OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Constitution Committee

Wednesday 7 December 2016

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Pàrlamaid na h-Alba

Session 5

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FINANCE AND CONSTITUTION COMMITTEE
15th Meeting 2016, Session 5

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Adam Tomkins (Glasgow) (Con)

COMMITTEE MEMBERS

*Neil Bibby (West Scotland) (Lab)
*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)
*Ash Denham (Edinburgh Eastern) (SNP)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Patrick Harvie (Glasgow) (Green)
*James Kelly (Glasgow) (Lab)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Ivan McKee (Glasgow Provan) (SNP)
*Maree Todd (Highlands and Islands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Dougie Adams (EY ITEM Club)
Jackson Carlaw MSP (Scottish Parliamentary Corporate Body)
Derek Croll (Scottish Parliament)
Mark Gregory (EY ITEM Club)
Sir Paul Grice (Scottish Parliament)
Duncan Whitehead (EY ITEM Club)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Finance and Constitution Committee

Wednesday 7 December 2016

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Bruce Crawford): Good morning. I welcome colleagues and visitors to the 15th meeting in 2016 of the Finance and Constitution Committee. As usual, I ask members to ensure that their mobile phones are switched off or at least switched to a mode that will not interfere with proceedings.

Agenda item 1 is a decision on whether to take items 4 and 5 in private. Are members agreed?

Members *indicated agreement.*

Draft Budget Scrutiny 2017-18

09:31

The Convener: Agenda item 2 is an evidence-taking session on the Scottish Parliamentary Corporate Body's proposed 2017-18 budget. I welcome to the meeting Jackson Carlaw MSP, who is a member of the corporate body; Sir Paul Grice, chief executive of the Parliament; and Derek Croll, group head of finance and security. Members will have received copies of a letter from the Presiding Officer providing details of the corporate body's budget bid, and I invite Jackson Carlaw to make a short opening statement.

Jackson Carlaw MSP (Scottish Parliamentary Corporate Body): Good morning, colleagues. I come before you as a corporate body ingénu, having just assumed responsibility following the resignation of my colleague Alex Johnstone in circumstances that you will all understand. Somewhat to my surprise, I discovered that I was going to have the finance portfolio and would have to appear before the committee about 10 days later to present the corporate body's budget.

The Convener: It is delightful to see you.

Jackson Carlaw: Thank you for the opportunity to present details of the budget for 2017-18, which is the budget for the second year of the new session of Parliament. You will have seen the Presiding Officer's letter setting out our budget submission for 2017-18, in which he makes reference to the successful programme of savings that was delivered by the SPCB over the previous parliamentary session. That programme achieved 10 per cent real-terms reductions in budgets and staff numbers from the 2010-11 baseline to 2015-16, while consistently delivering against our strategic plan and supporting demanding programmes of parliamentary business.

The new session brings new challenges, and the corporate body has a duty to ensure that the Parliament is properly resourced to meet its requirements. As a member and colleague since 2007, I certainly detect a renewed energy in the Parliament in this new session. That is partly due to the infectious enthusiasm of so many new MSPs. We had a record 51 new—or nearly new, as we used to say in the motor trade—members elected in May, some of whom are sitting opposite me this morning.

Moreover, I sense that, as we enter session 5, the Parliament has now matured as an institution and continues to evolve, particularly as it assumes substantial new powers on taxation and welfare. We are already seeing evidence of that renewed energy in the volume of business, with significantly increased numbers of questions, motions and proposals for members' bills, and I can see no reason at this stage to suggest that those increased levels will not be sustained throughout the session.

As for the budget itself, the headline figures for total expenditure excluding non-cash items show an increase of £0.8 million from the 2016-17 budget and are £1.4 million higher than the indicative forecast provided to the previous Finance Committee in December last year. The increase from the previous indicative forecast is due to two specific items that fall outside the SPCB's control: new statutory functions for the ombudsman; and project costs and system and marketing costs for the new lobbying register. Excluding those, the SPCB's budget for 2017-18 is in line with its previous submission.

With regard to pay, our budget submission is based on the continuation of our previous prudent pay restraint. The financial year 2017-18 is the second year of a two-year agreement negotiated with the trade unions on pay for SPCB staff, and the budget calculations incorporate the agreed uplift to pay scales in that pay deal. Schedule 3 in our budget submission includes an analysis of additional posts proposed in the parliamentary service and we would be happy to expand on that in our evidence today. As reported to the Finance Committee in previous years, the Scottish Parliament salary scheme now directly links MSP salaries to public sector pay rises in Scotland, using the annual survey of hours and earnings published by the Office for National Statistics. Using that index, I can confirm that an increase of 1.8 per cent will be applied in April 2017.

As we have provided analysis of other costs in various schedules that form part of our budget submission, I do not propose to repeat that information in my opening remarks. However, I draw the committee's attention to two areas. First, as members are aware, the SPCB is charged with the oversight of commissioners and the Scottish Public Services Ombudsman, and it is an area of our budget that the committee has always taken a keen interest in. The proposed 2017-18 budget for office-holders amounts to £9.6 million, representing a substantial increase of £1.3 million—or 15 per cent—on the approved 2016-17 budget. It is important to recognise, though, that that is largely because new statutory functions have been transferred to the ombudsman in respect of the social welfare fund and social work complaints.

We welcome the involvement of other committees in scrutinising aspects of the various office-holders that are not within our remit. For example, next month the Local Government and Communities Committee and the Health and Sport Committee will take evidence from the ombudsman and the Equalities and Human Rights Committee will take evidence from the Scottish Human Rights Commission.

Secondly, the SPCB is proposing to set aside a £1 million contingency, regarded as prudent, for emergencies, anticipated potential costs that are not yet certain and emerging cost pressures. We consider that contingency to be tight in the current climate of uncertainty, and it is less of a contingency than has been applied previously. We have set that level to maintain the overall budget submission within the previous indicative forecast on a like-for-like basis.

As set out in our submission, the SPCB is submitting its budget to the Finance and Constitution Committee in advance of the publication of the draft Scottish budget on 15 December. It is an unusual situation, but we will consider what that tells us about the pressures on future years' budgets and respond accordingly. In advance of the Scottish budget, however, we have provided an indicative forecast for 2017-18, based on the latest Office for Budget Responsibility estimate of the consumer price index.

Finally, I put on record the corporate body's appreciation of the work done by the chief executive and his team in preparing the SPCB's 2017-18 budget submission. As a new member, I have been struck by the professionalism of the senior staff that serve us in the Parliament.

That concludes my opening remarks. I hope that I have managed to convey a sense of the responsible approach that we have taken to setting the Parliament's budget. My colleagues and I are more than happy to answer any questions that the committee may have.

The Convener: Thank you, Mr Carlaw, for those opening remarks. As for the energy of new and nearly new members, I hope that you will accept that some of us veterans still have some fuel left in the tank.

Jackson Carlaw: I am willing to be persuaded.

The Convener: The letter from the Presiding Officer states:

> "Our budget bid for 2017-18 reflects the emerging demands arising as a result of the complex new powers"

that the Scottish Parliament will have in the future. Can you say more about how you have dealt with that issue in setting your budget, particularly in the light of some of the work that has been done by John McCormick in the review set by the Presiding Officer? Does some of your contingency money relate to issues that might emerge from that review?

Jackson Carlaw: No, I do not think that the contingency makes provision for completely unforeseen issues that might arise from the Presiding Officer's review, nor does it make any provision for anything arising from the Brexit negotiations. At this stage, those things are too tenuous for us to be able to make any meaningful contingency suggestion. In addition, any costs arising from those matters would probably spread beyond the immediate period ahead and there would be an opportunity for us to reflect them in our next budget submission.

Sir Paul Grice (Scottish Parliament): I would reinforce that point by noting that the senior staff group has a board in which we are constantly horizon-scanning constitutional change and feeding down into operational areas. Specifically, we have a sense of where the tax and welfare powers are going, so we have put in a bit of extra strength there. We have not put in any speculative posts. I am confident that the budget that we are proposing for next year has sufficient capacity to cope with the immediate demands, particularly scrutiny of the new fiscal regime and the emerging welfare powers.

You make an important point about the Presiding Officer's commission. Just to reinforce Jackson Carlaw's point, I have to say that we just do not know where that is going to take us; instead, what we have done is to put in funding to support the process of the commission. Given that it is due to report next summer, we accept—and this again picks up a point that Mr Carlaw made in his opening remarks with regard to next year's forecast—-that we will have to revisit the matter. Depending on how radical and substantial the recommendations of that commission are, we will obviously have to reflect that, most likely in next year's budget and beyond.

The Convener: Jackson Carlaw referred to the proposed 2017-18 budget for office-holders. As page 3 of the Presiding Officer's letter points out, the figure is £9.6 million, which is an increase of £1.3 million or 15 per cent on the approved budget for that area. I recognise that a lot of that is dependent on the decisions that Parliament takes and that, in those circumstances, the SPCB needs to reflect what Parliament has decided, but I wonder when we last had a review of commissioners and ombudsmen. What with the pressures that we know are going to come in other areas of the budget, ordinary individuals and members of the public might, when they see that 15 per cent figure, raise their eyebrows. Are there any proposals for a review in the near future?

Jackson Carlaw: I will turn to Paul Grice in a second, convener, but I accept your point. I know that there has been a previous review, and Paul will be able to give you details of that. Certainly, the vast majority of the increase that we anticipate in relation to that area relates to the additional responsibilities that it has been determined the ombudsman will carry, but you make an interesting wider point. Paul, can you add anything to that?

Paul Grice: We had a review a number of years ago, because a previous corporate body was very interested in a deeper rationalisation of the office-holders. I think that it is fair to say that the reform that occurred fell somewhere between where the SPCB wanted to go and what was felt to be acceptable at the time. For example, it led to the creation of the Commissioner for Ethical Standards in Public Life in Scotland, under whom public appointments and standards were brought together, so there was some movement. Also off the back of that came an on-going piece of work to rationalise accommodation and shared services.

If the Finance and Constitution Committee were interested in encouraging such an approach, I can say that it was certainly the case that the SPCB was very interested in exploring the issue, but it would require wider parliamentary agreement on whether anything further could be done. I am pretty confident that, if that were something that the Finance and Constitution Committee wished us to look at, the SPCB would be more than happy to take that on and perhaps come back to the committee with some further thoughts about.

James Kelly (Glasgow) (Lab): Good morning. I am interested in the contingency issue. Some people looking at this from outside the Parliament might ask why we should approve a budget that sets aside £1 million as a contingency for dipping into over the course of the year. I know that we have set a contingency in previous years, so can you give some examples of how the provision has been used to reassure us that this is value-for-money budgeting?

Jackson Carlaw: First of all, I would say that there has been a greater reliance on providing for a contingency in the budget in previous years. To my mind, this year's figure represents something less of a contingency than we have perhaps previously provided. Looking at it, and at the challenges that are coming forward, I will say that, although the SPCB has sought at all times to bring forward a prudent and cautious budget, providing less of a contingency is beginning to present its own challenges. In the future, we will have to be mindful that the headroom provided by the contingency each year is beginning to shrink, and I am not sure whether, in the long run, it will be adequate.

Obviously the contingency fund is used for a whole range of areas, and Derek Croll might be able to give examples of its previous use.

Derek Croll (Scottish Parliament): In the current year, it has been used for such activities as the Presiding Officer's commission on parliamentary reform, which came forward in the current year and was not envisaged in last year's budget submission.

We have also used the contingency to support projects in other areas, particularly the service yard project that we took forward last year. With regard to next year's budget bid, there are quite a lot of potential costs that have deliberately not been budgeted for in our line budgets. For example, on the property and information technology side, we are re-tendering two major contracts. We expect to have double-running costs when the new contracts come in, but we have deliberately not budgeted for those costs in the line budgets; instead, we will take that out of the contingency. In short, the money is for meeting the costs of things for which we have no definite figures in next year's budget.

09:45

James Kelly: I note in the budget bid and forecast that the projected income figures are down from last year's income figures. Why is that, given that in recent years the Parliament has—quite rightly—focused on increasing commercial activities and income?

Jackson Carlaw: Commercial activity has increased, but I think that we should not overstate the benefit that accrues from it. For example, the commercial events pilot is still finding its feet, and it has not as yet made a profit or a meaningful contribution to the cost of the Parliament. The corporate body has decided to extend that pilot a bit further, as we are now getting some repeat business coming in and more opportunity for it to contribute, albeit at modest levels. The shop also brings in additional income but, as members will be aware, we still subsidise the catering facilities.

Effort has been put into that area, but the contingency still has to cover quite a wide range of additional matters that arise. This year, we have reduced the additional element within the contingency, but I am concerned that it will start to come under pressure if any significant unforeseen events arise.

James Kelly: Can you explain why last year we had income of £262,000 and this year we are budgeting for £255,000? That is a bit of a drop.

Derek Croll: I can probably answer that. The income is, in effect, the turnover from the shop, which is related to visitor numbers in the building, and we have seen a general trend over four or five years of visitor numbers reducing. With regard to the £262,000 figure for this year, our current year outturn forecast is that turnover will come down to the level that is in next year's budget bid. The fact is that we are seeing a reduction in visitor numbers.

Jackson Carlaw: It is worth pointing out that visitor numbers and the income from the shop can sometimes be determined by the events that are held in the Parliament. As you will recall, the great tapestry of Scotland event in the entrance lobby generated huge visitor numbers and a very significant spike in the turnover of the shop in that year. The Parliament is obviously considering what other events can be held that would bring significant additional traffic into the building, which would then enhance the shop's revenue. Revenue is obviously dependent on visitor numbers, and that particular event led to a significant increase.

Adam Tomkins (Glasgow) (Con): Good morning. I want to ask about the ombudsman's budget, which is to go up by £1 million from £3.5 million to £4.5 million. That is not a 15 per cent increase—it is a 30 per cent increase. I understand that the ombudsman's statutory functions have increased because of the Scottish welfare fund, but has the workload increased by 30 per cent, too?

Jackson Carlaw: The total for the ombudsman represents an increase of £1 million. When we remove the £1 million for the new functions, we see that the increase is only 3 per cent on the 2016-17 budget. The majority of that is for staff costs in the second year of the two-year pay award that was agreed last year, and the award includes the healthy living initiative and staff progression elements. That is where the majority of the increase comes from, over and above the additional responsibilities.

Adam Tomkins: The additional responsibilities are not that significant, are they? They are to hear complaints arising from the administration of the Scottish welfare fund, which is about £35 million. Are you suggesting that the increase in statutory functions will lead to a 30 per cent increase in the ombudsman's business? If not, what is the justification for increasing the budget by that not eye-catching but eye-watering figure?

Jackson Carlaw: The increase will have been directly calculated as a result of the assessment of the additional responsibilities that the ombudsman now has and the way that they will have to be properly met to meet the legislative requirements that arise.

Paul Grice: The increase represents a direct transfer of responsibilities from the Government to the ombudsman and was negotiated on that basis. The Government would expect to make a commensurate saving in its own expenditure. The negotiation took place principally between the ombudsman and the Government, and we were content on the basis that the transfer was agreed at that level.

Adam Tomkins: So when the Government's budget comes out next week, we can expect to see a saving of £1 million as a result of the increase in the ombudsman's budget.

Paul Grice: You might wish to raise that when you take evidence. [*Laughter*.]

The serious point is that it was a direct transfer. I think that some other functions were transferred as well as the welfare fund aspect, and we thought that it was an acceptable baseline transfer. We felt that, if the Government was content to accept it, it was reasonable from our point of view. Now that we have accepted responsibility for that transfer as the overall funder of the ombudsman, we will monitor the situation along with the ombudsman, and if the figure turns out to be more than required, we will report that back at a future date.

Adam Tomkins: It would be helpful to know what the increase in the ombudsman's workload has been as a result of the transfer of the powers in question and what additional staff the ombudsman has felt it necessary to appoint to cope with that increased demand. That will enable us to assess where the £1 million is going.

Paul Grice: If Jackson Carlaw is happy for me to do so, I would be very happy to drop you a note with a bit more detail.

Jackson Carlaw: Yes.

Adam Tomkins: That would be helpful.

Murdo Fraser (Mid Scotland and Fife) (Con): I have two separate questions, the first of which is about contingency and legal costs. What was the total legal bill for the court action for removal of the illegal encampment on Parliament land? Are there realistic prospects of any of that money being recovered?

Jackson Carlaw: My recollection is that the cost was about £100,000. Paul Grice has the actual figure.

Paul Grice: There is no separate contingency fund for legal issues. To respond to Mr Kelly's point, I say that broadly speaking the contingency—usually about £0.5 million—is for pure emergencies, which could include substantial court expenses. Such things just cannot be predicted. As Derek Croll said, there are other issues on which we have an idea of what is coming, but for which we do not want to budget firmly. Unexpected legal costs would come out of that general contingency.

The process is not over yet—next week, we will be back in court to look at two issues. We are pursuing the matter of costs—which I will come to in a minute—and we must address the indy campers seeking leave to appeal to the Supreme Court.

The total cost to date has been just over £100,000. On whether we have realistic prospects of recovering that money, the first hurdle that we must get over is to persuade the court to allow us to seek recovery of some of the expenses. That is a matter for the court, but we are applying for that. If the court grants our request, it is likely that it will grant us a proportion of the expenses. That is what normally happens. We will have to take a judgment on that. One of my jobs in advising the SPCB is to assess how realistic our prospects are. In pursuing costs, one must never incur more expenditure than is likely to be recovered.

My starting point is that it is public money, so we have a responsibility to examine seriously whether recovery of some of it is possible. Ultimately, it is for the corporate body and me to judge what is right. When we appear before the committee this time next year, we will be able to update you on how that has gone.

Murdo Fraser: Thank you for that helpful response.

If there were to be an appeal to the Supreme Court, the legal costs to the corporate body could be substantial. I presume that that would be covered by the contingency that you have built into the accounts.

Paul Grice: That is a good example of the sort of cost that we would have to cover from that budget.

Murdo Fraser: My second question is on an unrelated matter that I have raised previously: remuneration of committee advisers. I have felt for a long time that advisers to Parliament's committees are not sufficiently remunerated for the work that they do. I know that there has been an increase in the daily rate—fairly recently, I think—but the daily rate now for committee advisers is not much more than my hourly rate when I was in the legal profession, which was 15 years ago. It seems to me that the rate that we are paying committee advisers is not a proper reflection of their contribution. Will the SPCB consider that?

Jackson Carlaw: I am happy—again—to ask Paul Grice to answer that, and to note the point that Murdo Fraser makes.

Paul Grice: The rate is an issue that has been raised over the years; Murdo Fraser has made a fair point. We have to balance two things. First, of course, it is public money, and my approach is always to get the most that I can for the least amount of money. There is supply and demand to consider: if we look at it purely from a market point of view, there is still a substantial supply of very high-calibre advisers who are willing to work for that rate. On that ground, it is quite hard to justify unilaterally increasing the rate. We did, as you said, increase the rate by what I accept is a modest amount—I think from £137 to £150 a day. However, one of the benefits that advisers get is that having advised a parliamentary committee is a positive for their CV—it adds value.

I think that the corporate body would be reluctant to increase the rate at the moment, but we keep it under review. I know that the corporate body would consider the matter if committees of the Parliament, which we exist to serve, felt that they were not getting the breadth and calibre of people that they want. However, given that we are able to secure good advice for the price, it is hard to justify increasing the day rate.

Murdo Fraser: Thank you.

Patrick Harvie (Glasgow) (Green): One of the controversial issues in the SPCB's budget is MSP pay. However, I am more interested in the wider pay policy for other people who work for the Scottish Parliament. Does that policy follow automatically in lock step with Scottish Government pay policy? If there were a change in Scottish Government pay policy, how quickly would the Scottish Parliament adapt to fall into line with it? For example, if there were a change in mid-year, would pay changes come out of contingencies, or are such things built into the budget?

Jackson Carlaw: There are two points to make. First, this is the first time that the budget submission has been the method by which MSP pay has been confirmed. As you know, we decoupled ourselves from Westminster, under which arrangement the MSP pay rate was 87.5 per cent of what Westminster MPs earned. In the current year, it is 81 per cent, which represents a reduction in the percentage. In the budget that we are looking at, there will be a 1.8 per cent rise for MSPs from April next year.

Secondly, pay for staff on the Parliament campus is the subject of a separate negotiation between the trade unions and the staff bodies. A two-year agreement was arrived at last year. I understand that the arrangement is not coupled to anything that relates to the Scottish Government; it is a quite separate negotiation. The two-year arrangement was arrived at and—as I mentioned in my opening remarks—the healthy living fund and other aspects that are peripheral to that agreement are also incorporated in this year's budget. I imagine that at the end of the two-year period negotiations will recommence for the pay period thereafter. In answer to your question, Parliament staff pay is not directly related to staff pay in the Scottish Government.

Patrick Harvie: Are non-MSP staff—people who work directly with the Parliament—also enjoying a 1.8 per cent increase?

Paul Grice: The increase is about the same, actually.

Jackson Carlaw: It is about the same.

Patrick Harvie: Is that the case across the board?

Paul Grice: Yes.

Neil Bibby (West Scotland) (Lab): I note that you propose for 2017-18 £107,000 for the modern apprenticeship programme aimed at young people aged 16 to 24. That is down £21,000, from £128,000, in 2016-17. Why is that reduction proposed? Is the MA programme something that could, through savings or underspends, be considered for additional expenditure?

Jackson Carlaw: That is a reasonable question. I invite Paul Grice to answer it.

10:00

Paul Grice: We are proud of our modern apprenticeship programme. We set out to employ 20 modern apprentices; the original plan was to appoint them in tranches of 10—the first in 2015 and the second in 2017. However, the quality of apprentices was phenomenally high, so I agreed that we would appoint 13 apprentices in the first tranche. I am delighted to say that the vast majority of them have now secured their Scottish vocational qualifications and are in the job pool in the Parliament, which is where we hope to keep them. Next year, there will be a tranche of seven.

The reduction for 2017-18 just reflects the fact that we took a disproportionate amount of the funding up front. That is the funding for the apprenticeship programme itself, but the idea is that the apprentices become available to take up jobs in the Parliament and are not funded through the apprenticeship programme but become part of the normal staff group. Derek Croll can say more about that if he wishes.

My current thinking on the numbers is that we will stick to the seven apprentices for 2017-18, which will give us the total of 20. The modern apprenticeship programme has been hugely successful, so I am hopeful that we will, with the corporate body's agreement, look again for apprentices after the next tranche so that it becomes a rolling programme. It will depend partly on what we can afford, but it will also, as much as anything, be determined by the organisation's needs. We do not guarantee jobs, but I very much hope that anyone who succeeds in their apprenticeship will be given the opportunity to work long term in the Parliament. We have to keep those two things in mind.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I will ask about our investment plans for information technology and bringing Parliament more into the digital age. There has been a substantial investment so far in technology and software for members and staff alike, which I acknowledge and welcome. However, can we make the Parliament's website more multimedia friendly and digital friendly? For example, the *Official Report* is a fantastic resource, but it is all text. Is there any intention to introduce a multimedia element to that so that we can see video clips of speeches? That would help the general population, but it would also help people with sight impairments and it would be a good thing to do.

Jackson Carlaw: There has been astonishing increase in digital application and usage across the Parliament. I was astonished by the reduction in use of paper that the Parliament has achieved, which has been way beyond the expected initial reduction target. That reflects the fact that many different digital devices and platforms are being used across the Parliament in many different ways.

The budget for next year includes a significant increase in IT support staff and placements, given all the different platforms that need to be maintained and managed. However, we have also deferred some expenditures to maintain the overall budget level. Some of those touch upon areas that Willie Coffey has identified. As was explained to me, we will not yet be able to enter "Willie Coffey" into the website and have all your greatest hits come up for the world to see at the press of a button, even if that is our ultimate objective. There are some additional ways in which we need to continue to modernise but, because of some of the immediate pressures that we have, we have to phase those as carefully as we can to ensure that we maintain the immediate IT estate, in which—as you know—there is a lot of rolling change with members being introduced to new equipment.

Paul Grice: Mr Carlaw is right. We have in mind a project to link pictures and text, but it is one of the projects that have been held. If the money becomes available, we might reconsider it. However, we have money firmly set aside to redevelop the website because we are conscious that it is quite some time since it was upgraded. I know that Willie Coffey has taken a long-term interest in the subject, so I would be more than happy to give him—or, indeed, the whole committee—a more detailed note on that. It is firmly in the plans. We have it in mind to link pictures and text, but that will probably have to sit and wait for money to become available—probably not this year, but perhaps next year.

Willie Coffey: Are there plans to engage with the public and to get people to feed in what they want or expect from the Parliament's website?

Paul Grice: That is a helpful idea. If it is okay with you, I will take that back to Alan Balharrie, who is our head of business information technology. I am more than happy to let you have a note. User feedback will be critical as we design our approach.

Jackson Carlaw: The commission on parliamentary reform, of which I am a member, is also considering the ways in which the public can access and involve themselves with the Parliament—for example, through the website.

Dean Lockhart (Mid Scotland and Fife) (Con): In schedule 3, you set out a budget of approximately £2 million for IT expenditure next year. We hear from other businesses that IT costs are increasing substantially, partly because of the depreciation of sterling, as IT hardware and software tend to be denominated in US dollars. Are you experiencing increases in cost? Will you review the budget over the next 12 to 18 months to ensure that increased IT costs will be budgeted for?

Jackson Carlaw: I am sure that the answer to your second question is yes. The budget line represents a considerable increment in the number of people who will be employed in the estate on IT and digital maintenance and development. Some of the job titles are not always altogether clear to lay people such as me; I sought a proper explanation of what all the different people will be doing, and a lot of it will be linked to the different platforms that we have.

On the acquisition costs of IT, I do not know whether we have noticed a particular increase. Derek Croll might be able to respond.

Derek Croll: That increase has not come through yet. A lot of the IT budget for the next year or so is for revenue costs—it is staff costs, so it is for stuff that is UK based, rather than equipment.

Ivan McKee (Glasgow Provan) (SNP): I thank Paul Grice for his answer on advisers—I would struggle to see why we should spend more money on advisers if we do not have to do so. What you said made a lot of sense. Also, I echo what the convener said about commissioners. I appreciate what Paul Grice said about the ombudsman, but a number of commissioners are getting increases of 5, 6 or 7 per cent, which seems to be substantial, given where we are.

The biggest spend item is staff. As a new member of the Parliament, I have been delighted by the level of support that the staff provide—it is important to acknowledge that. You said that in 2010-11 a review was carried out that resulted in a 10 per cent real-terms saving. I assume that that was business process re-engineering activity.

First, is there a plan to do that again? The review took place a number of years ago, and there is always more that we can do. Secondly, is the output of the work available for us to review, so that we can understand what was done at the time, what processes were re-engineered and to what effect?

Jackson Carlaw: In the circumstances that obtained at the time, there was a feeling that the Scottish Parliament had to look carefully at its employment overhead. There was a reduction of 68 employees in 2010-11, which was a significant fall. The number has gradually started to increase. A number of the additional posts that we are considering for next year relate to the Scottish Government and to the new lobbying register that the Parliament must put in place.

A full and comprehensive review is not something that we would undertake on a regular basis. Such a review would happen from time to time, and there would have to be a clear sense of what the outcome would be, in terms of any major restructuring of the Parliament. However, the answer is yes, in as much as the corporate body is, particularly where new posts emerge, always keen to ensure that such posts are justified, and to consider whether current posts are still required. I know that Paul Grice does that on an on-going basis.

Paul Grice: Yes—that is where I am, at the moment. Members will recall that there was a crisis, really, following the 2008-09 position. At the time, the corporate body and I felt that we had to do something fundamental to reduce the head count and costs. There is nothing published on that, but I am more than happy to see what I can do. For example, I did a pretty fundamental review of the senior management of the organisation at the time. I am more than happy to write to the committee with more on that.

There is always a cost to such things. In an organisation that is subject to fundamental reviews, there is a certain amount of stress and anxiety in the system. You have to weigh the two elements up. To reinforce the point that Jackson Carlaw made, the position at the moment is about on-going work, constantly striving for improvement and always looking for innovation. That is the model that we have at the moment, and we will go forward on that basis.

Members all know as well as I do that we live in uncertain times. Were there to be a further substantial change in our circumstances that I felt would require a more radical review, we would do the same again. However, for the moment, we are simply looking continuously to improve. I would be more than happy to share with the committee anything that I have from the 2008-09 period.

Ivan McKee: Please do. It is always a good idea to fix the roof when it is not raining. I encourage you to strive for innovation when you can.

My other question concerns the £7 million running costs. That is the other chunk in the document that is not parcelled out. Is there a breakdown of that figure? The document says that it is for services that you are buying in and so on.

Paul Grice: Derek Croll might be able to help with the detail of that.

Derek Croll: Those costs include a lot of outsourced contracts—our IT support contract, general advisers, porters, catering, cleaning, telephony and so on. There is a lot of stuff within that. The IT support contract is the largest element.

Ivan McKee: It might be helpful to have a next-level-down breakdown of that £7 million figure.

Paul Grice: We can let you have that. I point out that, through our procurement strategy, we have a forward look at the big contracts. Where we can, we share Government-negotiated contracts, which represents good value for money. When we do not think that that is appropriate, we take a strategic look at how to bundle contracts so that we can get best value. That has often been a source of savings. Of course, we must bear it in mind that quality is important, too, for the reasons that have been outlined. Again, however, I am sure that we can let you have a note setting out the numbers in more detail.

Ivan McKee: Thank you.

The Convener: I have a final question. I am conscious that we have quite a lot of new members on the committee; I am not sure whether they are entirely aware of how you requisition your resources in relation to the Scottish block grant. Can you give us a quick résumé of how that works?

Jackson Carlaw: I think that that one is for you, Paul.

Paul Grice: There is an important constitutional point underlying our position, which is that Parliament has the privilege of making its budget bid separate from the Government and before the Government does so, and it bears the responsibility that goes along with that. That is why we are here before the committee today. That arrangement recognises the fact that the Scottish Parliament must, in its funding, be entirely independent of the Government. There has never been an issue in that regard, but it is a constitutionally important point. Members might be wondering why we are here to discuss our budget ahead of the Government. That is why. After a budget has been proposed by the SPCB and, hopefully, agreed by the Finance and Constitution Committee, it is netted off from the Scottish block grant, and what is left is what is available to the Government. That is the important constitutional position that is enshrined in law. I hope that that is helpful.

The Convener: I am sure that it will have been helpful. Perhaps it should have been my opening question instead of the final question.

I thank the witnesses for their evidence today. You have committed to giving us a number of pieces of additional information, and we look forward to receiving them.

We are a wee bit ahead of time; our next witnesses are not due until 10:30. I suggest that we amend the agenda slightly and move now into private session before coming back into public session at 10:30.

10:14

Meeting continued in private.

10:33

Meeting continued in public.

Scottish Growth Forecasts

The Convener: Item 3 is to take evidence from the EY ITEM Club on the Scottish growth estimates. I welcome to the meeting Mark Gregory, the chief economist; Dougie Adams, the senior economic adviser; and Duncan Whitehead, the head of economic advisory for Scotland.

Members have received copies of the growth forecasts along with a Scottish Parliament information centre paper on growth and forecasting. Before we move to questions from the committee, I invite Mr Gregory and Mr Adams to provide a brief overview of their work in the area. I can give you up to five minutes, if you want to take it.

Mark Gregory (EY ITEM Club): Thank you for asking us to come in. EY sponsors economic research partly for our own interest and our business, and to facilitate the debate between business and Government on economic issues, so opportunities like this are very important to us.

I will give you the one-minute version. ITEM stands for independent Treasury economic model. When Margaret Thatcher was Prime Minister, she made public sector information available for the private sector to use. A set of businesses came together and formed ITEM to produce their own economic forecasts using the Treasury model. EY has been the sponsor for about the last 25 or so years—it used to be Midland Bank.

The process is that we have the Treasury model, now partly the OBR model, which we update. We then ask a set of businesses for input on what they see in the economy. EY provides the data and then Professor Peter Spencer, who is the senior adviser to the Item Club at the United Kingdom level, makes the final call on the assumptions that we use in that model. That produces a UK forecast.

For a decade now we have produced a Scottish forecast and the Irish economic eye forecast and, for the past 18 months, we have produced a UK regions and cities forecast, which includes six or seven Scottish cities and all the major cities in the UK. As we get into discussion with the committee, we can draw on some of that analysis to put Scotland in context. My role here is to provide information on the UK framework, but Dougie Adams and Duncan Whitehead are much closer to the Scottish data, so I will let Dougie talk to you about that.

Dougie Adams (EY ITEM Club): It might be worth outlining how we do what we do. The current approach is to drive the UK results through an industrial sector model of the UK, then use that in the industry forecasts at a UK level to create employment forecasts at the Scottish level. We move them back up, using assumptions about productivity and trends in different industries, to the output figures and the gross domestic product figures that you can see. It is very much about industry-disaggregated forecasts, aggregate GDP and consumer expenditure. At the moment, we do not look at public revenues or public spending, but we feel that we will have to develop that in the longer term to meet the needs in Scotland.

Our latest forecast is downbeat compared to that for six months ago. There are a number of reasons for that, including the fact that global trade growth has continued to disappoint and that there are new domestic uncertainties about Brexit and how policy will evolve for trade across the Atlantic. The Scottish consumer has been very ebullient this year, but the savings ratio in Scotland is now almost alarmingly low. There is not much puff left in the consumer for next year, especially as employment is flat and employment activity rates have been falling. We therefore came up with a forecast of about 0.4 per cent for GDP growth next year. However, I stress that, in terms of economic forecasting, although the headlines are always about an individual number, in reality we are talking about directions of travel, and there are lots of uncertainties around how the details fall out. Perhaps economic models and forecasting are better as a basis for scenario work than for looking at individual point numbers.

The Convener: Thank you for that useful overview, particularly on the top level and how you bore down into Scotland—I am grateful for that. On the uncertainty issue and the point estimates in your forecasts, are there economic factors or drivers that your forecasts are particularly sensitive to?

Dougie Adams: There are a number of them. One of the biggest uncertainties in the short term is business investment. Most economists feel that the uncertainty around Brexit is likely to stall investment spending until there is more clarity. The latest figures for the third quarter in the UK are not that bad, but they might be driven by decisions that were taken before the referendum. However, investment spending by businesses is a big uncertainty at the moment.

Mark Gregory: The latest OBR forecast for the UK, which came out in the autumn statement, has investment growing at more than 2 per cent, whereas ITEM thinks that investment at the UK level will probably fall by 1 per cent next year, so that is the range. If we look across the forecasts, we can see that variability at both the UK level and the Scotland level.

Dougie Adams: That is particularly relevant at the moment because for forecasts nine months ago, people were looking for business investment to be one of the most buoyant elements of demand in the economy. The big short-term uncertainty is therefore about business investment. In the slightly longer term, there is the uncertainty around trade. Are we in the single market? Are we in the customs union? What would trading under World Trade Organization rules and regulations look like?

Maybe that is not going to hit trade in the next 18 months to two years, but it might affect the amount of effort that companies put into developing particular markets and so on. With trade issues, we are looking out to 2018 and beyond for big uncertainties across the board.

In the longer term, labour supply issues are particularly important for Scotland. Scotland's working-age population will fall by 0.2 or 0.3 per cent per annum as we get towards the end of the decade. We know that a number of sectors are very reliant on migrant labour. I believe that, in food processing, up to 30 per cent of the workforce is from the European Union. Labour supply is an issue for Scotland in the longer term.

I guess that another uncertainty, which looks back to business investment, is foreign direct investment and how attitudes to investing in Scotland or the rest of the UK will change because of Brexit.

Those are all big uncertainties and economic models are not really any good at sorting those out. Economic models are fine if we make some assumptions about how the uncertainties will play out because we can then develop scenarios, but if we do not know how they will play out, it will be pretty difficult to make confident forecasts.

The Convener: The message that I take from that is that, at this stage, no matter who the forecaster is, there is a health warning on all forecasts because of the levels of uncertainty, as you describe them, and that we can look only at trends. Everyone is facing the same uncertainty in trying to define what will happen.

Mark Gregory: If we look at the Bank of England's forecasts, it provides what it calls a fan chart, which shows the range of the probability of the outcomes, and the ranges are now wider than they have been for as long as they have been produced, for exactly that reason. It is always difficult, but it is probably more difficult now than it has been in living memory.

Dougie Adams: Businesses are facing exactly the same questions in their scenario planning. That helps to illustrate the difficulties of making investment decisions in the current environment but it does not mean that business investment stops. It just puts sand in the wheels.

The Convener: How difficult will that make the Scottish Government's job of trying to set its budget next week?

Duncan Whitehead (EY ITEM Club): I will just add something on business investment. As Dougie Adams said, it is highly volatile. It is encouraging that the Scottish Government is producing statistics on business investment. That is a new bit of evidence that has come to the fore. At the end of the day, many of the macro models are a function of the quality of the data that goes into them and the thoughtfulness of the assumptions that are made. If we bring that evidence to bear, it helps to enrich the discussions about what the uncertainties are and what the fan might be.

Mark Gregory: You are right, convener. I think that it was after the autumn statement last year that the commentators described the OBR as finding £27 billion behind the sofa for the UK public finances, which it then lost, and £35 billion more by the time of the budget in March. The ranges of spread are very significant when things are so volatile.

Also, in Scotland, as you get more and more control of the fiscal agenda, you do not have the base to look back on. That probably makes it even harder than it is when a system has been established for longer.

James Kelly: I want to ask some questions about employment. I am interested that your analysis shows differential rates for men and women. In particular, it pinpoints that, since 2015, there has been a 35,000 drop in the number of women in the workforce. I would be interested to hear an explanation of that and how it is likely to pan out.

Dougie Adams: It is a mystery. If we think about the adverse forces that have hit the Scottish economy in the past 18 months with the oil price shock, we think of a lot of oil-related jobs being more male oriented.

The rise in the women's pension age should encourage women to hang on in the labour market for longer, but the data on employment activity rates show that women are exiting the labour market to some extent. That said, female employment at an aggregate level is still very high compared with what it has been in history.

Why there was a very sharp rise to 2015 in that number and then quite a sharp fall-off is a big mystery at the moment. It could be a quirk in the statistics. I do not know whether it is, and I cannot offer members a reason for it.

10:45

James Kelly: Is there anything to show that the fall-off is sharper in certain sectors?

Dougie Adams: I do not have the data on that but it is an interesting question. Local authority employment might be an issue, but I do not have any data to show that.

James Kelly: Okay. The table in paper 2 shows forecast employment growth by sector. The bar chart shows that employment in education is due to drop by around 5 per cent between 2016 and 2019. Can you confirm what the figure is and say how that would manifest itself?

Dougie Adams: We have education employment dropping from 203,000 in 2015 to 197,000 in 2017. The public sector numbers for employment are driven by what we see happening at a UK level and are not modulated for specific Scottish policies. What we see happening to spending levels at a UK level drives the Scottish forecast.

James Kelly: If the forecast is a drop in employment in the education sector, do you accept that it is linked to the decline in growth and that it presents a challenge in respect of yesterday's programme for international student assessment statistics if we want improvements in areas such as science and maths? If we reduce employment in those areas, it is clear that there will be a challenge.

Dougie Adams: To link back to our initial remarks on productivity, there is no doubt that education is key for Scotland and every western country if we are going to drive productivity growth to drive up living standards. I would not make too much of those numbers, except in that they portray the profile of spending on education at an aggregate UK level.

Mark Gregory: It is implicit in the UK Government's spending programme that public services will improve productivity. In effect, more will be done with less. That is one manifestation of doing that. That is clearly the challenge that is set out. If that productivity is not realised, there will potentially be the challenges that are being talked about.

James Kelly: Okay. Thank you.

Murdo Fraser: Good morning. I will ask about your GDP forecasts for 2016. Am I right in saying that you have downgraded them three times? At the start of the year, you forecast 2.3 per cent growth in GDP. You revised that down to 1.8 per cent, then to 1.2 per cent and your figure is now 0.7 per cent. Is that right?

Dougie Adams: Yes, that is broadly correct. There is a whole range of influences. The world economy has not grown as robustly as most forecasters expected 18 months or so ago, and trade growth has been lower, which obviously has an effect on the UK economy and the Scottish economy. The lingering effects of the oil price fall on Scotland have perhaps been more severe than we expected.

Scotland has not done well in its trade performance. Exports to the rest of the UK have been growing much more slowly than the rest of the UK's GDP. That is probably down to composition effects as much as anything, but we have not got much bang from that buck. There have been all those influences, as well as the uncertainties thrown up by Brexit.

Murdo Fraser: I wanted to comment on the fact that there has been quite a substantial revision since the start of the year. We would have hoped that you were able to forecast what was coming, but the fact that you have had to make such substantial revisions downwards rather suggests that you missed what was likely to be coming down the track. I note that you are now forecasting GDP growth for 2016 as a whole at 0.7 per cent, but have we not already exceeded that in the first three quarters?

Dougie Adams: We have data only for the first two quarters. One of the issues when looking at GDP is whether you look at the annual average against the annual average or at the profile as it runs through the year, so perhaps you would compare GDP in the fourth quarter of this year against GDP in the fourth quarter of last year.

In the data that we have to the second quarter, we have seen that the economy in Scotland was gaining some momentum in that second quarter. We have no particular evidence for the third quarter yet, apart from some employment data that looks pretty flat. The headline figures are annual average against annual average, rather than final quarter against final quarter, so we have not exceeded the percentage that you mentioned.

Murdo Fraser: You comment on page 13 of your 2017 forecast that

"Overall GDP grew by 0.7% in the year to the end of June".

You seem to be saying that there will be virtually zero growth in the third and fourth quarters of 2016.

Dougie Adams: No, we had a good quarter of growth in the fourth quarter of last year. The figure you have just cited is Q2 2016 over Q2 2015, which is not the same as the annual average level against the annual average level.

Murdo Fraser: But you are expecting very little growth to have come through in the second part of 2016.

Dougie Adams: Yes.

Murdo Fraser: Compared with other forecasters, you seem to have a very pessimistic outlook. Why are you more pessimistic than others?

Dougie Adams: I do not think that we are more pessimistic than others who are looking at the Scottish economy. I guess that, at the ITEM level, we are more pessimistic than the OBR, but we are not miles away from what most private sector forecasters are saying, so I do not think that we are particularly pessimistic. Unfortunately, over the past seven or eight years, pessimism has tended to be the side to err on.

Mark Gregory: From memory, I think that in January we were forecasting 2.7 per cent GDP growth for the UK. We produced what I believe was the first forecast after the referendum, when our figure was 1.9 per cent, which was higher than the consensus among others who were publishing forecasts at that time. We are still at 1.9 per cent for 2016 for the UK as a whole, and I would guess from the data that it will be 1.9 to 2 per cent, so we will be pretty close. Our forecast may be below that of the OBR, but we are pretty much in the range in terms of the UK level, and we have some specific Scottish factors to take into account. One thing that we have certainly seen over the past year is that we and others underestimated the knock-on effects of oil. You can pick the oil sector as an example, but its impact on professional services and other sectors has been starker than we realised, and we are still trying to figure out exactly what the right adjustment is in that area.

Ash Denham (Edinburgh Eastern) (SNP): I am looking at the page of your forecast entitled "Brexit and Scottish exports", which states that, according to

"The HMRC dataset of regional trade statistics ... a smaller proportion of Scottish manufactured exports by value went to the EU in 2015 than is the case for the UK as a whole. The respective figures are 41% for Scotland compared with nearly 48% for the UK."

I am interested in such figures because I am also a member of the Economy, Jobs and Fair Work Committee, which has heard from a number of expert witnesses recently. The issue of the quality and availability of data specific to Scotland has been raised time and again, and I am interested in your view on that.

Also, there has been a suggestion of what is called the Rotterdam effect—I see that you are familiar with that term. As it applies to the UK, exports from Scotland might go to the UK and be counted as having been exported into the UK, but actually be en route elsewhere. I would be interested to hear your comments on that.

Mark Gregory: I will start with exports and hand over to Dougie Adams to talk about Scotland. The quality of export data is a concern for everyone. Yesterday, the ONS revised all its trade data and, from memory, it took half a per cent off the current account deficit in June compared to what it was previously. The trade statistics from the ONS have actually not been quality assured in recent times, because it has been so worried about them. There is an overall collection issue.

There is also a question of services versus goods. We can physically identify goods to some extent, but services trade data is very problematic. The Organisation for Economic Co-operation and Development has done some work on that, but it is really not very good. When we then try to disaggregate that to regions or the devolved Administrations, we are into problems. We have some knowledge of goods, but not of services. However, as Ash Denham rightly said, many of those goods go to Rotterdam but we do not quite know where they went before that. There is a set of overall challenges in the export data that will be particularly problematic in future as we negotiate on trade; we may not even really know what our starting base is as a country or for Scotland specifically.

Dougie Adams: The data from the Her Majesty’s Revenue and Customs database, which is very detailed, gives us just one indicator in trying to work our way through what is a pretty murky picture. We have simply tried to line up areas in which Scotland has a high proportion of exports that appear to go to the EU with the tariffs that could be faced if we ended up in a World Trade Organization-type of Brexit. A lot of straw men are being built in doing that, but it is one of the few bits of evidence—I hesitate to say concrete evidence, but circumstantial evidence—that we have on Scottish exports to the EU by sector. Even within sectors, when we drill down to an even more disaggregated level, the tariffs that could be faced by different goods that come into the same aggregate sector—for example, chemicals—could be quite different.

Mark Gregory: We are talking about exports, but, on the other side of trade, imports will be a very important feature of the Brexit debate. To take Jaguar Land Rover as an example, I imagine that it runs a trade deficit with Europe—it gets a lot of its supplies from Europe—but that it runs a surplus with China, which is one of its major export markets. When we are really trying to understand the sensitivities in trade we have to understand supply chains. The import side is at least as important and I think that there is a set of challenges in trying to unpick that as well. It will be really challenging.

The Convener: If that is a murky area—I think that that was the description—what do we need to do as a country to sort that? That information will obviously be hugely important for the future in understanding what is going on in either the UK or the Scottish economy. What needs to be done? What do Governments and organisations need to do to get that sorted?

Dougie Adams: We have statistical systems that are really quite good for industrial economies and it is easy to measure the number of pounds of smoked salmon that we produce or whatever. When it comes to services we have bigger problems. It has become a lot more difficult to measure what is going on and where, because of the way that supply chains now work round the world.

Then there is the trade-off that is always there between the thirst for better data that would allow us to understand more things and the cost burdens that that would put on businesses that are already pressed with everything else that they have to do. There may be big data—electronic filing of tax returns every quarter and things like that—that will begin to help cut that Gordian knot, but it is a difficult problem.

11:00

Mark Gregory: This is not an advertisement for EY, but we have just published a report for Groupe Eurotunnel that looked at the traffic through the Channel tunnel, for which we surveyed 200 of its customers. Although Eurotunnel understands its customers, it was not really sure of the exact details. It is a public report, and we presented it to a group of members of Parliament in the House of Commons. There are some interesting things in it. The West Midlands are the main origin of and destination for things that pass through the Channel tunnel, and it turns out that that is to do with parts for the car industry, which operates on two-hour supply chains—in effect, if there is not a delivery every two hours, people in factories are not working. The second-largest category is courier parcels, which is to do with online shopping and businesses that offer delivery within a day, for which the tunnel is very important.

One thing that you could think about in the short term—although it is only a partial solution—is sampling at Scottish ports and airports. That would help you, as you form your view on Brexit and the trade negotiations, to get at least some picture of where the sensitivities are in Scotland. Our experience is that the operators of ports, airports and so on have quite detailed knowledge of those operations and some of the challenges. You might think about that.

Duncan Whitehead: It is worth pointing out that, in the same piece of work, we picked up on the movement of fresh produce from Scotland to the continent—the Channel tunnel is a vital link for that.

Maree Todd (Highlands and Islands) (SNP): On that very note, I represent the Highlands and Islands, where we have a strong tourism sector and a strong food and drink sector, as you have mentioned. I am interested in the concerns around the free movement of people. When I visited Shetland a couple of weeks ago, I heard anecdotal evidence that, in fish processing plants there, more than half of the staff are European Union nationals. Shetland has low unemployment rates, so there are no local people looking for jobs. What would be the impact of a very hard Brexit with no free movement of people on sectors such as food and drink and tourism, which have a huge number of EU nationals working in them?

Dougie Adams: It is obviously a huge challenge. Paradoxically, we might find that there is more investment in kit that does stuff, rather than people, but there are clearly huge limits to that, particularly in the tourism industry. There would be an impact on costs, because businesses would be trying to bring in people from the rest of the UK or other parts of Scotland, and I guess that we would then get into housing issues in the Highlands. I suspect that one big effect would be that, as we have seen in the US, we would get a lot more illegal migration as people try to find ways to solve their particular business problems and take risks.

Maree Todd: There is also concern about more complicated effects rather than just the effects relating to the free movement of people. There is the issue of currency. Last year, we had a strong year for tourism in the Highlands and Islands, probably because of the crash in sterling. Obviously, there are other impacts. What are your thoughts on how that will pan out in future?

Dougie Adams: Next year should be even better for tourism, because most models of tourism flows suggest that, although there is some immediate effect from a currency depreciation, the big effects take time to come through, particularly for far-travelled tourists. Tourism ought to be a bright spot through next year. At the same time, the other side of the depreciation, which we have not talked about, is likely to start rearing its head as we go into 2017—that is, increasing prices. Because the depreciation is so large, I do not think that that will have a particular impact on the tourism sector.

Mark Gregory: The exchange rate could be as significant as Brexit in terms of what happens in the UK economy. We have had a significant devaluation. There is an argument that the UK's current account was such that that devaluation was probably going to come at some time and Brexit may have hastened that push.

In our survey of UK clients, 67 per cent thought that sterling would return to pre-referendum levels within two years, although I would say that that looks optimistic, certainly against the dollar.

However, to come back to the point made by you and Dougie Adams, I think that, although we are seeing the short-term benefit of lower prices, the question is not only whether businesses will move to allocate capital to that export opportunity, which could drive productivity and growth, but how they will look at the import side of things, where costs are going to rise. For example, will people try to substitute some of the imports that we currently get? The UK has been a great offshorer of activity—will some of that come back? There could be an opportunity wrapped up in that. Labour is obviously a different area, but it would be interesting to see whether businesses respond to that.

This is why business investment, although uncertain, is so critical. Now would be the opportunity to invest in exchange rate-related export and import opportunities, but if businesses do not see the exchange rate shift as permanent, that investment will clearly not happen for a while. The dynamic in that respect will be interesting.

Maree Todd: Thinking even further ahead to how the whole Brexit negotiation might pan out, I wonder whether, in relation to free movement of people, there will be an issue with visitors coming to the UK. Obviously, the area that I represent is pretty concerned that Europeans might need visas to visit us in the Highlands and Islands.

Moreover, what sort of trade tariffs might be imposed on the export of food and drink? After all, whisky and salmon are among Scotland's biggest export products. Can you give me some thoughts on that?

Mark Gregory: Unfortunately, it is all very speculative, because there are so many moving parts. With regard to food and drink, if we start to sign trade deals with other countries, there might well be an opportunity for more imports in some categories. The EU customs union, to some extent, protects food and drink produced within the EU, with some of the highest external tariffs being imposed on dairy and other such products. You are right to highlight risks with regard to people and tariffs, but there are also risks on the non-tariff side in relation to the ability to export, get customs clearance quickly and prove the origin of the goods involved.

One would imagine that, in the worst case, the impact would be negative. Equally, though, the recent signalling suggests that all options are in play, and one might try to mitigate things. The range is almost as we saw it at about the time of the referendum, when our profession took a bit of stick; however, the general view amongst, I think, 80 per cent of economists was that, with restricted trade and migration, the net result would be lower GDP in the long run. There is everything to play for, but there are definite risks out there.

Adam Tomkins: I want to change focus a little bit from the least densely populated part of Scotland to the most densely populated part and ask a few questions about the very helpful if slightly depressing analysis of the city focus at the end of your report, in particular with regard to Glasgow. It is not only the city that I represent, but the first city in Scotland to have a city deal, and I want to ask you about a couple of remarks that you have made in that context.

In your report, you say:

"Glasgow has experienced a 0.1% increase in employment ... lagging behind both Scotland and the UK"

as a whole. Indeed, you also say:

"Over the period 2016-2019, employment in Glasgow is likely to remain ... flat."

Signed a couple of years ago, the Glasgow city deal was the first in Scotland. At that time, it was the richest anywhere in the UK and worth more than £1.1 billion to the local economy. Its purpose was to boost jobs in Glasgow—by which I mean not just the city but the Glasgow and Clyde Valley region—and something like 28,000 jobs were supposed to be generated as a direct result. Given that your forecast for jobs growth is so flat and disappointing over the period in which the Glasgow city deal is in operation, are we to read the paragraphs in your report on Glasgow as a reflection of the deal's failure?

Mark Gregory: To put it into context, the Glasgow city deal was created at a time when macroeconomic conditions were expected to be more favourable. On the employment outlook across the UK, we think that only London and the south-east will see employment creation in the next three years and that employment will fall reasonably significantly in most parts of the UK, even in the north-west and Yorkshire, which is talked about as the northern powerhouse. We have to look at employment from now going forward in terms of that macro-environment. It would probably be too big a step to challenge the benefits of the Glasgow city deal, given that the employment profile now is different from what we thought it would be. There is still growth in Glasgow in services such as professional services, but public sector spending is continuing to be squeezed. That will bring more job losses, and it is about mitigating some of that. The macro context therefore makes it hard now to evaluate the plan as was against the forecast.

Duncan Whitehead: I am not extremely familiar with the detail of the programme and project-level activities of the Glasgow city deal, but it is over a 10-year period.

Adam Tomkins: Indeed.

Duncan Whitehead: Those programmes and projects should suit the macroeconomic and local economic environments that they are facing. We would still hope that an injection of additional investment would be supportive. Obviously, within the context of what is happening in the broader economy, there might be job losses elsewhere for other reasons, which is kind of netting it out.

Adam Tomkins: Yes. One would indeed hope as you said, but against what kind of criteria should we now measure the realism of that hope? As you have just said, the macroeconomic circumstances now are different from those when the Glasgow city deal was signed. Furthermore, we are talking about not only the Glasgow city deal but the growth of city deals throughout Scotland. I think that every city in Scotland is to have a city deal, but we are now also talking about growth for areas outside the cities. How will we measure the success or otherwise of the city deals and growth deals if the measurement criteria are different from those that were assumed when the Glasgow city deal was signed two years ago?

Mark Gregory: We have been talking with the Scottish cities alliance about how performance in that regard might be benchmarked. However, to put the Glasgow city deal into the context of UK cities and regions, London grew on average at 3.4 per cent a year over the past three years, but we now forecast that it will grow at 1.9 per cent. You can see from that that the macro effect hits everyone. The stronger that a city or region is, the more resilient it will remain in the short term. The sector mix and the prospects for those sectors in the short term are big drivers for the short-term outlook for cities.

We have to use some kind of benchmarking to measure performance. For example, Manchester has been outperforming other cities in its region, and it is way further down the line in terms of its city deal. However, if we looked at Manchester's growth against what it was and against its peers, we could derive some ratios as to what the growth effect looks to be relative to the investment; and we could then look at the Scottish city deals in that context.

Our discussions with the Scottish cities alliance have involved looking not just at the Scottish cities relative to each other but at where policy has made a difference. The positive that I would take is that Manchester is outperforming, which suggests to me that there is an opportunity to do something across all the cities and regions through a devolution agenda. However, that would take time and we need to understand the dynamics in terms of drivers—for example, how important infrastructure and skills would be for that and over what time period would we see a difference. My suggestion is therefore to think about benchmarking Scottish city deals against city deals elsewhere in the UK that are now public and starting to develop.

Duncan Whitehead: The other consideration is the sector make-up of a city. Some cities are forecast to do quite well over the coming years—for example, Reading—because they are very weighted towards professional services, IT and the scientific sectors. Those sectors are forecast to do quite well across the UK. It is important to look at each individual opportunity and see what the sector make-up is and how the macroeconomic environment is affecting performance at the sector level.

Mark Gregory: That is a good point. Scotland performed strongly in our UK attractiveness survey last year, but what was most noticeable was that both Glasgow and Edinburgh performed very strongly in terms of attracting foreign direct investment into what I would call the digital and knowledge industries. Another dimension of benchmarking is therefore assessing whether a city has the sectors where growth and opportunity seem highest, and trying to challenge that situation as well.

We ought to think about not just growth but the quality of growth and whether it is creating a long-term platform. With its universities, Scotland seems to be in a good position in that respect, but the city deals need to unlock that potential.

Adam Tomkins: Thank you very much—that was very helpful.

11:15

Patrick Harvie: Good morning. I would like to follow up on James Kelly's questions on employment by sector. I also have a question on forecasting more generally.

I was a wee bit surprised by the reaction that the impact on gender inequality in employment was "a mystery", even in the context of what has happened in the oil and gas industry. It is true that there are certain high-value parts of that industry that employ more men than women, but we have heard consistently that it is the induced employment in the wider economy that is particularly vulnerable. It seems to me that that effect should have been expected.

The forecasts by sector suggest that the accommodation and food services sector will be the third-biggest growth area and that areas such as education and health and social care—in which women are more likely to be employed in the public sector at a higher pay rate than they would get for equivalent work in the private sector—will be among the hardest hit. Growth is predicted in low-paid jobs such as those in the accommodation and food services sector. If we look at that picture as a whole, are we not likely to find increasingly stark inequalities, not just of gender but of income, in the Scottish economy? Should that not be the principal driver of Scottish Government policy, now that, in addition to wanting to achieve a social objective in reducing those inequalities, it is particularly reliant on income tax revenues?

Dougie Adams: The public sector effects that you talk about are well documented and have been going on for a long time, yet female employment rates and the aggregate number of women with jobs in Scotland grew strongly until 2015, so maybe the oil situation is having a bigger effect on women than we are assuming. However, that does not quite feel right.

We are living in a world in which we face a major challenge on the equality agenda. Technology is disrupting numerous sectors that had good jobs in the past, with the result that they will have fewer jobs in the future, albeit that they might be higher-paid jobs. How we distribute the gains from technology and, to a lesser extent, globalisation among the population is a well-recognised problem across the west, which Scotland shares with everyone else. I do not think that there are any easy answers to it.

Patrick Harvie: Do the witnesses have any other comments? I think that Mark Gregory mentioned reductions in employment in education and health and social care in the context of productivity. It seems slightly bizarre to use the same definition of productivity in those areas because, there, the same throughput with a lower labour input is not an increase in productivity but a reduction in the quality of service and in what is being sought.

Mark Gregory: Yes. I was describing the implied mathematical relationship, which is that we are going to do more with less.

Patrick Harvie: Does it not result in doing less with less?

Mark Gregory: There is a debate about productivity more generally. Increasingly, we define productivity in terms of the cost side of the relationship, whereas the value side of the relationship might prove to be more important.

I can illustrate that. One of my clients is a financial service company, and it found out that its sales force was spending 11 per cent of its time selling. Yes, it had to do a lot of compliance work, but the company had outsourced its IT, finance and human resources, so the people who theoretically were there to create value were spending a lot of their time on activities that reduced overall costs but were not necessarily maximising their resources. I think that we should be switching the productivity debate to a debate about where we can create value, which might sometimes mean spending more money in the short term because we are trying to get a different output.

I agree with you that, when we look at productivity, we must be careful to ensure that we understand what benefit we are trying to get and what the multiplier benefit of that might be. If we found that we would get better outcomes if we spent more on education or health, that might boost productivity at the macro level over time because we would have healthier people who were able to work more or better educated people who, one assumes, would produce more value. That debate is not in the paper, but that is where the productivity debate should be.

Duncan Whitehead: Stepping back a bit, we talk about equality and the inclusiveness agenda but, when growth is weakening, it becomes more challenging to achieve that. You can see that on a regional basis in the EY ITEM Club regional report, where we see the impact of slower growth across the UK propagating itself across the regions. Some regions are more affected than others, and the regions that are showing the least growth are those that were doing least well before any of the recent revisions. That kind of challenge has now become even more of a challenge, given the change in the macroeconomic context.

Mark Gregory: We are going to have to work harder. The tougher the economy gets, the more we need to do to rebalance the economy or to address inequality—more than we need to do in a growing economy, when we have a bit more resource to move around.

Patrick Harvie: There is another inequality paradox. It has long been the case that highly paid people are paid more to make them work harder while low-paid people are paid less to make them work harder.

I have a more general question about forecasting and how you do what you do. It is sometimes said that nobody predicted the financial crash. However, it is probably fairer to say that nobody using mainstream, dominant economic theory predicted the financial crash. A decade or so ago, people who were using less fashionable economic models got the timing, the causes and the extent of the financial crash right. What have you done since then to bring in a broader range of viewpoints and economic approaches to ensure that we have a fuller range of understandings of the way in which the economic discipline can be used to tell us something about where we are?

Mark Gregory: Dougie Adams told me this morning that he predicted the crash. I am going to check his report on that, because he did not sell any of his share portfolios.

Dougie Adams: There is certainly a weakness in macroeconomic models in their treatment of the financial sector and the vulnerabilities there. Models have tried to take more account of the financial sector. However, given the way in which these events come along, I suspect that we should be looking not to the last crisis but to the next one.

There is a new block in the model for the financial sector and its influence through the economy, credit spread and stuff like that, which was not there before. There has been some attempt to fix that particular issue with macroeconomic models. Nevertheless, as you say, there is a lively debate about macroeconomics having never seemed to be a settled discipline.

Patrick Harvie: I often hear it argued that there is not a lively enough debate about macroeconomics.

Dougie Adams: You are not reading the right blogs.

Patrick Harvie: I would appreciate any links.

A case that is made is that the discipline involves—perhaps as some other academic disciplines do—people having to talk the same language to one another, reinforcing the dominance of a centrist approach, rather than exploring other economic models that have become unfashionable but that can prove useful. Is that a fair criticism?

Mark Gregory: It is a fair criticism to some extent. The profession got somewhat isolated and a little bit hung up on the mathematical solution to almost every problem, whereas we are trying to forecast how 65 million UK consumers will behave in their individual decisions and you would imagine that sociology and other disciplines might be able to inform that forecast to some extent. The problem is to try to represent that in a model that works at an aggregate level. As Dougie Adams said, those models give you indications of directions of travel, but I am not sure that they pick break points in the trend. If there is a weakness it is that if there is a shock that is outside the bounds, it is almost certain that we will not have captured it correctly.

Maree Todd: I want to clarify something in relation to Patrick Harvie's early line of questioning on education and employment in education. In relation to the table on sectoral outlook before us, you said that the public sector spend was not modulated for the Scottish situation. Can you clarify that?

Dougie Adams: I meant what might be in next week's budget, for example.

Maree Todd: So are you saying that that table reflects the spending situation at Westminster level and we cannot draw many conclusions on the Scottish situation from it?

Dougie Adams: Yes.

Maree Todd: Thank you. I just wanted to be clear on that.

Dean Lockhart: Your report highlights a number of concerns surrounding the recent performance of the Scottish economy. Pages 17 to 19 highlight concerns such as falling international exports, flat GDP, rising economic inactivity and low job creation rates. Can you explain to us, as far as possible, whether those are caused by long-term structural issues with the Scottish economy or by shorter-term changes in commodity prices, such as oil and chemicals? From a policy perspective, we can try to address some of the structural issues, but we do not have a lot of control over the price of oil or chemicals.

Dougie Adams: I probably said in a rather cack-handed way that the export performance was partly driven by compositional effects—we know the problems faced by the metals sector over the last year and the price pressures on the chemical sector. Many of the particular issues are short term and cyclical, and some of them will be helped greatly by the depreciation of sterling. No doubt there are other structural issues at work in the make-up of the Scottish economy. However, structurally, the Scottish economy is now much less vulnerable than it was 30 or 40 years ago, when it was heavily dominated by capital goods production.

Dean Lockhart: You mentioned the increasing divergence between the performance of the Scottish economy and that of the rest of the UK. Can you talk us through the main drivers of that divergence, which seems to be increasing to some extent?

Dougie Adams: One big driver is population; our population is growing and is much bigger than we expected it to be 10 years ago, but it is not growing as fast as that of the rest of the UK, particularly the southern part of England. That has an immediate knock-on to GDP growth. Our aggregate rate of productivity growth seems to be a bit lower than the average for the UK as a whole, but that probably comes down to sector composition and the very fast productivity growth in some sectors in London, which is a unique situation. Those are the two main reasons.

The public sector is a slightly bigger weight on the Scottish economy and we know the pressures that it has been under, so that would be another contributor to that gap. In the short term there have also been the commodity and oil price effects.

11:30

Dean Lockhart: Fifty per cent of all the exports from Scotland come from 50 companies. On page 17 of your report, you highlight a decline in international exports. Have you seen compelling reports or research on why that is the case? Is there a structural issue in the Scottish economy that prevents more companies from exporting? Is there a cultural issue?

Dougie Adams: Exporting is difficult; it is not an easy thing to do. For a medium-sized company, it is a big commitment of resource, with uncertain pay-off. Some of the models of trade and exporting that have proved fruitful in recent years have focused on the quotient of the leading sectoral companies in the economy. There might be quite a large number of companies in a given sector, but only the leaders are likely to be exporting. There is a compositional effect at the industry level.

There are lifestyle businesses—I am not saying that people want to work only one day a week, but if a business does not want to take many risks and can make a good return for its owners and employees, taking the step to exporting can be a big risk.

Mark Gregory: We have made the point to UK Trade and Investment, as it used to be—it is now the Department for International Trade—that we often focus on exports when we should look at trade, by which I mean the links to foreign direct investment and the bilateral relationships that evolve over time.

Germany is an exemplar in that regard. Its trade with China is very much two way, and over time there is leverage from such relationships. I am not familiar with the Scottish level, but at UK level we have not often linked pieces of trade. If a Scottish company makes an investment in a European country, over time it is likely to build relationships and create soft power, so that the company's exports and investments become linked in a different way. The issue will be increasingly important for all of us if the Brexit process continues as it is doing and Scotland thinks about its role as a trading nation.

Dean Lockhart: If two thirds of world growth is coming from emerging markets, does that mean that, over the short, medium and longer term, more of our exports will go to such markets?

Mark Gregory: Yes and no. Opportunities are there, but it will partly depend on what we produce and where the opportunity is. What we have seen, particularly in our foreign direct investment, is that North America remains an attractive market for Scottish producers—and the FDI is coming in, too. Yes, there will be faster-growing markets, but there will still be a balance and what we produce might well play more in other markets.

The Convener: This relates to Dean Lockhart's questions. You said that only in London and the south-east is employment forecast to grow. It strikes me that the relative tax take issue in the fiscal framework that was agreed between the UK and Scottish Governments therefore becomes significant for us. If that was a factor in the forecasts, there are risks for the Scottish economy.

Both Governments are responsible for the area. What could they do to help the Scottish budget in those circumstances? You might not be able to answer that today. It will be important in future for Scotland to understand what both Governments can do to begin to impact on the tax-take issue.

Duncan Whitehead: It is interesting to observe that in the autumn statement and the accompanying OBR report, the anticipated take from income tax at UK level has fallen. That is happening at UK level. If you are looking at income tax as a way of collecting funds in Scotland, that is obviously something to keep an eye on.

The Convener: Any suggestions that you can give us on how we might address that would be helpful. I saw an interesting article in the *Financial Times* last week, which said that there has been a 25 per cent increase in the number of corporations, as people try to avoid paying income tax. There are significant dangers in that for the Scottish economy, because we have no control over that area. I simply make that comment.

Mark Gregory: We have talked about export data, but employment data is also problematic and we do not really understand the self-employed economy and what people earn and how they contribute to the tax system. All our labour data is largely sample based, and at the UK level the samples become very small relative to the increasing number of people who are self-employed. Therefore, when thinking about employment or income taxes, for example, that becomes quite a significant issue.

The Convener: The interesting point is that if tax were to be changed here, that might reduce the tax take and improve the Treasury's position, which would be a bit perverse. Understanding all the issues is going to be important.

Willie Coffey: First, I would like to ask for some comparisons between the Scottish and Irish economies. Mark Gregory, who is EY's chief economist covering the UK and Ireland, mentioned forecasts in his opening remarks. According to the forecasts in his paper, GDP growth is about 0.4 per cent for Scotland and about 0.8 per cent for the UK, but the Republic of Ireland's growth is about 3.6 per cent, which is nine times higher than the rate in Scotland. Ireland has come from a particularly difficult place, given the banking crisis and depopulation. It does not have the strength that Scotland's economy has in food and drink, life sciences and financial services, so why would its growth forecast be so much higher than Scotland's growth forecast?

Mark Gregory: You are right. Whenever we produce our forecasts for the Republic of Ireland—yesterday, I was reading our latest one in draft—we have to start from strange numbers. Ireland was getting up to a reported 26 per cent growth in GDP earlier this year. That was driven by various classifications of leasing companies and some tax inversions, but Ireland is growing at a healthy rate—last year, it might have grown in real terms by about five or six per cent, which is some of the bounce-back from those things.

Ireland has been successful at developing its tech sector and its attractiveness to tech and life sciences. That is not always about its domestic capability, but it has been able to get inward investment from the US tech sector. You can look at the west coast for examples of that. That success slightly distorts the numbers, because a lot of products come in that contribute to GDP even though they leave without necessarily having a massive Irish input.

Ireland has also restructured its economy since the financial crisis. Companies cut nominal wages—they did not just stop giving people wage rises; they took cost out of the labour supply, and the competitiveness is now coming back. We might also see people hedging their options on whether they have operations in Ireland versus the UK mainland, given that one will be in the European Union in the long run and one will not.

Ireland has a competitive exchange rate and its aggressive use of tax policy in that regard is well documented. It has also been successful at targeting certain sectors with FDI, which has provided a boost to the economy. There are still challenges with the banking sector that have to be worked out over time; that is probably also the case for property. However, in the past few years, Ireland has worked hard at trying to change the nature of its economy.

Willie Coffey: Let us look forward to a potential Brexit impact on Ireland. We are its biggest import destination. We might be looking at a situation in which, in 2019, the UK is outwith the European Union, but Ireland is still forecasting healthy significant growth rates. Why is there that huge differential between Ireland and Scotland?

Mark Gregory: That is partly because people might not yet be baking into those forecasts the Brexit impact in the same way that we are assuming that the base case position will be, if not the cake-and-eat-it model, to have a reasonably smooth transition, which is only one of a range of possible scenarios. That is probably the most significant factor in that at this point.

Forecasts for Ireland beyond 2019, as they are for the UK, are even more speculative than normal in that context.

Ivan McKee: Thank you for coming to talk to us today. I want to discuss exports and Brexit. However, will you first clarify a point for me? In answer to Ash Denham's question, you talked about export statistics. If I heard you right, you said that there is uncertainty about the statistics. In particular, if we are trying to understand whether Scotland's exports go to rUK, Europe or the rest of the world, is it the case that there is considerable uncertainty about what those numbers actually are?

Dougie Adams: Yes.

Ivan McKee: Looking through the report, we are talking about a WTO rate on beverages, for example, of 20.7 per cent, which could hit Scottish whisky exports. The WTO is talked about as our option. Is it true to say that the UK's situation vis-à-vis the WTO at the moment is that the deals that the UK has with non-EU countries through the WTO are, in effect, by virtue of its membership of the EU?

Dougie Adams: Yes.

Ivan McKee: So anything that is in place at the moment between the UK and a non-EU country would, in effect, have to be started from scratch again—we would be back at square 1.

Mark Gregory: I saw Government ministers—or maybe it was experts—saying yesterday in a select committee that, should the UK take the WTO option, we would try to grandfather the relationship. We would take what we have now as our WTO tariff schedule through the EU and move that over. The challenge is less on tariffs than it is on quotas. Often, there is a set of quotas that sit with those tariffs, and we will have to agree with the EU how to divide those quotas. That is probably the more challenging piece of that process.

Ivan McKee: Yes, but that is a big assumption. That is not the way that business is normally done.

Mark Gregory: As I understand it—as I was saying to Duncan Whitehead earlier, with trade, the more you understand it, the more you do not understand it if you are someone who has not spent their career doing that—that process will be subject to a challenge by any WTO member, and there are 160 or so members. There is clearly scope for someone who will see an arbitrage opportunity, so there is a definitely a risk there.

Ivan McKee: On a separate issue with regard to exports, the report quotes some balance of payments current account numbers. The UK is at about -5 per cent of GDP on its current account, give or take a bit. My understanding is that Scotland has a positive balance of payments on its current account. Is that correct?

Dougie Adams: It is hard to know.

Ivan McKee: Is that because of what we talked about earlier?

Dougie Adams: Yes, it is very hard to know. The trade stats in the national accounts are as good as anybody can produce, but other things that affect the current account position, such as flows of profit payments and interest payments, are difficult to get a handle on, so it is difficult to know. I have seen some attempts at putting some numbers together, but—

Ivan McKee: We might assume—given our offshore exports, our food and drink and whisky exports, and the activities of our financial services sector and a whole bunch of other sectors—that our balance of payments would be positive. Are you saying that there is nothing hard and fast there?

Dougie Adams: There is nothing hard and fast. We have seen much faster import growth than export growth over the past year, and the fact that rUK companies and foreign companies that operate in Scotland repatriate profits and pay interest and dividends affects the current account. It is not just about trade; it is about other flows.

Mark Gregory: The ONS put out a paper last week that shows that, since 2011, the UK current account has gone from, let us say, -3 to -6 per cent of GDP, and most of that decline is due to a fall in the return on investment overseas. I think that our return on capital has gone from around 8 per cent to 5 per cent on that. Potentially, Scotland is disproportionately exposed to that because it has had a strong financial sector; there is a good chance that Scotland has a disproportionate share of Britain's overseas investment.

Ivan McKee: Okay. My last question is a hard one.

Mark Gregory: Not like the others, then.

Ivan McKee: They were just a warm-up. The report is clearly written in the context of Brexit and where we are today, six months after the vote. Let us ignore how the process might happen, but if we woke up tomorrow, Brexit was off and you revised the numbers, how much better would they be?

Mark Gregory: Good question.

Dougie Adams: It is a good question. We have talked about the uncertainties around business investment, trade and foreign direct investment. If those uncertainties were X-ed out, I think we would see numbers that were quite a bit better.

11:45

Mark Gregory: At the UK level, I think that we started the year at 2.7 per cent and are now at 1.9 per cent. Some of that decline was probably because the economy was slowing in the run-up to Brexit, and we will not get that back. That probably accounted for 20 per cent of the 1.9 per cent, so we might have been at 2.3 per cent for the UK. I do not know whether we can read that across to Scotland, but it feels as if that is the kind of slowdown that we have seen.

It is hard to call, because—to return to Patrick Harvie's point—we are trying to forecast people's intentions and how they will react to an uncertain environment. That is why it is so difficult. People are not necessarily behaving as we think they should be.

Ivan McKee: Sure, but if that uncertainty were lifted—

Dougie Adams: There is actually a harder question than even that one. Usually when an economy is hit by a shock, there are bad effects, but over time it adjusts and catches up a lot of the damage. The issue now is what the long-term effects of Brexit will be. How will it affect our labour supply, our investment spend and so on? You can make arguments on both sides.

The bigger question is what the impact is on the UK's and Scotland's economic potential. Our economic potential has a big impact on what we will raise in taxes and have available to devote to the good things that we all want.

Mark Gregory: The other interesting thing in the Scottish context, as we were discussing earlier, is that the savings ratio is as low as it has ever been in Scotland. Normally, in times of uncertainty, the savings ratio goes up. People have been forecasting a slowing of the economy across the UK partly because it was thought that consumers would start saving more but, in fact, they have continued to spend. Scotland is at the extreme end of that. Maybe there is less of an upside in the sense that Scottish consumers seem to be ignoring Brexit at this point, or they think that the rainy day is going to be so wet that they are going to spend now, before it happens. That is why trying to flip that can be quite hard.

Duncan Whitehead: I wonder whether there are other issues. The current account deficit has been exposed through the Brexit process so far. If Brexit were off, would that issue go away? I think that it would still be there. I do not think that everything would reverse.

Ivan McKee: Thank you.

Neil Bibby: I want to ask about exports and productivity and the forecasting in relation to Scottish Government targets. In 2014, the Scottish Government said that it wanted to increase the value of Scottish exports by 50 per cent by 2017. A target was a ranking in the top quartile for productivity against key OECD trading partners by 2017. Obviously, 2017 is not that far away now. How close will we be to hitting those targets? Also, notwithstanding everything that you have said about Brexit, would it be fair to say that those targets were challenging even before Brexit?

Dougie Adams: They are challenging targets. One of the issues with a target that is put in value terms is that an industry can be doing quite well in terms of production volume, but if prices are crashing through the floor, as they have been in some industries, it is not possible to get the value up. People are selling plenty but not getting much for it.

On the productivity issue, we have had in Scotland, as in the rest of the UK, a long period in which aggregate productivity has not grown by much at all. That might be because we have made different choices. France and Germany, which are major economies in the OECD, are often held up as examples of economies with high productivity. France has high productivity, but it also has very high unemployment. We have a different mix. Growing productivity fast has lots of good effects, but it can also have negative effects for some people.

Mark Gregory: At the UK level, George Osborne set the target of £1 trillion of exports by 2020. If we look at the ITEM forecasts, we think that the UK might get to £700 billion of exports with the exchange rate boost by that time, so that target is some way off. We have done several special ITEM Club reports on exports, and the conclusion—which is not particularly startling—is that you need to sell things that the fastest-growing markets want to buy in order to really improve your export performance.

We have talked about helping exporters to access markets, but there needs to be much more investment on the supply side of the economy.

Investment is needed in the infrastructure, to enable exporting, and in skills, to enable us to push into the right sectors. I am not sure that the UK as a whole has ever had an integrated plan to make that happen. Those targets will always be challenging unless there is much more push behind them.

The Convener: Thank you very much for coming along today. It has been a fascinating session and I have learned a lot from the process. We have HMRC coming next week, so your responses today have probably teed up quite a few questions for us.

Mark Gregory: Oh! Good luck with that!

The Convener: Thank you. I close the meeting.

Meeting closed at 11:50.

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