new schools or local care centres or whatever—that we will be doing one, two, or three of each year for the next 10 years. We can think about how to drive efficiency through that process: through procurement and through design and delivery. In my view, that is one of the big things that we could do better to improve productivity, which would be driven by that long-term planning and how we prioritise. It would deliver some of the outcomes that you are looking for in terms of improving pace and lowering the individual cost of assets.

The Convener: I will come back to one or two of those things, but first it is important that Ian Hughes has an opportunity to say a few things. Ian, we can talk about building this or that, but without the workforce we cannot really build anything. The role of the Construction Industry Training Board and, indeed, the whole sector in producing a skilled workforce is absolutely critical. In your submission, you said:

“In 2024/25 over 6,500 people started a Construction

related Modern Apprenticeship, more than a quarter of all new starts. Over 13,000 apprentices were in training, and the industry achieved a 78% completion rate.”

That is all very positive news. Scotland is experiencing a record-low birth rate, which will feed through to the workforce soon. Are you confident that we will be able to provide the number of people to the construction sector—either young people or folk who are a bit older who are switching careers—to enable it to have a workforce with the range of skills that are required in the years ahead?

Ian Hughes (Construction Industry Training Board): Thanks for inviting me to the meeting.

That is not an unreasonable question, but there is a misconception that there is a lack of supply of young people who are interested in entering construction; in reality, there is a large oversupply of young people who want to enter the sector. Where there is a mismatch, it is between what those young people can do and what employers require in order to invest in people and grow their business.

Going back to the point that was made earlier, the private sector will not wait for the process or for procurement. It will react when the opportunity arises, and it will invest in its people when the opportunity arises. Therefore, you will see a lack of investment if the pipeline is not working efficiently and effectively.

The Convener: If it is erratic.

Ian Hughes: Yes. You have talked about the modern apprenticeship programme. More than 25 per cent of the young people applying for that, in particular those aged 16 to 19, want to come into construction. We estimate that, for every one modern apprentice, there are 100 applications. Over and above the modern apprenticeship programme, last year and this year there were between 45,000 and 50,000 learners in Scotland’s further education sector studying engineering or construction. That is 50,000 young people over and above the modern apprenticeship programme who are entering college for a full or part-time course to study in the two biggest sectors that will deliver the infrastructure programme for Scotland.

That is a vast talent pool, but our research indicates that as little as 25 per cent of that pool is employed in the sector to deliver things such as infrastructure programmes in Scotland. We call it a leaky pipeline. Too many people are entering at the beginning and not going through the pipeline to be gainfully employed in the very powerful career opportunities in construction in the built environment.

The Convener: Are there skills gaps? When I speak to people from businesses, they say that

there are specific skill shortages, such as in welding. A steel fabricator in my constituency is taking people who have been long-term unemployed and putting them through a 15-week advanced welding course with qualifications. They tend to be people in their late 20s and 30s, or even older people. Although there might be a number of people in construction, are there gaps where there are particular difficulties?

Geographically, do we have the people where we need them? Obviously, there is not a huge workforce in rural Perthshire, for example, to work on the A9. They all have to move there, at least temporarily. How do we deal with those issues in the pipeline of provision?

Ian Hughes: On skills gaps, the biggest request from industry is to get more new entrants but, when I say to employers, “Okay, I can give you a 16 or 17-year-old with no qualifications or experience,” nine out of 10 say, “No. I need a level of competency from that young person before I will employ them.” They do not have to be fully competent or have done three or four years of training, but they need a level of competency from the education system or the FE sector. That is what industry is telling us is lacking. The industry needs more competent new entrants.

I like to flip the point about the skills gap. A skills gap is basically a supply and demand model and, if you have a skills gap, you have job opportunities. If you need 1,000 plumbers and you are training only 800, there are still 1,000 jobs, but 200 vacancies will go unfilled. It is important that the research or evidence that is produced identifies occupations and geographies where the biggest pinch points will be. Our research shows that the biggest pinch points in Scotland will be in the Highlands and Islands and the south-east, in Edinburgh and Lothian. That is based on our five-year modelling. Sixty per cent of industry contracts will be through procurements in Scotland, although it might be slightly higher than that. We are pretty accurate in determining, over a five-year period, where the investment will go, what the demographics are in those areas and what occupational shortfalls will occur in those areas.

It is interesting to look at the make-up of the sector in Scotland. The three big sectors, which account for roughly 33 per cent each, are infrastructure, which we are here to discuss; house building, both social and private; and repairs and maintenance.

The Convener: I would consider them all to be infrastructure, to be honest. Maintenance is a really important issue, as is house building, and record investment is going in there. What you are doing in construction is also vital—they are all vital, obviously.

Ian Hughes: When you look at who delivers those particular aspects of the sector, you find that the make-up is very different. About 96 or 97 per cent of all companies in Scotland are small and medium-sized enterprises and micro companies, so they will not be delivering roads, hospitals or big infrastructure projects. They will be predominantly in repairs and maintenance or perhaps part of a supply chain. It is kind of like a comet: you have the lead contractor and the big supply chain, right down to one individual specialist who does something that no one else does.

That breakdown in Scotland, with the predominant SME and micro company size, begs the question, which we are asking more and more when we have discussions such as this, of whether the sector has the capability to respond to the investment that is coming through the pipeline in Scotland, or whether we should rely on the tier 1s and the medium-sized companies, which can suck in some of the SMEs and micros to deliver in specific areas.

11:15

A big assumption is made about capability. It is a big assumption that the private sector is capable of delivering projects to the timescales and costs that are laid out through a procurement. A longer discussion needs to be had about how we engage more with the SME and micro sectors in particular, with a view to getting them into the delivery pipeline.

The Convener: In paragraph 13 of your submission, you said,

“Scotland’s SME network requires a longer-term pipeline of work beyond four financial years”,

but how realistic is that, given the global and financial uncertainties that we face? For example, in the current financial year, we had a 14 per cent increase in capital, but capital funding is set to decline for the next five years. In effect, capital spending will be at the same level, in real terms, in 2030 as it was in 2023-24. In other words, we have not advanced that much, so how can we deliver the level of certainty that you have said is needed?

Ian Hughes: There is probably only one area in which we can give people confidence, and that is the procurement process itself. If there is a framework agreement in place, contractors will need to be tied down for a five or 10-year period in order to give confidence that stuff can be delivered. If SMEs and microbusinesses are tied into that pipeline and given the confidence of knowing that they will be subcontracted as part of the longer-term journey, that will give them the confidence to invest in their people and their infrastructure. I think that that is the only way that we can look at things in the longer term.

We all know, because we have all worked with them, that small contractors have an average workflow period of six months. They will know that they have six months’ worth of work, but they will probably not know that they have 12 months’ worth of work. They probably cannot see that far ahead. That is an issue for microbusinesses and small businesses in all sectors, not just construction. Therefore, we need to bring them into the tent, as it were. We need to ensure that the lead contractors and the medium-sized contractors bring in the SMEs and microbusinesses for a longer-term period. In my opinion, we can make that happen only through public sector spending. We cannot make it happen through the private sector, because what happens there relates to what individuals in Scotland spend on their windows, their roofs and repairs and maintenance. That is ad hoc work.

The Convener: What is the balance between the work that SMEs do in the private sector and the work that they do in the public sector?

Ian Hughes: They do more in the private sector. That will include domestic repairs and maintenance. First and foremost, they work in their communities. If they are part of a supply chain, they will work within a reasonable travel distance of their community. Gone are the days of small contractors jumping in a minibus and going down to London. That does not happen any more. They have a maximum travel distance of 30 miles.

The Convener: We have a good roofer fae Cumnock.

Ian Hughes: It is a lifestyle choice. Why should people not make lifestyle choices? If the work is further than 30 miles away, it becomes less economically viable. Fundamentally, most of the SMEs and microcompanies in Scotland will work in their communities; they will not venture further afield than that.

The Convener: In your submission, you said that investment in modern apprenticeships

“will be insufficient to meet industry’s skills demand”.

You talk about new pathways. Could you be specific about what those new pathways are? There are things such as graduate apprenticeships, but what new pathways did you have in mind?

Ian Hughes: I think that we are at a bit of a tipping point. On one hand, there is the high cost of delivering modern apprenticeships, which are delivered mainly over a four-year period. For an SME or a microbusiness, that is a lengthy period. We have had an increasing number of requests from industry to look at additional routes into the sector, over and above apprenticeships. We need to think about what level of training, upskilling or

competency we can provide within an established environment, such as the FE sector, in order to provide additional routes into the construction sector.

As a training body, it is not our job to take an individual through a career path, although we can assist at certain pinch points. It is the employer who will take their staff on that career journey. An individual can leave or set up their own business—they can do what they want.

When it comes to where we should provide those pathways, Scotland has a hugely impressive FE sector, and I think that we need to utilise it as much as possible to provide additional routes into the construction sector. It is a question of competency, and training and qualifications can play a significant role in that regard. There needs to be a stronger link between the skills and training landscape and economic and social outputs. At present, I do not think that we have got that right.

I go back to the statistic that I gave: we are training 45,000 engineers and construction people at college, but they are not getting jobs in those sectors, so they are not producing the economic and social output that is required to meet the needs of the policies that the Scottish Government is designing and implementing in respect of house building, net zero and the big infrastructure plans.

The regional planning model, whereby there is a stronger alignment between what people are being trained, taught and educated in and the pipeline of work that is coming through in the region, needs to be better, as it is not very good at present.

The Convener: Thank you for that—it is very helpful.

Peter, you are not a big fan of the mutual investment model, are you? In 2019, the Scottish Futures Trust, in its options appraisal paper, found that the mutual investment model was significantly more expensive, at

“2.6 to 3.3 times the construction cost over the 25 years of the asset.”

I know that that model has been rejected for the A9. The SFT said that

“This compares with 1.9 to 2.6 times the construction cost if financed using public borrowing”,

and noted that an

“asset funded using capital grant, and ... maintained to the same standard over 25 years is estimated to be 1.5 times the construction cost.”

Would you reject the mutual investment model, or are there any specific circumstances in which you feel that it is the only game in town? To be honest, for me, there are shades of public-private partnerships and private finance initiatives.

Peter Reekie: It is a form of public-private partnership—

The Convener: Indeed—of course it is.

Peter Reekie: The paper that we produced in 2019 was not intended to say that we are for or against that model; it was intended to increase transparency around the approaches that can be taken and the costs associated with those approaches.

The approach that we used previously was the non-profit-distributing model—we can go back a few years to when the committee last talked about that—but it was found to be classified as the public sector by Eurostat at the time; classification is now the responsibility of the Office for National Statistics. It therefore did not provide what is critical in Scotland, which is additionality to the ability to invest in capital infrastructure and pay for that with long-term resource budgets when there are limited capital budgets now.

In our 2019 paper, we tried to show that if you want to build infrastructure now and pay for it out of long-term resource budgets—I always say, “Pay as you build or pay as you use, but pay you must”—the mutual investment model route is available and it meets the classification requirements, and there is a cost implication of doing it.

That is a decision for Government and politicians to make. We can help to implement those projects and programmes—we know the commercial mechanisms; we know how to go about the procurement; and we know the criteria for project selection and what makes a project suitable to be delivered in that way. However, I am not going to say that I am a fan or not a fan of that model—I just want to make it clear that it can be done, and what the implications of doing it are.

The Convener: I have two more questions—well, I actually have loads, but colleagues want to come in. How do you decide on the balance between maintenance and new project delivery? For example, after the 2008 crash, the then Chancellor of the Exchequer, Alistair Darling, cut Scotland’s capital allocation by 40 per cent; that was subsequently reduced to 20 per cent, as you will recall. However, the Scottish Government did actually put resource of some £500 million into capital to try to restore that. At that time, it was said that half of all the money that was available for capital spend went on care and maintenance, so it meant that the number of new projects that were going to be delivered was massively down.

However, as you will know if you drive along the roads in Scotland, for example, or look at other pieces of public infrastructure, such as bridges or whatever it happens to be, there are real concerns

that they are not really up to scratch in many areas. We can argue about the size of the whole cake, but how do we decide to say, “Look—we really need to spend X per cent on maintenance before we even think about new projects?” How do we strike that balance? I know that it is a difficult one.

Peter Reekie: That is something that we could be better at, if I am honest. I would say that you have to maintain what you have first. That does not necessarily mean that everything should last forever because, in some cases, an asset might not be suitable for future need, so there is no point in continuing to maintain it. There is a balance to be struck, but there is a commitment in the 2021 infrastructure investment plan to double the spend on maintenance in some sectors. That is important.

It is very difficult to draw out the data on what has been spent on maintenance, because these are small individual projects that are not covered individually in the pipeline information that is published. Data is definitely an issue. For all our key infrastructure assets, we should have asset management plans that show the condition of the asset and its long-term future—whether we plan to keep it or to change its use—and the cost of maintaining it.

You will hear the phrase “backlog maintenance” used a lot. Backlog maintenance is an important characteristic, but we need to understand the long-term future of an asset and whether the backlog maintenance includes, for example, painting the walls in a building, which we can choose to do or choose not to do; or replacing a boiler, which, if not replaced, will start to fail regularly, affecting service delivery. We should be thinking more across the sectors, which is what we are trying to help bodies to do—to think about their asset strategies and asset management plans and to build those out over a longer time, so that, collectively, we can understand the maintenance need of our asset base.

Because of the stages of development of society and its assets, we are now in a phase in which we have a lot of ageing infrastructure assets, which we are still using to provide important services for people.

The Convener: The Tories built them well, to be fair.

Peter Reekie: Yes, but the failure rate is not linear. With regard to failure, there is a thing called a bathtub curve: things fail when they are brand-new, because you do not yet have them quite right and they are settling in; then they are really steady for a long time, everything is fine and you do not need to do much to them; but the failure rate suddenly increases at the end of their life—the curve is shaped like a bathtub. Many of our assets

are just approaching the phase when they will start to fail.

We need to start thinking about spending more on maintaining ageing infrastructure—on preventative maintenance. That goes back to one of my earlier points about how we use sensor technology—lots of sectors are thinking about that—so that we can get better at predictive maintenance. If you imagine the capital budget overall, you can think about that being built up from nothing to what we need to maintain that we already have, to what we could be using for new assets or extending the life of existing ones, and then what we need to leave at the top because things occur and you need to leave a bit of space. As I said, we need to allow for the fact that things occur and there are fluctuations. It is really important to build up budgets in that way, within and across organisations.

The Convener: The demand for capital exceeds supply, so you must find it frustrating when, each year, there seem to be projects that are delayed to the extent that the capital budget is not fully spent. Should there not be more emphasis on shovel-ready projects, such as resurfacing roads, that could be done in the relatively short term, to avoid that situation?

I go back to my initial question, which is on an issue that the SFC also highlighted. How do we reduce the likelihood of cost overruns in procurement and delays, which sometimes last for years? It is not just a Scottish issue. We have a friend who is a quartermaster on HS2 who says that when it comes to getting things done, they have been told, “Just do things. Money is no limit,” and all that kind of stuff. Whether that is true, I cannot say, but there are real concerns about delivering things on time and on budget. We are not talking about delays of three to six months—sometimes, we are talking about years and huge cost overruns—so how do we keep that under control and ensure that we optimise the capital budget to put it to best effect?

Peter Reekie: There are a couple of answers to that. One is about the handling of uncertainty, because these are big lumpy elements of spend that are more difficult to predict, and the impacts of delay on those is more across year ends than it is in service delivery, where spend is a lot more linear.

On your point about bringing forward smaller projects—they are often maintenance projects—that relies on budget management and people knowing when and where the excess budget is likely to occur. It also depends on how we manage contingency, which is all about managing uncertainty and, in a way, about communicating uncertainty, because if you want a project not to

overrun its budget, you ensure that you have a big budget that contains a lot of contingency. In the event that that contingency is not needed, it is really difficult for someone else to use it, because it is held in one budget line. Being able to show that things have been done on time and on budget is good management practice that mitigates those issues across the piece.

11:30

If contingency is held at the level of an overall portfolio of projects, we have to accept that some projects within the portfolio will spend a little more than was originally intended and some might spend a little less. However, within the overall portfolio contingency, that can be managed.

I do not pretend that this is easy; it is really difficult to get right what is held at a local level or at a higher level in the system. It is about handling, managing and communicating uncertainty at different levels between different budget holders. You do not need to hold a contingency on every individual project, because projects will perform differently according to their budget. That is critical.

The Convener: Sorry, I said that those were my last questions, but the answer has stimulated a teensy-weensy one more. What proportion of projects are delivered on time and on budget?

Peter Reekie: I do not know. I will not try to answer that for you just now.

The Convener: Is it most of them, or is it a teensy-weensy number? We do not want a situation whereby it is almost accepted that projects will overrun and be over budget. If something has a budget and a delivery date, it should be completed by that date. I remember that some projects in the private sector, at least—and, I imagine, in the public sector, although I am not an expert on procurement—would have penalty clauses if they were not delivered on time.

Peter Reekie: I agree. However, there has been 25 per cent inflation in construction costs over the five-year period from 2021 to the first quarter of 2026. Projects last for such a length of time, so it is not a surprise that projects that were budgeted before that period began now cost more than was budgeted. We have not been able to predict that level of inflation. Some of it is a feature of the current circumstances. I do not want to use that as an excuse, because the generality of your point is still good. However, at the minute, it is particularly difficult to get cost certainty.

The Convener: I call John Mason, then Liz Smith.

John Mason: I am amazed—after 41 minutes, I get to ask a question.

Liz Smith: Not that you were counting. [Laughter.]

John Mason: I am completely surprised.

Is there enough detail on the current infrastructure delivery pipeline and on the development and future pipelines for either of your sectors to move forward?

Peter Reekie: For many purposes, the document does not give enough detail, although it provides a very understandable level of detail for where we are at the minute. For example, one line in that infrastructure delivery pipeline is the £4 billion budget for affordable housing. Every construction contractor will want to know when the projects that they are interested in will be coming up, in what part of the country those projects will be delivered, and what skills will be required. Ian Hughes will, no doubt, talk about that.

We have responded to the industry's demand for more detail on that with a pipeline database, which currently contains 1,192 projects. However, more than 50 per cent of those projects are worth less than £2 million, whereas the threshold for the delivery pipeline is £5 million. Individual companies in industry are interested in lots of little projects, so there is not a complete overlap in the scope of those two sources of information. We go out to all public bodies, most of which respond, so we have a lot of local authority projects in the database. It is really useful for locally based companies to know exactly what project is in their area.

In addition, our database is more searchable. If a contractor is interested in providing a particular piece of equipment that is useful in schools, it can filter our database by when all the schools projects are coming, across Scotland. There are ways of having increased granularity. However, that changes more frequently and involves less certainty. I think that industry is very comfortable with that. It understands that things change. However, that level of granularity is not a good way to deliver the level of accountability that you guys look for in your scrutiny. More information would be useful.

John Mason: I will come to Mr Hughes in just a second, but I think that the committee had expected or was hoping for a bit more detail. There is a split between—I keep getting the titles mixed up—the delivery pipeline and the development and futures pipelines. The latter appears to just be things that we hope to do one day. It is not much more detailed than that, is it?

Peter Reekie: The diagrams in the document show what stage those projects are at. They are the wider part at the top of the funnel. The place of a project in the prioritisation queue is not clear

before a business case has been approved and funding has been allocated, because it will not be known when it will happen, and time is money. Therefore, we cannot tell exactly how much a project will cost. There is a substantially increased level of uncertainty for projects prior to the business case stage, so less information is being provided about them. However, you would need to ask others about the details that might be available.

John Mason: Okay. Mr Hughes, is the infrastructure delivery pipeline enough for you?

Ian Hughes: It is certainly not enough for industry partners. To provide some context, in Scotland, there are only about 75 tier 1 companies—those are public limited companies or big family-owned businesses—and about 75 medium-sized companies. That is all. Those are the companies that will deliver the infrastructure plan—excluding companies that are based in England, which may come up and procure or be part of a bigger agreement. That small pool of delivery companies in Scotland needs detail and clarity on where and when they come in to the process.

It is the process that drives the reaction. It is a process when a company says, “There is a lot happening in the Highlands and Islands and that is mainly going to be roads”—I am using that as an example. The company will say, “We are a civil engineering company. We are going to invest and to go after these contracts with one or two partners or with the supply chain.”

Not all of those 150 companies in Scotland will tender, and not all of them are in framework agreements—so the number will actually be lower. The smaller the number of delivery companies that are based in Scotland to provide the economic and social benefits that we are talking about, the more difficult it will be for them to react—and react quickly—if things are switched on.

John Mason: We know that the total capital expenditure is going up a bit at the moment, but it will then be fairly steady for the next few years. That is not enough detail, because the companies are more specialised than that. Is that correct?

Ian Hughes: The detail will probably suffice for the companies to make investment decisions, because it gives them confidence that these things will be procured over a 10-year period. That does not necessarily mean that they will quickly invest in their businesses, but it will give them the confidence that they need to establish bases in, for example, Edinburgh or the Highlands and Inverness, and to continue working in those areas or to gear up at a certain point to move into those areas to deliver some of the big infrastructure projects.

If you were to get two or three chief executive officers of the big companies in Scotland in the room and ask them what the trigger point is that will give them the confidence to locate and deliver projects in a certain geography in Scotland, you would get a much stronger response about their business model and how they will respond to opportunities.

John Mason: Your specialism is more in modern apprenticeships and things like that. I am not sure how many modern apprenticeships there are at the moment. Do you have a target for there to be more of them, or is that too simplistic a question?

Ian Hughes: No, it is not a simplistic question. We would all like there to be more modern apprenticeships, but there is a big issue with the funding model. It is a funded model, so the numbers are stipulated by the level of the funding. At the present time, Skills Development Scotland holds the modern apprenticeship funding programme, but, as you know, that is moving to the Scottish Funding Council over the next 12 months via the reform legislation.

The budget drives the numbers, so it is not really a demand-led model. It is basically saying, “We have a budget, we can provide funding for 6,000 construction and engineering apprenticeships and we want them to be based in north, south, east and west Scotland.” That is the direction that we are given—it is not necessarily any more specific than that.

John Mason: If the number were to be 6,000, for example, are you saying that it should be 9,000 or 12,000? Do you have a number in mind?

Ian Hughes: To go back to a point I made earlier, that should be more strongly aligned to the economic output that the Government is trying to achieve, such as infrastructure investment or social investment within schools and hospitals. At present, we can provide you with occupational shortfall figures, but those tend to be for more specialist occupations and not to be for craft or trade apprentices. If I said that we wanted 10 per cent more modern apprentices, I think that the college system would struggle to deliver that. The message we are getting is that they are maxed out and that delivering apprentices is unsustainable because it uses a lot of real estate and investment. If we were to increase that by 10 per cent, the Government budget would have to be increased accordingly or a bit more.

John Mason: Can you put a figure on the size of that increase?

Ian Hughes: We are working closely with the Scottish Funding Council to find out how much it costs to deliver an apprenticeship in Scotland,

because we do not know. It is a messy landscape because there are three investors in craft apprenticeships in Scotland: Skills Development Scotland invests through the management agency and also invests in colleges to deliver apprenticeships; the Scottish Funding Council provides colleges with credits over and above what they get from Skills Development Scotland; and if you are in the scope of the CITB, you get substantial grant support from it. We estimate that that comes to about £40,000 to £50,000 per apprentice, depending where the apprenticeship is delivered.

John Mason: I presume that varies a lot, depending what the skill is.

Ian Hughes: The payments are more or less the same for any sector, although there are geographical nuances.

John Mason: I do not want to go too far off the subject, but do you think the Tertiary Education and Training (Funding and Governance) (Scotland) Act will help to simplify that by putting the SFC and SDS together?

Ian Hughes: I hope so. Industry frankly does not care about all that stuff and just wants a simple system. We need to put the learner journey front and centre in the skills landscape and to think about the 16 to 17-year-old who enters into a professional career. If that journey is not as smooth as it should be, we will lose them, and we do. We lose them in big numbers, particularly in the first year. Having a simpler landscape and a better learner journey would mean retaining more people and having greater economic output at the end of the day.

John Mason: I will touch on an area that the convener already asked about, the mutual investment model. I confess to being a bit sceptical about that. You said earlier that it meets the classification requirements, and it might do that today, but who knows what will happen tomorrow? The ONS might change it. I am an accountant and the danger with accountants is that they look for loopholes. They might decide that the MIM is a loophole and then change the rules again to squeeze that out. It is effectively a debt, whether we are paying for it today or over 20 years.

Peter Reekie: Because you are an accountant, you will know that the MIM creates a future repayment obligation, but whether that is classified as debt is another issue.

You are right that we rely on the stability of the rulebooks, and of the fiscal framework overall, to design the way that the budgets are used. The classification of what is resource spending and what is capital spending is tricky and depends on particular rulebooks. You might say the same

about whether maintenance spend should be capitalised or should be taken from resource spend. There is a whole series of rules and regulations and, at a certain point, you can be close to the edge of a rule because that is how the rules operate.

You are right to say that there are many different ways to see that. All we can do is to say how that would operate under the current rulebook as we understand it, and we have been to the ONS and tested that.

John Mason: All the models are more expensive than either taking it straight out of taxation or using the slightly more expensive traditional borrowing.

Peter Reekie: Delivering the additionality comes with an associated cost. That is why the schools programme originally used private finance models and the PPP approach. We have changed that to an outcomes-based funding model that can use those local authorities' financial capacity. Whether they choose to borrow is a matter for the individual local authority, but the Government contributes long-term resource budgets for those schools.

That resource comes with an obligation to keep the building well-maintained and, for the more recently built schools, there is a need for the building to be energy efficient, which has led to a step change in the energy efficiency of new schools buildings under that funding model.

There are different funding models that use either private finance or public finance, which can allow the Scottish Government to pay for the assets out of long-term resource budgets, rather than capital budgets. The question is how much additionality ministers want to deliver and how they prioritise long-term resource spending versus capital spending now.

11:45

John Mason: Is it your figures that say that, if you use traditional borrowing or a capital grant, the total cost, including maintenance, is

“1.5 times the construction cost”?

Peter Reekie: Yes.

John Mason: In other cases, it can go up to “2.6 to 3.3 times the construction cost”.

Peter Reekie: In the order, yes.

The finance is a significant proportion of the overall life-cycle cost, but we should not forget the maintenance element. If we build an asset and then fail to maintain it properly, and if it therefore has a shortened life, that has a cost and a service delivery implication. There is an actual benefit in

locking in the maintenance spend as we construct the assets. You could argue that we should be able to do that ourselves by allocating budget to maintenance, but you will know from across the public sector that that is not necessarily done as well as it could be. It is an advantage to lock in the maintenance but, as you say, there is a cost associated with that.

John Mason: That means that that money is ring fenced.

Peter Reekie: Exactly—yes.

John Mason: The school might be maintained, but the council might not be able to afford to maintain the road outside.

Peter Reekie: Absolutely. That takes it out of the general prioritisation pot and makes it asset specific, so as to say, if we are going to build this thing, we really ought to allow the budget to maintain it.

John Mason: Okay, thank you.

The Convener: I clocked that at 57 minutes, John.

Liz Smith: Before I come to my main question, Mr Hughes, I want to ask you about something that you said about the college sector, when you were replying to the convener. You made the very interesting comment that there is a vast pool of considerable talent and that the sector is doing a really good job of trying to harness that talent. I entirely agree with that.

You also mentioned, however, that you did not feel that the responses, in different regions, to the demand for the skills that are required were as good as they used to be. I would certainly agree with that, too. When I came into the Parliament 20 years ago, the local colleges were extremely good at picking up the local demand in a very small local community. Why do you think that they are not as good as they should be in picking up local demand?

Ian Hughes: To start with, it is variable. I would not like to generalise. Some colleges have a tremendous relationship with employers in their local setting; others have a more distant relationship, I would suggest. It is fundamentally about that relationship with employers.

If a young person is doing an apprenticeship, they will be spending 26 or 28 weeks in a college environment, full time. That means that they are not working with their employer. They are being taught the theory and some practical aspects of the job, but they are not being productive with the employer. The employer needs to trust the college environment to do the right thing at the right time, so that the young person can be brought back into the workplace with more skills and more capability.

That works pretty well, but it seems to be lacking, in my opinion, in that most employers do not see the FE sector as a recruitment portal. They do not utilise it as a recruitment pool as much as they could or should do. There is a piece of work in that space for a number of parties to do, including us. Some employers will do that but, with tens of thousands of learners studying construction but not entering a job, we need to scratch the surface and find out why that is happening.

Liz Smith: Is that because of a lack of knowledge about what is happening in the college sector, or is there a deliberate policy of using other pools of talent before coming to the college sector?

Ian Hughes: I will give a response from an employer's viewpoint. In many cases, employers do not see learners coming through school or the FE sector as having the competency levels that they require. In some cases, that could involve attitude or aptitude. The biggest reason for apprentices in Scotland leaving the construction sector in year 1 is discipline: not turning up, missing their transport or wanting to leave early. There are lots of different reasons.

That brings us back to the process of recruiting young people. The recruitment process in construction is informal—it is a tap on the shoulder of people who want to be an apprentice. Parents will never stop asking their son or daughter to join the family business—we are not saying that they should—but there is a high percentage of informal recruitment. That involves bringing a young person into the construction sector with no prior experience, no educational experience or knowledge; they just think that it is a good thing to do. Then, suddenly, it is November and it is not a good thing any more. It is getting up at six in the morning and being on a roof and they decide that they are out of there or that they are not going to turn up again.

The short-life working group that the Scottish Government set up, which we are part of, is looking at two areas of the pipeline. We are looking at how to retain more apprentices and at pre-apprenticeship programmes, and at how to get more FE learners through the pipeline into employment. The group is looking at solutions and will bring them back to the Government in May.

Liz Smith: What do we have to do to ensure that more young people have the self-discipline and soft skills that you are talking about?

Ian Hughes: Every indication from our experience with learners and employers suggests that they need to be involved in their sector of choice at an earlier point in their career pathway. That goes back to vocational training at school—it should start in secondary school, but it should

continue through the FE sector if that is where they go. That huge pool that we are talking about is coming straight from school—there are 50,000 of them and one minute they are in school and the next minute they are in college. The tasters, work experience and introduction to construction are not happening at the right level.

It sounds obvious, but construction is an incredibly technical, highly skilled profession, irrespective of where you are in the sector. The career opportunities are aligned to that, so the young people must have knowledge or experience of it. That works both ways: I would rather that a young person had some experience and then decided that it was not for them. If learners enter the system and then drop out after 18 months, there is an emotional charge and a financial charge. If we could, we should prevent that. It is a question of how quickly we can give young people a taste of the work experience. I think that employers will step up to the mark to provide that, within in a controlled environment. For me, that is part of the solution.

Liz Smith: What you are really saying is that it is an issue in schools and that the younger that we can ensure that people have those aspects of self-discipline and understanding about what the workplace is like, the better.

Ian Hughes: Just look at the numbers of people who are applying for apprenticeships and who go to college—there are tens of thousands of them who want a job in construction. There is a mismatch in there somewhere.

Liz Smith: That is helpful.

Peter Reekie: There is a point to make about the overall structure of the industry, which links to the pipeline point. Ian has talked about a lot of the employment being in SMEs. For domestic-scale business, that is definitely the structure of the industry. For larger-scale construction, however, a lot of the employment still happens in SMEs which, by their nature, take on one apprentice every so often and do not have the organisational capacity to do the good recruitment that Ian talked about. If we have a longer-term pipeline and clarity of work, some of the larger contractors will be able to hold more labour and have the good systems and processes needed to be able to do that. We have some fabulous contractors—not the main contractors, which are principally integrators, but the big trade subcontractors—that hold a lot of labour: they employ people in their organisations and they are probably the best at running these schemes. However, they need a long-term pipeline of work in order to be able to grow and scale, otherwise they will employ SMEs that provide labour-only into the system. The link to the

pipeline is about not only visibility but allowing the overall structure of the industry to change.

Liz Smith: Thank you, both, for those helpful, if quite worrying, comments.

My other question relates to a comment made last summer by the Deputy First Minister Kate Forbes. She said—rightly so, in my opinion—that to have really good-quality infrastructure development in Scotland in future, we needed very good collaboration between the public and private sectors and that they needed to work together. The implication, I think, was that they are perhaps not working together as well as they should be. Can you outline the challenges with regard to that collaboration? Are there things that we should be doing to improve it?

Ian Hughes: I can give you a quick response to that.

In my experience, the best examples are those aspects of work that are co-designed by the private and public sectors. You do have to draw a line in the sand when you introduce a co-design process, but co-designing systems and processes that will ultimately be built by one of your partners is, for me, a tried and trusted way of aligning private sector knowledge, experience and skills with public sector skills. At present, it is seen as a public sector process that is delivered by the private sector. Some of the framework agreements in the hub model might be better evolved—Peter Reekie can comment on that—but from what I know of large and medium-sized companies, the sooner you can bring them into the system through that co-design process, the better.

I know that that is difficult in a commercial and competitive world, but we have established framework agreements and systems that allow us to speak to six big companies. It is also worth remembering that a big construction company in Scotland might have 1,000 staff on its payroll, but perhaps 10,000 staff in the pipeline. That is where co-design becomes interesting, because vast economic and social benefits can arise from it. It is not just the company itself that we should be looking at but its pipeline and what it is doing to deliver infrastructure projects.

Peter Reekie: I think that there are a number of levels to what is a really good point. I would highlight, first, the private sector as a supplier of construction and design services and, yes, the applicability of co-designing things. We have the Construction Leadership Forum, which tries to bring the public sector and industry into those areas of improvement. I think that Ian is a member of one of these groups, but, in terms of transforming the industry, we are looking at skills; at procurement from the perspective of both the procured and the procurer; at fair work; at modern

methods of construction; and at net zero. We have groups that are looking at those kinds of supply issues, because we can be better at that sort of thing.

The next level, for me, is private infrastructure operators such as the electricity and communications companies that are private buyers and clients for the infrastructure sector. In that respect, much of the interaction relates to regulation, quite a lot of which comes from the UK Government, and in the previous evidence session, Graeme Roy mentioned the importance of joint working between the various levels of government on how such regulation affects the pipeline of projects and what those companies do in Scotland. We also need to increase the transparency of private sector pipelines alongside our public sector pipelines to understand whether we are doing things in a coherent way or whether there are hotspots of investment, because a private infrastructure provider is putting in something at the same time and in the same place as a public infrastructure provider.

The final level is what I would call private sector development activity. Sometimes there are infrastructure blockers that stop private sector investment and development, and it is important that we understand, through the national planning framework and an infrastructure-first approach, where the capacity is in the infrastructure system to support development or where there might be an infrastructure blocker, so that we can invest in that infrastructure in order to facilitate development.

What you are asking about happens at all of those levels. We have private financing of public infrastructure and, increasingly—through, for example, the Scottish National Investment Bank—the public financing of private infrastructure. There are links at not only financial but practical levels.

Liz Smith: Thank you.

Michelle Thomson: Good morning, and thank you for joining us. How many of the sectors referenced in the IDP, whether it be transport, economy, culture or any of the many others, do you think will have this plan on their noticeboards and will be referring to it frequently?

Ian, you looked at me, so you can answer the question. Peter was wise enough to look down.

Ian Hughes: Eye contact—what can you do?

The built environment is an obvious sector for which the plan will have interest written all over it, given the not insignificant investment that is coming through for it.

12:00

The business model of many companies in Scotland is about procuring from the public sector. Some are totally the opposite—it is private sector only. However, most big companies have got big procurement departments when it comes to the public sector pipeline. Bearing in mind that that sector will touch on all the sub-sectors—delivering the hospitals, the bridges, the roads and the schools—they will look at it holistically rather than as a sector.

A lot is to do with experience. For example, some companies in Scotland specialise in schools, so they will be all over a schools programme because, in their opinion, they have a competitive edge because of their track record, experience and delivery milestones.

My sector—most sectors—will be interested in the infrastructure plan and, more important, will contribute to its delivery.

Michelle Thomson: Peter Reekie, since you looked down, we will play a wee game that I used to play with my kids. It is called the yes/no game. I anticipate that you will find it particularly difficult, but bear with me. My colleague John Mason picked up a question about sufficient detail. The point of this evidence session, as explained in the committee's meeting papers, is that it

"is intended to provide a snapshot of how the IDP has been received amongst key sectors".

I will ask about a few of the points mentioned in the paper. Just give me a yes or a no; I just want to get a flavour. The first bullet point is about whether

"the IDP provides certainty for project planning, private sector investment, innovation and skills development, to support economic growth".

Does it do that—yes or no? The idea of certainty is a key point.

Peter Reekie: You cannot expect me to give a yes or no answer to that question.

Michelle Thomson: I can—on balance and all things considered. Seriously, I am just trying to get a flavour.

Peter Reekie: As we have talked about, the IDP gives some people the certainty that they need but quite a lot of people not enough certainty and not enough granularity for the planning that they need to do.

Michelle Thomson: That was a very good point and I thank you for making it. My next question is whether

"the cost ranges and timescales provided in the accompanying excel spreadsheet are credible and deliverable".

Peter Reekie: They can be. They will all have been put together by experts. However, when it comes to things such as inflation, we cannot tell what will happen in the future. The costs and timescales cited are the best that are available at the minute.

Michelle Thomson: We have all done enough projects to know that a project plan is accurate only after the completion of the project. The spreadsheet that accompanies the IDP is pretty high level. The higher the level, the bigger the variance against any initial estimates will be.

Peter Reekie: Agreed.

Michelle Thomson: Could the variance be extremely high because the level is very high?

Peter Reekie: I would expect that, in a number of those projects, there will be significant variances by the time that we get to the outturn, yes.

Michelle Thomson: Does the draft strategy reflect

“a sufficiently long-term approach to infrastructure planning”?

Peter Reekie: Taken as a whole, yes, because we have a 30-year view of what is out there, where we are going and what the key drivers are—the things that we need to think about across the system. We have a 10-year plan and one for what we will spend money on in the next four years. For obvious reasons, you cannot really look at spending over a much longer period than that. Maybe there is more work to do on how to prioritise what comes next as we move out from the four years, to give a longer-term view while respecting the democratic processes that also have to happen.

Michelle Thomson: Yes. Were you surprised that, for example, the prioritisation is asserted rather than demonstrated—that there is no interdependency assessment and no look at integration, prioritisation, sequencing, capacity assessment, risk management, metrics, spatial strategies, supply chain considerations, governance and so on? Might you have expected to see any of that in the plan?

Peter Reekie: That is an area for development, yes. Overall, we said in our needs assessment that we can use some of the principles that we set out to get better at long-term prioritisation. You asked earlier how we decide on prioritisation to deliver the outcomes that we have said that we want. Development work is needed in that area.

For example, I would say that an individual business case for a project should sit within an asset strategy for that sector that looks at how the service delivery model is going to develop in the future. Colleges are an example: rather than just

asking for a business case for one new building, we need to ask what the long-term service delivery model is, what asset base is needed to support that delivery model, and then what investment is needed to get from where we are now to where we are going to be.

All that work is going on, but a development path is needed to get there. You have seen that there is an infrastructure improvement plan, and we are working with the portfolios on those asset strategies. There is more work to be done on that.

Michelle Thomson: I asked that because I am trying to flesh something out a bit. On the face of it, this document—the IDP—has lots of things missing, and I would contend that most people will not stick it on their notice board. They will check to see what the thematics are—for example, for construction and housing generally there is a very clear thread.

However, I am trying to explore what would be the right balance, which pulls in a lot of good work that is clearly under way against the considerable uncertainty. We talked about the mutual investment model earlier. That has come on to the table and the issue goes right back to personal protective equipment, Meg Hillier and the Public Accounts Committee—get it off the balance sheet of a UK plc that is trading broke. That is where that has come from. It is probably a necessary reaction to a fundamental lack of capital, which the convener talked about.

I am trying to flesh out what you think could be added to the IDP that would make it more weighty, while fully recognising that we have a short-term environment with a year-on-year budget and that we will not be able to deliver the grand thematics that we need to deliver.

Peter Reekie: I am a member of the Institution of Civil Engineers; it is my professional body. It has a programme called enabling better infrastructure that works with Governments around the world on how to do better long-term infrastructure planning. Scotland is not in a unique situation on this by any means. We have worked with places around the world on the long-term pipeline and the prioritisation process, and we launched an update to that programme recently. I was drawn to comments made by Chris Bishop, the minister for infrastructure and housing in New Zealand, about his having campaigned for an independently developed long-term infrastructure plan and the development of a parliamentary cross-party consensus on that plan.

We have to strike a balance between what the right things are for you to decide—through the political process, your manifestos and so on—and what the role of long-term independent advice is that says, “If you want these outcomes, these are

the sorts of things that you should be prioritising". I fully recognise that there is a place for both of those elements in long-term infrastructure planning, but maybe future work for this committee and others is to think about how you can balance those two elements to do effectively what Professor Roy was saying this morning, which is to look at the outcomes that we want and at what sorts of things we should be spending on to deliver those outcomes, and then to look at the evidence on the impacts that that has had. We are very big on collecting that evidence, which is why, in our needs assessment, we set out some of the themes that we think will be driving infrastructure investment over that longer period of time. Those key themes can be taken forward and used in a process to help us prioritise the things that are making the most difference on those themes.

Michelle Thomson: You can have the final word, Ian.

Ian Hughes: Interdependencies are quite important, from our viewpoint. For example, we have been working closely with the UK Government in relation to its announcements 18 months ago about the number of new houses to be built. It asked us whether the UK has the workforce to deliver that housing programme, and we said no, because it wants to deliver that at the same time as nuclear, rail and other big infrastructure projects.

We have been working with the Government on that issue of workforce interdependency and on how it can address that to ensure that everything can get delivered in the time that the Government wants it to be delivered. For example, we are establishing construction centres of excellence with the Government, which will be introduced on a demand-led model. When Manchester gets the green light on the investment to build 150,000 housing units, the construction centre of excellence will be stood up and there is a whole workforce intervention to ensure that people are being trained and going through that pipeline to do the jobs that are required to deliver that housing programme.

That is different from the present approach and it remains to be seen whether it will be effective, but it is an attempt to take away the red flags around interdependency. You might want to build infrastructure in the Highlands at the same time as doing things with green ports or other big infrastructure projects without quite having worked out whether you can deliver that. In many cases, it will be delivered, but if you do not get the workforce planning right, wage inflation, productivity and timescales can all shift in a negative direction, so the sooner you can have that conversation as part of detailed planning, the better.

Peter Reekie: It is about systems, not silos.

Michelle Thomson: Indeed. I could not agree more.

Patrick Harvie: I would like to ask the witnesses to reflect on a slightly different perspective. I think that you were here during the earlier part of the meeting and may have heard my questions to the Scottish Fiscal Commission about the economic and security risks that come from ecosystem collapse and biodiversity loss. The kind of infrastructure that people have been building for many generations—what we have been building, how we have been building it and how we have been using it—is one of the fundamental reasons why we are living in an era of ecosystem collapse and biodiversity loss.

The Government produced a consultation on its infrastructure strategy at the same time as it published the pipeline document. The consultation says:

"Infrastructure is the set of long-term assets that enable countries, cities, and communities to function effectively. Infrastructure is all around us and can be private or public; economic, social or natural."

I would suggest that the role of natural infrastructure has been slightly lost. I do not want to take away from the importance and value of the stuff that we build, but that can come at a cost to the natural infrastructure that we also depend on. If I look at the projects in the pipeline, the only elements that appear to have any relationship at all to natural infrastructure are also things that we are doing, such as peatland restoration, creating woodlands and what have you. There is no space for, or reflection on, the infrastructure that nature provides for us and is already here, and that we too often destroy or degrade. We too often undermine nature's ability to regenerate itself because of the way that we build infrastructure.

Why is the dynamic relationship between natural and artificial infrastructure not in some way reflected in the document that you have produced?

Peter Reekie: There is a lot in there, as you well know.

First, there is the question of how we define infrastructure. I do not think that we would classify all of the natural environment as infrastructure, but I do think that both natural infrastructure and built infrastructure have an impact on the natural environment that we must be cautious of and must think more about. That is why our long-term needs assessment has being nature positive as one of the key cross-cutting themes that all infrastructure sectors should think more about.

The term "nature positive" was deliberately chosen and I try to think of it on three levels. The first is what I would call natural infrastructure itself,

which means the managed environments that provide landscape services, rather than all of nature. You might disagree about whether that is the right classification. How we invest in and strengthen that to provide what, if I may use the term, “ecosystem services” is really important.

Secondly, when we are doing what has traditionally been thought of as built infrastructure, we must consider how we can make more use of nature-based solutions within that built infrastructure. To give just a few examples, that could include making more natural flood defences by using the run of a river or permeable surfaces. We can get better at using natural elements and even natural materials in our built infrastructure.

The third element is providing access to nature in our built environment, and particularly in our social infrastructure. For example, are we giving young people proper access to the outdoors in our schools so that they will value nature into the future?

We can discuss the definition of natural infrastructure but, for me, nature positivity is important at all those levels. We need to consider what we are prioritising, how we are bringing nature-based solutions into our built environment and how we are providing access to nature, and I hope that we will do more of that in the future. I will not say whether we are doing enough of that or not, but we can definitely focus on it and do more of it.

12:15

Patrick Harvie: We will not get into a philosophical debate now about the definition of or what counts as infrastructure, but I suggest that, around the world, we are continuing to effectively wipe out the pollinators that we depend on for our food system. If a tech bro came along saying, “I can do that artificially,” they would quickly get Governments to accept that the machinery that they were developing should be classed as infrastructure, and it would be an infrastructure priority, even though it was only needed because we had wiped out something that was doing the same thing much more effectively in the first place.

I suggest that the problem is not just what is in the infrastructure delivery pipeline but the model of a pipeline. The metaphor of a pipeline is the wrong way to think about this. It makes absolute sense from the perspective of someone who makes their living from building stuff, which is important, but we should be considering it from the other end of the telescope and the perspective of the set of assets that our society needs. We have a hierarchy of needs. Most fundamentally, we need clean air to breathe, clean water and shelter. Moving on, we want to have a functional society with sewerage

systems, healthcare systems, an element of transport infrastructure and a modern economy. At the least fundamental but more aspirational end, we might want to replace fast internet with superfast internet, but that is a “nice to have” rather than a fundamental need.

Ultimately, we need to ensure that we never degrade something that meets fundamental needs in order to achieve something at the lower end of that hierarchy. Should we not conceive of it in those terms rather than just focusing on a pipeline of what we are going to build?

Peter Reekie: I see those as two different things, and both are important. The people who deal with delivery need to know what is coming and when, for all the reasons that we have just talked about. I think that you are talking about how we go about prioritising things and moving them from being just ideas or things that people want in that top bit of the funnel into the pipeline. What is our prioritisation methodology? You are arguing, very reasonably, for a set of criteria that we might apply to ideas in order to prioritise them for investment. Other people will have different ideas about which things to prioritise, but yours sounded a great list.

We could look at all the different projects and investment options across all the different sectors and run them through a prioritisation methodology such that, if a project would have a negative effect on one of the things that we really want to deliver for our country, it would either not get funded at all or be moved right down the list. If it would have a highly positive effect on something that we really value, we would prioritise it. We cannot just have criteria; we need to have weightings and all those sorts of things. I would agree that it is important to have an overall prioritisation methodology, with transparency around it, that links what we invest in to the outcomes that we want for the country.

Patrick Harvie: Does that happen before a project moves from annex B into annex A in the pipeline document?

Peter Reekie: There are individual business cases for individual projects, but I think that we can get better at using our needs assessment and other things to ask what overall outcomes we want for the country and, therefore, what we should prioritise against any given set of criteria to get there. I think that everybody wants to see improvement on that.

Patrick Harvie: Okay—thank you.

The Convener: That concludes our questions. Would either of you like to make any other points that we have not touched on? Do you wish to say any final words?

Peter Reekie: No. I am happy. Thank you.

The Convener: Ian?

12:20

Ian Hughes: I am happy, convener. Thank you.

Meeting continued in private until 12:34.

The Convener: You are both taking the fifth. That is fine. Thank you very much. I found your evidence really effective and extremely helpful. No doubt a number of the issues that we have discussed with you will come up when we take evidence from the Cabinet Secretary for Finance and Local Government.

This is a draft *Official Report* and is subject to correction between publication and archiving, which will take place no later than 35 working days after the date of the meeting. The most up-to-date version is available here:
<https://www.parliament.scot/chamber-and-committees/official-report>

Members and other meeting participants who wish to suggest corrections to their contributions should contact the Official Report.

Official Report
Room T2.20
Scottish Parliament
Edinburgh
EH99 1SP

Email: official.report@parliament.scot
Telephone: 0131 348 5447

The deadline for corrections to this edition is 20 working days after the date of publication.

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

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot



The Scottish Parliament
Pàrlamaid na h-Alba