



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Finance and Public Administration Committee

**Tuesday 6 June 2023**

**Session 6**



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**FINANCE AND PUBLIC ADMINISTRATION COMMITTEE**

**17<sup>th</sup> Meeting 2023, Session 6**

**CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**DEPUTY CONVENER**

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

**COMMITTEE MEMBERS**

\*Keith Brown (Clackmannanshire and Dunblane) (SNP)

\*Ross Greer (West Scotland) (Green)

\*Douglas Lumsden (North East Scotland) (Con)

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

\*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Professor Francis Breedon (Scottish Fiscal Commission)

Claire Burden (NHS Ayrshire and Arran)

John Ireland (Scottish Fiscal Commission)

Professor Graeme Roy (Scottish Fiscal Commission)

**CLERK TO THE COMMITTEE**

Joanne McNaughton

**LOCATION**

The Robert Burns Room (CR1)



# Scottish Parliament

## Finance and Public Administration Committee

Tuesday 6 June 2023

*[The Convener opened the meeting at 09:30]*

### Economic and Fiscal Forecasts and Medium-term Financial Strategy

**The Convener (John Mason):** Good morning, and welcome to the 17th meeting in 2023 of the Finance and Public Administration Committee. Under agenda item 1, we will take evidence from the Scottish Fiscal Commission on its economic and fiscal forecasts from May 2023 and the medium-term financial strategy. I welcome to the meeting Professor Graeme Roy, the commission's chair; Professor Francis Breedon, a commissioner; and John Ireland, the commission's chief executive.

Before we move to questions, I invite Professor Roy to make an opening statement.

**Professor Graeme Roy (Scottish Fiscal Commission):** Good morning. Thank you for the opportunity to, once again, come along and speak to the committee.

I will give a few reflections on our report and some of our key insights from the latest economic outlook. On a positive note, we now forecast that the economy will avoid the shallow technical recession that we predicted back in December, but the overall environment remains one of slow and fragile growth. Inflation has started to fall from its peak of about 11 per cent, and it should fall sharply this summer. However, inflation will continue to exceed growth in normal household disposable income, which means that it is likely that living standards will once again fall in 2023-24.

The updates to our fiscal forecasts that we made in May are largely incremental. Forecast revenue from Scottish income tax has been revised up because of higher employment and nominal earnings. By 2027-28, forecast revenue increases by £209 million. However, the offsetting adjustment to the block grant also rises, following similar revisions by the Office for Budget Responsibility to its income tax forecasts for the rest of the United Kingdom. The end result is a small upwards movement in the net funding that is available to the Scottish Government.

We continue to advise caution in relation to the outlook for the income tax net position. From experience, we know that revisions to the outlook are quite common. Underlying Scottish and UK income tax forecasts are very large in terms of their overall magnitude, so the net tax position is driven by very small differences between the two.

As was the case in December 2022, a divergence in earnings growth between our forecasts and those of the OBR continues to be the main driver of Scotland's strong positive estimated income tax net position, particularly towards the end of the forecast horizon. Crucially, we advise that, if Scottish earnings growth turns out to be closer to UK earnings growth in the coming years, it is likely that that net tax position will be materially lower than is currently estimated.

As we have highlighted in recent forecasts, we still expect a large negative income tax reconciliation for the 2021-22 budget year. Comparing our latest forecasts with those of the OBR indicates that there will be a reconciliation of minus £712 million. There remains some uncertainty about the exact value, and final outturn data will be available in July 2023.

We have also revised our social security forecasts, mainly because of demand for disability benefits being higher than expected. We estimate that, by 2027-28, total spending on social security payments will be £1.3 billion more than the funding that will be received from the UK Government through the associated block grant adjustments. It is important to note that one of the main drivers in that regard is the Scottish child payment; it is forecast that £436 million will be spent on the payment in 2027-28.

In December, I cautioned that the pressures from rising costs would mean that the funding position for individual Government portfolios would be challenging. That assessment remains unchanged despite our marginally more optimistic forecasts.

A crucial point, which we can perhaps touch on later, relates to the impact of inflation on the Government's borrowing powers. The borrowing limits that are set under the fiscal framework are fixed, in cash terms, and have not changed since 2016. We estimate that the financial power of borrowing has been eroded by almost 20 per cent over that time, as a result of the effects of inflation.

Finally, I draw the committee's attention to the consultation paper on baselines that we published alongside our forecasts. That might appear to be a dry technical issue, but it is important in relation to the assumptions that we make about Scottish Government policy over the five years of our forecasts in the absence of a clear steer from the Government. We will speak to a number of

organisations over the summer to discuss those points, and we welcome the committee's views, too.

**The Convener:** Thank you very much, Professor Roy. I think that we all have a number of questions. Committee members have around 13 minutes each.

You mentioned the fact that your forecasts and the OBR's forecasts are somewhat different. You also said that there is more uncertainty than usual at this particular time. Why is there more uncertainty at this time, and why is there a difference on the divergence in earnings growth, in particular, between the Scottish Fiscal Commission and the OBR?

**Professor Roy:** I will say a couple of things.

I think that every time that I have come to the committee, we have mentioned the challenges that exist in the global economy just now. Those challenges come on the back of a pandemic and a cost of living crisis. The exact time path for the economy remains uncertain. There are some risks on the upside. We have seen, for example, an early lifting of Covid restrictions in China, which has helped to expand the global economy. However, it is clear that the effects of inflation continue to lag around, and they are acting on the downside. We have to make judgment calls about that, but it is clear that the world is uncertain at the moment, and the true effects of that are feeding through to the overall budget. That is the point about uncertainty.

Earnings growth and employment growth are the key drivers of the outlook for income tax in Scotland and the UK. As members know, under the fiscal framework, what really matters for the net tax position is relative performance—the relative difference between the outlook for Scottish income tax and the growth in income tax in the rest of the UK. Consequently, that means that what really matters is the outlook for employment growth and earnings growth in Scotland and the UK.

Over the past few years, we have seen a divergence between Scotland and the rest of the UK on earnings and on participation. Our judgment is that that gap will close over the immediate-term horizon—perhaps we can go into some of the details of why we think that that is the case—but, even then, there is a judgment call that we and the OBR make about earnings more broadly. It happens that we are probably slightly more optimistic than the OBR about earnings growth. That goes back to the important issue of divergence.

Pages 56 and 57 of our report show our and the OBR's forecasts for earnings. We are forecasting around 2.6 per cent growth in earnings over the

outlook of our forecast. The OBR is forecasting nominal earnings growth of just 2 per cent, which is very low by historical standards. If the OBR revises that up to be more in line with our forecast or we revise the figure down because we are too optimistic, the dynamics and drivers of income tax will converge much more. That is why the net tax position could decline toward the end.

**The Convener:** Traditionally, we have found it hard to match the south-east of England and London, and their earnings have tended to be higher. Therefore, it is surprising to me that we have things the other way round, in a sense, this time.

**Professor Francis Breedon (Scottish Fiscal Commission):** The story is rather similar to what we went through in the previous report. There are a couple of pro-Scottish factors at the moment, one of which is what is going on in the North Sea. For quite a long time now, we have seen the North Sea being a drag, because the sector was a high-earning one that has been gradually diminishing. What we expect—and, indeed, what the data is beginning to show—is the North Sea being not a positive but no longer a drag; basically, it is keeping up. Therefore, that effect is slightly reduced.

The other thing that is positive for Scotland is that rising interest rates tend to have a smaller effect here because the average Scottish person is less indebted than the average person in England. That is the second factor.

The third factor is that we saw a very strong finance sector last year, particularly in London. That was a bonus-related effect that is already beginning to unwind, so that the finance sector in London is not outperforming the finance sector in Scotland by as much as it did last year.

You are right. All those factors together will not make Scotland's earnings growth match that in London and the south-east, but they will make it match that in England as a whole or go slightly above that. That is what we are basing the forecasts on.

**The Convener:** Okay. Thank you.

The big figure that was mentioned is the negative income tax reconciliation of around £712 million. Obviously, that has been in the media. How certain are we about that? I seem to remember that, in the past, the forecasts and the actual outturns were quite different from each other, even late on. We will just have to wait until July, I think, when we get the final figures, but is there a possibility that the figure could be very different from £712 million?

**Professor Roy:** We will know the exact number in July when it comes through. However, I think

that the situation is different this time. Clearly, the forecasts are estimates; we will get the exact number and have the outturn data and compare them.

If you recall, the reason for the £700 million difference goes back to the timing of different forecasts in Covid times. When the OBR assessment, which formed the block grant adjustment, was made, it was done at quite a different point in the pandemic. It was done when the omicron variant was spreading around and the outlook for the economy across the UK was much more pessimistic. By the time that the Fiscal Commission did its forecast, which was later in the budget process early the next year, the outlook was much more positive. The difference is due to the differences in timing and in the assessments of the outlook. If you recall, the point was made back then that there was a timing issue that was likely to mean that the BGA number would be revised up significantly, which would be a key driver of the reconciliation.

In the past, the forecasts have changed because outturn data has differed. That is just the nature of forecasting. This is more a fundamental question about when the judgments were made about the BGA and the tax position. That is why the number is so large this time.

In that context, on the question of whether it will be £700 million, £650 million or £600 million, we will know in July. The key point is that we can be pretty confident that it will be a large negative reconciliation, because of the nature of the issue that is driving it.

**Professor Breedon:** I will just add a point that we have heard a few times. Even though it can get revised, it could be revised to an even bigger number and, at this point, we do not know which way the revision will go. It could be an even bigger reconciliation or it could be slightly smaller—the probability is equal, as far as we are concerned. It is not a situation that we should ignore just because the final number might be slightly different. As Graeme Roy has said, it gives us a very strong steer that there is a big negative number coming. Although the final number might be a bit different from the number that we have now, it could be bigger, in practice, as I have said.

**The Convener:** Mr Ireland, if you want to come in at any point, just jump in—that will be fine.

In December, the Fiscal Commission forecast that tax receipts would be £384 million less than you are now forecasting. Can you explain why that has changed so much since December?

**Professor Roy:** Do you mean the uplift in forecast?

**The Convener:** Yes.

**Professor Roy:** There are several reasons for that. What happens is that new data comes through all the time. We have new data on earnings across the UK and we can see that the earnings data and income receipts that we are tracking are higher—there is an uplift relative to where it was. There are also things such as public sector pay awards feeding through, which are higher than we forecast in December. We have seen much greater resilience in earnings across the economy as a whole, which has led to an uplift in our forecast for tax revenues. We made a judgment about the slightly more optimistic outlook for the economy in the near term, which, again, has helped to boost the revenues.

Interestingly, we have not changed our assessment of the economic outlook by the end of the forecast period; it is just that we think that, rather than the economy entering a technical shallow recession, the outlook will be relatively flat. In essence, that will have the same outcome by the end of the five-year forecast period.

One thing that I should say is that, although £300 million sounds like a lot, it is a relatively small change in the overall forecast when we are dealing with the magnitude of revenues that we are talking about, which is thousands of millions of pounds.

**The Convener:** Yes. The problem is that our borrowing limit is only £300 million. We will raise that with the Deputy First Minister next week.

You mentioned data. How are you finding it now for getting the data that you need at the time when you need it? I know that that was a problem in the past.

09:45

**Professor Roy:** I appreciate your asking about that. We continue to work closely with the key agencies that provide the data to us. Last summer, when we provided our statement of data needs, we mentioned, I think, that we had made good progress with the Government, particularly on economy and tax data.

You will not be surprised to hear me say that we could always do with more data and would always like more information. Some of the challenges involve the limitations of the devolved context and the relatively small size of the Scottish economy.

Although it is still early days, we have made big progress on social security. That was our big concern, back in the summer. We have worked closely with Social Security Scotland to get the information—for it to collect the data in a way that is helpful—and to have a constructive relationship in which we can, in essence, get intelligence on what it is picking up as it rolls out those benefits

and new payments. There is still more work to do, but we are relatively comfortable about where we are when it comes to accessing the data.

**The Convener:** I have a final question. You said that, in future years, you do not anticipate any negative reconciliations or forecast errors after 2024-25. Why is that?

**Professor Roy:** It comes back to Francis Breedon's point about the balance. There will be reconciliations. I guarantee you that. However, at the moment, there is no necessary case that there will definitely be a positive or negative reconciliation in that way.

That brings us back to the figure of £700 million. That existed for a reason that was quite different from being just a forecast error. That was about the timing of when the forecasts were made, and the fact that caution at the time said that the difference, particularly in the BGA that was embedded in the budget, was a significant underestimate of the reality. That is why we are pretty confident that the negative reconciliation that is coming will be large.

**The Convener:** So, in some ways, that was a one-off because of Covid and turbulence.

**Professor Roy:** Yes, and the reason for that was quite different. There is an interesting question about whether that can happen again, which comes back to the overall questions about how the fiscal framework operates and to negative or positive reconciliations being driven by when budget statements are made. That poses challenges. I do not think that anyone would say that having to base financial decisions on the timings of announcements is a good situation to be in.

However, we will always have reconciliations. That is the nature of the framework. Those reconciliations could be large because, to come back to that point, thousands of millions of pounds of income tax revenues are moving around, so reconciliations and changes in the forecast of hundreds of millions of pounds are entirely possible. That comes back to your point about having flexibilities in the fiscal framework to manage that.

**Professor Breedon:** It is worth adding that, although the £700 million is a bit of a one-off because of the situations that surrounded it, a reconciliation is the difference between two very large numbers, both of which are getting bigger very quickly because of inflation. We anticipate that, in future, reconciliations will tend to be bigger than they have been. Therefore, although that £700 million was due to special circumstances, we are saying that £700 million, plus or minus, is not something to be surprised about in the future.

#### **Douglas Lumsden (North East Scotland)**

**(Con):** I go back to earnings growth, for which the OBR figure is 2.0 per cent for the UK and your figure is 2.6 per cent for Scotland. You hinted that there might be some factors behind that divergence. Can you expand on that?

**Professor Roy:** There are a couple of things. I mentioned pages 56 and 57 of our report, which talk about earnings. There is an interesting chart at the bottom of page 57, which shows Scottish earnings relative to UK earnings and the long-term average. Over the past five years or so, the gap between Scottish earnings and UK earnings has widened. We think that part of the reason for that is the high-value jobs situation in the north-east, which has been acting to pull down Scottish earnings relative to UK earnings.

Our assessment is that, at least in the short term, that is not going to continue. The data that we track shows that Aberdeen—the north-east—is, at least, not diverging from the rest of Scotland in the way that it has done. That means that that divergence is not going to continue. We think that there will be a relative catch-up to some extent in the short term.

In the longer term, there are important questions about the outlook. As Francis Breedon said, there has been high growth in financial services in London. Again, that changes the average and drags the UK away from Scotland.

Those are some reasons why we think that the divergence might not continue at the same level of detriment to Scotland over the next two to three years. A broader question is: what do we economists think might happen to earnings when we look across the economy? Our judgment is that earnings will grow in Scotland by about 2.6 per cent. The OBR's completely independent, different assessment is that growth will be lower than that in the UK. Who is right? Obviously, we will have to wait and see. If the UK becomes more like us, or we become more like it, the net income tax position will not be as strong because, essentially, we are assuming that there will be higher earnings growth here than in the rest of the UK and that that will boost our revenues.

**Douglas Lumsden:** I guess, therefore, that it is not so much a case of divergence, because you are predicting that the two figures are coming closer again. A difference of 0.6 per cent does not sound like too much of a big number. If the OBR revised its figure up to 2.6 per cent growth and the two figures came together, what would that do to our income tax take, or to the BGAs?

**Professor Roy:** Earnings are crucial to the income tax element. We have a rule-of-thumb number that we use. I will not say what that is, because if I do I will have to write to correct it.



However, I highlight that a 1 per cent swing in earnings is in the magnitude of hundreds of millions of pounds. We will get the exact number for you. That is really crucial to that relative differential in earnings.

If you look at what has been happening to the net tax position, you will see that the shift has been from negative to positive. That is driven partly by policy but, crucially, partly by what is happening to the earnings outlook.

**Douglas Lumsden:** When we look at the OBR figures, we see that the average growth in earnings has been 2.7 per cent over the past 11 years. It has revised its forecast for earnings growth to 2 per cent. How cautious should the Scottish Government be with regard to that figure?

**Professor Roy:** We explicitly say in the report that, particularly towards the end of the forecast period, caution should be given to that. We would hope that Scottish earnings growth would outperform earnings growth in the rest of the UK and that that will come through to tax revenues. However, as I said, one of the crucial differences is that our judgment of the outlook for earnings is more optimistic than the OBR's. If that does not turn out to be true, and we converge, the net tax position will ease back. It is in relation to that that we would advise caution when planning.

**Douglas Lumsden:** When is the next milestone? When will the OBR publish its next estimates?

**Professor Roy:** That will be in the autumn, to support the UK budget. We will do the same for the Scottish budget. Those figures are definitely something to watch. I think that, when we come back to it, you will see that movement in the net tax position. That is when we will know more.

**John Ireland (Scottish Fiscal Commission):** I can give you that sensitivity. We ran some estimates, as Graeme mentioned. Page 61 of the report states:

"We estimate that 0.1 per cent extra growth in Scottish average nominal earnings relative to the rest of the UK would lead to a £25 million increase in the net position."

**Professor Roy:** A 1 per cent increase would be £250 million, and 0.6 per cent of an increase would be hundreds of millions of pounds. It is a significant number, and it builds over time.

**Douglas Lumsden:** However, for the past five years, we have been lagging behind the earnings relative to the rest of the UK—

**Professor Roy:** Yes—and you see that in the net income tax position chart. That shows that the Scottish Government is seeking to raise revenues by freezing the tax bands and increasing tax rates relative to those in the rest of the UK. However,

the amount of tax take coming in has not been keeping up with what you might have expected to raise. The reason for that is that earnings have not been growing as quickly here as they have been in the rest of the UK. There are also issues to do with participation. That means that the net tax position is perhaps not as good as you would have hoped that it would be, because the tax base is not growing as quickly as you would like it to.

**Douglas Lumsden:** I will move on to my next question. You have been making estimates of the Government's spending. What assumptions have you made about the public sector workforce? Have you seen that number falling or remaining constant?

**Professor Roy:** On the spending outlook, with our forecasts, we tend to look at the overall funding envelope. That includes looking at the block grant and the outlook for tax revenues. We do not really get into the details—we do not get into the specifics of the policy choices, which would include the outlook for things such as employment and at the choices within that. With regard to our December forecast for public sector employment and pay, perhaps John Ireland can remember that.

**John Ireland:** I cannot remember back to December, but for each forecast we need to think about public sector employment and public sector earnings, so we operate a mechanical rule. It basically shows that in the May forecast, we are expecting the public sector workforce to fall by about 1 per cent, but that involves the UK Government's employment in Scotland, the Scottish Government's employment and the wider Scottish public sector, including local authorities, which are a very big driver.

The contrast relates to what the Government has put into its MTFS. It has a couple of scenarios which would result in positive growth for public sector employment.

I stress again that our forecast works in a very mechanical way, going off public expenditure and the likely pay pressures that the Government talks about. That just gives us a number for public sector employment.

**Douglas Lumsden:** So, looking forward, you do not have any estimates of the size of the public sector workforce.

**John Ireland:** We basically say that it is falling very gently by about 1 per cent over the next year, and that trend continues.

**Douglas Lumsden:** So it is 1 per cent per year—that is what I was trying to get at.

**John Ireland:** Yes.

**Professor Breedon:** To go back to John Ireland's point, it is very mechanical and runs off the funding envelope. We are not forecasting in anger—it is just something that falls out from the process.

**Douglas Lumsden:** My last question is around social security spend. We have seen that go up from about £3.6 billion in 2021-22, and it will be doubling by 2027-28. Behind that, there are two things. Inflation is obviously pushing the welfare bill up, but there are also new welfare commitments that are not matched, which do not come through in the block grant adjustment. How much is the spend on each of those? If we never had these new commitments, what would the social security bill be going forward?

**Professor Roy:** You are right—there are probably three big drivers going into that. The first is inflation—with most of the key benefits uprated in line with the consumer price index at key points, much of the big increase that we are seeing in social security is coming through inflation. We made that point in December. That is one of the big drivers.

The second driver is the increasing evidence across the UK of demand for key social security payments, in particular adult disability payments post Covid—we might come on to that—and some of the evidence that has been picked up around the effects of long Covid and waiting times.

In a Scottish context, both those drivers, at the margins, lead to higher spending but also higher funding. That is not a risk in that sense to the Scottish budget, because it comes through the block grant adjustment. The difference comes through either where the Scottish Government is introducing new social security payments, or where it is changing the benefits system that is being allocated, which leads to higher spending relative to the BGA.

Figure 5.6, on page 86 of our report, talks about those differences. We think that the difference between the amount of funding flowing through for social security payments and what the Government is committing to spend will be £1.3 billion by the end of the forecast period. That money has to be found either from taxation or from other sources in the budget.

**Michael Marra (North East Scotland) (Lab):** I will return to the issue of the workforce, if that is okay. The resource spending review said that the Government was going to seek

“to return the”

overall

“size of the public sector workforce ... to pre-COVID ... levels”.

You are saying that you have not baked any of those figures relating to policy intent into your forecast. Is that correct?

**Professor Roy:** Yes. This time, we have not put anything specific regarding changes in employment into the forecast. It is purely mechanical in that context.

**Michael Marra:** There would be a major impact on the public finances if we were to take the trajectory that was previously stated. When the permanent secretary was in front of us a few weeks ago, he stated that he was operating on the assumption that that was the direction of travel but that the new Government under the new First Minister had made no specific statement. If there were a specific statement, would you be modelling that?

10:00

**Professor Roy:** We model specific policies on Government employment and pay when we have the evidence to do that. To come back to my answer to Douglas Lumsden, we have to remember what part of the fiscal process we deal with. We would potentially change our employment forecast if we thought that the Government was changing employment levels, or change the income tax forecast. That is the way that it would come through to us, and we would then think about how that might impact funding.

When it comes to the spending bit, essentially, we are looking at the overall envelope that the Government will have. What it then chooses to do with that, such as allocate it either to public sector wages or employment or spend it on day-to-day services, is not an area that we would typically go into. We are just looking at the overall totality of the budget.

In short, if the Government comes in with an explicit policy to do something, we would factor in that policy and it would enter our modelling process.

**Michael Marra:** That is useful. With the medium-term financial strategy, the Government is seeking to establish an external tax stakeholder group. What is the job of that body? What does it have to do?

**Professor Roy:** That is an interesting question. It strays out of our remit because we do not comment on policy per se—it is up to the Government to come forward with that.

My overall reflection on tax and the debate here is that the most important thing to look at is the long-term work that we have done on the outlook for the budget. We were here a couple of months ago talking about that. For me, that is the really important work to look at, which includes looking

at the long-term structural challenges that are coming down the line for our public services given the rising costs in health, the demand, demographics and so on.

There is a really important debate, not just in Scotland but more broadly across the UK and internationally, about what the public finance system looks like for public services that will be in much higher demand and will cost a lot more in the future. That is where you start to get into some really interesting debates about tax.

One of things that I am really interested to see from that group is long-term evidence about the future of tax in the context of the changing nature of our public services.

**Michael Marra:** Are you doing much work on, for instance, modelling on behavioural effects longer term, given where we are with the tax situation and the divergence within the UK?

**Professor Roy:** Our remit is quite explicit that what we can do is model the specific policy choices of the Government. We would not be able to model hypotheticals; that would have to be done somewhere outside of the Scottish Fiscal Commission. We work all the time on matters such as tax modelling and behavioural forecasts to inform the process. I would hope that our work might inform the thinking that goes on in a body such as that group, but it is not for us to come out with ideas and suggestions. That is just the nature of the framework that we operate under.

**Michael Marra:** Of course, but are you doing any of that pre-emptive work?

**Professor Breedon:** That has been a big part of our research agenda since we began. The tax situation is not unique, but it is unusual in the sense that the border between England and Scotland is extremely permeable. That has implications for the behavioural impacts of tax. We have done quite a lot of work on that—we had an international conference because, even though it is unusual for the UK, it is very common across the world. In lots of countries, there are income tax differences across regions. We have a body of work to look more and more at the Scottish case.

As a research economist, one would say that, for Scotland, as is often the case with economics, it is still too early to say. The policy divergence between Scotland and England is still quite new; therefore, the international evidence will continue to be a really important guide to the Scottish experience.

We will do more and more work on the particular experience in Scotland but, at the moment, international evidence is very helpful because there are countries that have had different tax rates between regions for a long period.

**Michael Marra:** What does that evidence tell you?

**Professor Breedon:** Roughly, that there is an impact but that it is not enormous. We are still in a situation in which, if we were to raise taxes, particularly at the higher rates, we would get the revenue. It is not the case that the behavioural impacts would offset it.

An extreme example of that has occurred in the United States, where certain states have a millionaires' tax. There was a strong view that it resulted in some millionaires migrating from one state to another, but in the end it was shown that most of them stayed put and that, overall, having such a tax generated revenue for the United States. That example is from right up at the millionaires' end, but we can see that such measures have a positive impact. We do not raise very much revenue from increasing higher rates, but we still raise it.

**Michael Marra:** Just to conclude, how urgent is the work of the tax group, given the situation that we currently face and also what is outlined in your forecasts?

**Professor Roy:** We have had a conversation about the long-term financial outlook. My personal view is that it is really urgent that we have a conversation about the long-term future trajectory of Scotland's public finances. The challenge is not unique to Scotland; it is common across high-income economies. However, the pressures exist here and now, as we can see from the demand on public services, which will only accelerate over the years to come. Having a conversation about tax, public services, reform and how we plan to grow our economy will be crucial. Fundamental structural decisions will have to be made about how we can continue to protect our valued public services over the long term.

Although the situation is urgent, I would caution against seeking quick solutions and thinking, "If we do this one simple thing, it will be easier." It will be a long process, but we can make decisions now and start putting in place the work that we need to do in order to change.

**Liz Smith (Mid Scotland and Fife) (Con):** Good morning. My questioning will focus on two areas. The first is about the frustration that I think we all feel about the different timings of the various forecasts that underpin strategies—whether it be those for the medium-term financial strategy or any other set of forecasts—and how the OBR and the SFC forecasts relate to the different timings in the budget cycle. That has an impact on the projections that can be made, given the data at that time. Is there scope to bring the timings of the forecasts slightly closer together so

as to make things easier? I am sure that the OBR and the SFC would welcome that as well.

**Professor Roy:** In principle, and from a purely technical point of view, it does make sense to have the forecasts as close together as possible. If we end up in situations such as the one we had back in the Covid period, where we had a fast-moving economic environment, any delay means that the position looks quite different. In principle, therefore, my answer is yes.

I appreciate that our forecasting is one part of a big budget process that takes place both in Scotland and in the UK, and that both Parliaments need time for proper scrutiny. For us, it is important that the forecasts are together. It would avoid situations such as the reconciliations that we currently have, a large part of which is simply due to the timing of the publications. That cannot be a good outcome.

There might be ways in which we can get around that. For example, back then, the Government was offered a revised BGA. Could we do something different if there were a delay or a material difference in circumstances, or could we change the nature of the framework to be more flexible so that we would have a more accurate assessment from both? It would definitely be worth discussing such matters as part of the review.

**Liz Smith:** On the discussions about the forthcoming new fiscal framework, which will replace the 2016 version, are you aware of any dialogue about the forecasting element?

**Professor Roy:** We are not part of the discussions, so I would not know that. We have been quite clear in saying on the record that that is one of the matters that we feel could and should be looked at, but I would not know where the review stood on that.

**Liz Smith:** Thank you. That was helpful.

Obviously, there is a question to be asked about medium and longer-term planning for the economy; indeed, you cited that in your response to Michael Marra. The gap between Scottish Government projected expenditure and the tax take is a very serious issue, and I think that it focuses the committee's attention on two questions. First, what is the scope for serious public sector reform that would help to address the problem? Secondly, how can we increase the tax take?

On the first of those issues, do you have suggestions for the most likely areas of public sector reform that could help with things, given the fact that there is almost certainly no scope to reduce spending on health, social security and social care? Indeed, as your own estimates have shown, spending on those areas is going to

increase very substantially. What scope is there for public sector reform that could really help with that side of the equation?

**Professor Roy:** Unfortunately, we would probably be straying out of our remit if we got into the specifics of what Government could do or suggested particular policies in that respect. However, your general point is really important, and it brings us back to our long-term fiscal sustainability work, in which we have projected that health will get to the point at which it starts to take up more than half of the entire budget, because of demographics, rising costs and so on. Clearly that is one part of the budget that has to be looked at. How can you continue to deliver high-quality healthcare, given that the costs of delivery and the demand are increasing?

I guess that, from a purely economic point of view, the key question is: how can you reduce lifetime expenditure per head in areas such as health? That is not about cutting expenditure on health, but about looking at issues such as prevention, tackling inequalities and growing the economy in order to reduce the demand on the health service and ensure that you are not having to do so much corrective activity. Of course, the issue is not unique to Scotland; lots of other countries are looking at it, too.

Another issue that you can look at is how you become more efficient at delivery. Yesterday, I heard a fascinating talk on artificial intelligence by Gita Gopinath, the number 2 in the International Monetary Fund. AI can be used to detect cancers and other illnesses in people, to deliver certain types of treatments and so on. How can we use new technologies to deliver public services in a way that reduces delivery costs?

In many ways, it brings us back to the Christie commission and the stuff that this committee has repeatedly discussed about the need for those kinds of reforms, which are about not changing the quality of services but reducing the cost of their delivery. Those are the areas that I think that we need to focus on.

**Liz Smith:** You are quite right to say that you cannot comment on projected policies that the Scottish Government should employ, but I am interested in finding out whether, in all the analysis that you are doing and the data that you are using, you are aware of other countries or other attempts to try to reform public services in the way that you have described with regard to increasing efficiency, making use of technology or whatever. You have already given us three or four examples, but are there any other areas that, without projecting into Scottish Government policy, you think that we should be looking at?

**Professor Roy:** In our long-term report, we highlight a number of different things that are driving the outlook for the public finances. The first relates to the spending side of things. In other words, what can we do to maintain quality while adjusting the spending profile?

The second issue relates to the economy. What can we do to raise the tax take in Scotland—crucially, in this framework, relative to the UK? What can we do to outperform the UK and bring in those revenues?

Finally, there is the issue of migration. Can we attract more people into Scotland, either through taking a bigger share of the international migration that is coming into the UK as a whole or bringing more people from the rest of the UK into Scotland, to work in high-value jobs that pay the tax revenues that we need? After all, the nature of the framework means that what matters is income tax revenue, particularly from the higher earners. Those are the different areas that I think are worth looking at.

10:15

**Liz Smith:** The second aspect of my question is about tax revenues, which you have mentioned. There are ways to increase tax revenue by changing tax rates and thresholds and so on, but there is a question around the change to tax structures. A debate is going on down south just now about whether inheritance tax should be replaced, and we have had lots of debates up here about whether council tax should change, and so on.

I go back to the analysis, of which you are aware, around other countries that have changed their tax structures. Is that debate an urgent one to have here in order to address some of the concerns that we have about a weakening tax return?

**Professor Roy:** I will say a couple of things and then you can perhaps get Francis's thoughts as well. The first point is that a really important debate is taking place globally about the future of tax, the nature of the tax system and what we tax. If you are moving towards a world where the value of capital in the economy increasingly comes from companies that make profits through automation and artificial intelligence, and less worker output, how do you tax that? You are essentially squeezing the amount of labour in the economy, so how do you tax capital efficiently in order to pay for public services? That is the on-going really important global tax debate, which clearly goes into wealth taxes, corporate taxes and all those sorts of things, too.

In Scotland, you have a relatively narrow tax base—essentially, it is income tax and property

taxes—and you do not have that broader spectrum. Any conversation that is happening about those broader taxes will have an impact on what you might want to do in the future around the devolution of taxes and the like.

In the Scottish context, the nature of income tax means that the growth in high earnings, and what you do around it, is so important—that is where you broaden out. The volume of higher rate tax payers that you have really matters. That is not a political comment but an arithmetic one—that is the way that income tax works. The broader point is that growing that volume is crucial to creating underlying revenues that will grow income tax; the base is fundamental.

The Government does some really helpful ready reckoners around income tax: for example, increasing the higher rate by 1p yields £88 million. We are talking about the numbers, but we are also talking about earnings—a 0.1 per cent change in earnings is £25 million. Very small changes in the performance of the economy can have a really significant impact on the overall earnings base, which is why broadening out that tax base is really important.

**Liz Smith:** Just to finish off on that point, at your breakfast in the Parliament event some weeks ago, we focused on the potential high-growth areas of financial services, renewables, digital industries and technology. Are there other areas of the workforce where we have a chance of better, higher-paid jobs that will widen that tax base?

**Professor Roy:** You are right; the nature of the economy is that some sectors will naturally be more productive than others—some sectors are naturally high earning in relation to others. From an economic policy point of view, you can do one of two things: first, you can try to grow those high-performing sectors in your economy relative to elsewhere. Things such as financial services, energy, renewables—which you mentioned—and so on are really important because they are naturally high productive sectors that will then generate the broad tax base that you want.

Secondly, that is not to say that you should not also think about what you can do to boost productivity in the other sectors in the economy—such as hospitality, care, public services and so on—because if you can make them more productive, they will improve their earnings as well. It is about riding the two horses: the first is attracting and growing the high productive sectors; the second is asking how you can make other sectors in the economy more productive.

**Michelle Thomson (Falkirk East) (SNP):** Good morning. What has been said leads on quite neatly to my questions on capital expenditure. We know that block grant funding from the UK Government

is the largest component of the Scottish Government's capital funding. The commission's projections suggest that that funding will, in nominal terms, be cut by 14 per cent between 2023-24 and 2028-29. How will that cut affect the productive capacity of the Scottish economy?

**Professor Roy:** You are right that, on page 18 of our report, we talk about the outlook for capital spending, but the 14 per cent cut is in real terms. You are right that the block grant drives that.

In relation to our forecasts on what is happening in the economy, we capture changes in capital spending in the economic outlook largely through an arithmetic exercise. We just look at the change in spend; we do not capture in our five-year forecast the change in productive capacity as a result of that change in spend. It is just about the money coming in and out.

In our report, we have not made an assessment of the long-term benefits of capital expenditure. As I said, we just did an accounting exercise in relation to the money coming in and out. However, cuts to capital expenditure clearly have an impact on long-term productivity.

**Michelle Thomson:** I will explore that a bit more. Could you all, as top-notch economists, say how productive capacity can be affected by low levels of capital expenditure? For example, you have talked about AI, research and development, productivity, economic growth and sustainable wellbeing or otherwise. It would be useful to get that on the record.

**Professor Roy:** Broadly speaking, capital expenditure can have an impact on the economy because it means that more output can be produced for the same amount of effort. For example, transport infrastructure gets people from A to B more quickly, which means that they can do more for the same amount of effort. Transport infrastructure therefore has a direct impact on productivity.

Education infrastructure has a more long-term impact, but there can be real benefits over the medium term. If we improve the quality of the physical infrastructure for schooling, the benefits will be marginal but will build up over time.

Some Government capital expenditure might have less of an impact on productivity. Naturally, if the expenditure was on a Government building or a prison, we would not capture the impact on productivity.

Crucially, it is about how we can change productive capacity largely by improving the way in which the economy operates. Historically, the UK as a whole has lagged behind key competitors in that regard. That is one of the potential

explanations for the long-term productivity puzzle in the UK relative to other countries.

**Michelle Thomson:** You have prompted my next question. Off the top of your head, do you have any figures to show how capital investment in the UK over, say, the past 10 years compares with that in other states?

**Professor Roy:** I do not think that we have looked at that. I do not know whether Francis Breedon can say anything about comparisons.

**Professor Breedon:** No. Obviously, there is a big difference between private sector investment and public sector investment, and the situation varies because some countries have much bigger public sectors. That is me saying that I cannot answer that question.

**Professor Roy:** We can write to the committee on the issue. Why UK productivity has lagged behind is one of a number of questions about which people have speculated. We can think about capital investment in connectivity and digital infrastructure. If we compare digital infrastructure in the UK with such infrastructure in the best Scandinavian countries, we can see the difference. There are also other factors, such as management practice and so on, that might explain the differences in productivity. Capital investment is crucial in the long run.

**Michelle Thomson:** To follow on from that, you have indicated that the Scottish Government may receive further funding from sources other than the block grant. What are those sources? What do you see as the key risks for their not materialising? In other words, I am trying to flesh out the extent to which those sources can be relied on relative to the block grant, which we know has been significantly cut.

**Professor Roy:** On page 34 of our report, we talk about the different elements of the outlook for capital funding. As you mentioned, the Government gets the key chunk from the block grant. That is the most important element. Obviously, it can borrow as well. We talk a bit in the report about the constraints on borrowing and potentially hitting the limit. There is a really important point about the effect of inflation in eroding the amount of money that the Government can borrow, which has been fixed in cash terms since 2016. We have high inflation, and the amount that the Government can essentially add into capital is constrained.

The other funding that we talked about includes things such as city deals. Potentially, future city deals might come down the line, which might lead to additional capital funding that would be outside the block grant. That is a potential source of funding but that, of course, depends on policy choices by the UK Government. There is also the

Scotland reserve—the money that the Scottish Government puts into it and moves from one year to the next. That is where it can potentially try to offset some of the negative block grant outlook.

**Professor Breedon:** Your contention that the block grant dominates is correct. That is where the money really comes from.

**Michelle Thomson:** So any cut in the block grant has a potentially significant impact.

**Professor Breedon:** Yes.

**Michelle Thomson:** I have a last wee question just to finish off. It strikes me that, because of the limitations instilled by a fixed budget, the narrative is continually about revenue spend, for very good reason—of course that needs to be scrutinised and monitored—without there necessarily being the same kind of awareness in the body politic of the implications of capital expenditure in investment terms. Is that something that, as economists, you see happening almost as an inevitable consequence? I can see that you are nodding.

**Professor Breedon:** Internationally, it is a very common issue that, when budgets are tight, a cut in capital spending looks like a very easy cut, because that does not create as much immediate pain as cuts in other areas. However, as your questions imply, although that does not create immediate pain, it has long-run consequences that have to be picked up later on. That is, sadly, a common feature of what Governments tend to do. In circumstances in which money is tight, capital seems to be a good place to start.

**Michelle Thomson:** Is that approach even more prevalent in Scotland due to the tendency to focus on revenue because of the fixed budget?

**Professor Roy:** Possibly. The fact that you are raising the issue of capital is really important. We need to think about what we will do about the capital budget and the allocations there.

I remember when there was a big debate about capital investment around 10 years ago. That was part of the Government acceleration programme after the financial crisis. There was a big debate and discussions about the value of capital investment, trying to accelerate that, and shovel-ready projects, for example. Therefore, I think that there has been understanding about the value of capital.

I know that the Government does the infrastructure investment plan and sets out how it expects the capital budget to feed through to those outcomes. However, you are right. The issue goes back to the conversation with Ms Smith about the long term and what we are doing to prepare for long-term challenges. Productivity is one element, and that is where the capital budget is really

crucial. However, the question is: what are you investing in public services through your capital budget to help you to take advantage of the investments that you are making now for offsetting some of the long-term challenges down the line? The more you want from us on capital and the understanding of that, the better. We are more than happy to help.

**Michelle Thomson:** Good. Thank you.

**Professor Breedon:** On the question about that being an issue in Scotland, in a sense your previous question shows that it is not that much, because the block grant is so dominant in the capital spending envelope. In a sense, Scotland is spending up to its envelope in capital, and it is the block grant that is driving that.

**Michelle Thomson:** Okay, thank you.

10:30

**Keith Brown (Clackmannanshire and Dunblane) (SNP):** My questions might be a bit naive and all over the place because I am a new member of the committee.

I am interested in the point about inflation and how energy prices falling back is

“leading to slightly lower expectations for inflation and interest rates in the near term.”

From what I observe, core inflation has increased to 6.8 per cent and most commentators think that we are going to get at least one interest rate increase and probably two more interest rate increases, which will affect the housing market and mortgage rates. When do you expect to see a reduction in inflation? Last year, we were told that that would be in the middle of this year, but that has not happened.

**Professor Roy:** I will go first; Francis Breedon can then come in.

You are right. The big story in town is what is happening to inflation and the effects of that. Inflation will come down quickly over the next few months simply because of the way in which it is calculated. It is looked at from one point in the year to the point in the last year. We had a spike, and it will naturally come down.

The key point that you are making, which is crucial, is about how quickly inflation will come down and how embedded any expectations about inflation will be over the next year or so. The concern that people are raising is about whether, although it will come down quickly, it level off at a higher rate. If that happens, the Bank of England will have to be more aggressive at increasing interest rates in order to bring inflation down. That is where things get challenging for the economy. The Bank of England faces a difficult trade-off

between slowing down the economy to try to combat inflation and not tipping the economy into a downturn. We simply need to wait and see, and hope that we get things right over the next few months.

**Professor Breedon:** We have seen a really odd combination in that energy prices, which are the original culprit behind the inflation, have come down way faster than we originally predicted. You would have thought that we would have seen inflation falling more, but what we have seen is that the burst of rising energy prices that we saw last year is still working its way through every single other price, including food prices, even though energy prices have fallen.

That is one of the many reasons why we think the fall in the rate of inflation is happening. The energy price cap will be revised in July, and there will be a fall in energy bills in July and potentially in October. We know that those negatives are coming. However, your question implies that the core rate of inflation has been surprisingly resilient, given that we thought that it would have come down faster than it has.

**Keith Brown:** To be honest, I cannot say that I have seen any evidence in my own bills so far of a reduction in energy costs. That is the important point. What people have to spend will have an impact on inflation.

I will take two or three points together. Michelle Thomson made a point about a 14 per cent reduction in capital funding over the next few years. Somewhere in your report, you said that living standards are projected to take one of the biggest hits that we have ever seen, and the revenue side will see a pretty small increase in the next few years. You have been asked a number of questions about comparative inflation and taxes. This could be described as a period of austerity. I am not asking you to do this, but has any comparison been done following austerity policies? Such policies are odd, given that the national debt has ballooned to £2.5 trillion. Are austerity policies working for the ends that were set out, or are other countries following a different path that is more productive? Have any comparative studies been done on that?

**Professor Roy:** We have not looked at comparing with what everyone else is doing. We spoke about this back in December. The real challenge of inflation is in its hidden effect on living standards and the Government's spending power. Even though we have really fast earnings growth in cash terms, that is being offset by high inflation. That is why we think that living standards will fall this year on the back of falling last year. That feeds through to Government. Even though the Government is increasing expenditure quite substantially, that is being offset by the effects of

high inflation. It is important to tackle inflation and get it back down to a more comparable level so that we are not in a constant cycle of erosion of spending power, which, in the Scottish context, means erosion of the effectiveness of borrowing powers.

If it all works out correctly and we get inflation back down, we can start to get back on to a more normal path on which standard earnings growth can lead to improvements in living standards, as earnings are growing ahead of inflation. We still expect that that will happen and that disposable incomes will start to increase next year. It will take a while for them to get back to pre-energy crisis levels. The same goes for Government expenditure. It will start to rise again in real terms. However, within that overall envelope, the Government has really big pressures around rising pay costs and the costs of service delivery.

**Keith Brown:** On earnings, we had a discussion earlier about projected comparative rates in Scotland and the rest of the UK. It would be useful to know whether there is any comparison between Scotland and the rest of the UK that excludes London. Also, I was surprised that there was no mention at all—perhaps I am getting it wrong—of the comparatively positive performance in Scotland on employment. Whether it is employment, unemployment or now, for the first time, I think, economic inactivity, the figures have been well ahead of those in the rest of the UK for a number of months. Surely that would have an impact. Is that part of your calculations?

**Professor Roy:** You are right. On the comparison between Scotland and the UK, one of the slightly unfortunate things in the nature of the fiscal framework is that the focus is always on Scotland versus the rest of the UK. When you start to unpick that and take out London and the south-east of England, you get quite different stories about how Scotland is doing from an economic perspective, compared to other parts of the UK. We know from all the data that Scotland, outside London and the south-east, typically comes next in the rankings on most economic indicators. That said, the nature of the fiscal framework is that what matters and what we are signed up to is the relative performance of Scotland compared to the rest of the UK, including London and the south-east. That is why we focus on that so much and why it matters for earnings.

On the point about the labour market, employment levels and inactivity rates, one thing that we have seen in recent years—this is over the longer term so it is not just the most recent stuff—is that there has been a challenge with participation in Scotland and the UK, some of which is due to demographics.



In the report this time, we have quite a big discussion about changes in inactivity and the difference in data that we are getting on levels of activity between Scotland and the UK. One thing that we are not sure about yet—we need more data—is that, although both Scotland and the UK have declining participation because of age, Scotland has not kept up with the UK on participation among the key age bands, particularly in the middle of the demographics. We do not really know why that is the case. It might be a data issue or issues tied to the north-east and the loss of jobs there since 2014.

We want to keep an eye on those differences in participation at the midpoint of the demographics. There is quite a bit of discussion on that in the report, and we talk about the data—basically, the conclusion is that we are not sure yet.

**Keith Brown:** Do you have any data on Scotland's relative performance on FDI compared to that in the rest of the UK, excluding London?

Also—this betrays the fact that I have not been involved in these discussions previously—I want to get my head around the discussion on the reconciliation of £700 million. Earlier, you said that that is basically down to timing in forecasting. As best as I can tell—you can tell me if I am wrong—it is not down to any decision or financial act of the Scottish Government. Obviously, that will follow on from the forecasting but, initially, it is a forecasting situation.

The idea of any consistency in when you can do your forecast seems to be undermined by budgets changing every year or not taking place when expected. It is not like it used to be in the 1980s, 1990s or even 2000s, when you knew when the budget or autumn statement would happen. It has been all over the place in the past years. It would be interesting to know to what extent the Scottish Government is responsible for that adjustment of £700 million.

**Professor Roy:** On FDI, do you mean foreign direct investment?

**Keith Brown:** Yes.

**Professor Roy:** We track measures such as data on foreign direct investment levels. Broadly speaking, there are two sources. The Government publishes data on business investment and we track that. It has done quite well in Scotland over the past year. That data gives us a broad sense of how the economy is doing. However, we also track more unofficial estimates, such as EY's attractiveness survey, which give us an idea of how Scotland compares to the rest of the UK.

That all goes into the mix when we make our assumptions about the forecast. If, for example, we saw lots of data showing significant investment

in Scotland, high earnings growth and lots of jobs being created, that would be factored into our forecast. Those are probably the two main sources that we use.

There are a couple of things to mention on the reconciliation for 2021-22. Our latest estimate is that the net tax position for that year will be negative, which means that the block grant adjustment will run ahead of income tax receipts. The reason for the big reconciliation is differences in forecasts. It is not about how the economy performed at the time; it is just about what assessment was made back in December or November 2020 by the OBR and then, by the Scottish Fiscal Commission, in January or early in the spring of 2021.

If you remember, at that point during Covid, the new variant was emerging in the run-up to the Christmas period and there were real concerns about the outlook for the economy, which was quite uncertain and negative. If we jump forward to when the Fiscal Commission made its forecasts in the early spring, you will remember that the vaccines had come out and there was at least a time path for getting through the situation, so the overall outlook was much more positive.

We have a table on page 11 of the economic and fiscal forecasts that looks at that. The budget-setting process said that the block grant adjustment would be about £11.8 billion. The latest forecast is that it will be £13.6 billion. When the Fiscal Commission made its forecast, it said that income tax would be £12.2 billion and the latest position on that is £13.4 billion.

Therefore, the income tax take has gone up by £1 billion but the block grant adjustment has gone up by £1.8 billion and the difference between the two relates to the reconciliation. On economic performance, although both have gone up, because the BGA was set in a much more pessimistic period, it has gone up by even more, which leads to the reconciliation.

**Professor Breedon:** To reiterate the point that we made before, although the timing of the two forecasts was a factor in that case, we should not think of that scale of reconciliation as a one-off that we will not see again. We should consider it as the sort of scale that we would expect to see. Although there were some rather special circumstances around that number, growing budgets mean that that is the ball park that we should think of.

**Ross Greer (West Scotland) (Green):** I have a couple of questions about the calculations on social security spend in figure 5.3, which is on page 81 of your report. I would appreciate a little bit more information.

Part of the theory of the Scottish child payment is that, if we give families more income, we create the stability for them to find themselves in a better financial situation in which they do not require the payment. The calculations that you have in the figure show a dip over the next couple of years but that then slowing down over the last couple of years in the cycle. Will you explain a little bit about that tailing off in the decrease?

**Professor Roy:** Are you talking about figure 5.3?

**Ross Greer:** Yes.

**Professor Roy:** It is largely due to changes that we made in our assumptions about take-up and the difference between eligibility and case load. We assumed a higher take-up early on relative to the end of the forecast period. The data that we have show that the take-up is ever so slightly less just now than it could have been but we think that it will accelerate and catch back up. That is why the gap is bigger just now but will ease off towards the end.

We also think that the actual number of eligible children is less than we expected in December. In turn, that reduces how much we think will be spent.

10:45

**Ross Greer:** How much of the reduction in the number of eligible children is a result of the reduction in the overall population versus the relative socioeconomic situation with regard to children? I think that, over the five-year period covered in the paper, we are looking at a drop of something like 25,000 children in the primary school roll.

**Professor Roy:** One thing that I would say is that we are making judgments on the back of data that is still coming through, but one of the key dominant features with regard to eligibility is the change in the projections for the child population, which will be less than what we thought it was when we were first making these forecasts.

**Ross Greer:** One would have expected a significant initial spike in the child disability payment as we transition away from what was a relatively hostile system under the Department for Work and Pensions towards the deliberately more generous system under Social Security Scotland but, according to the same table, the child disability payment is projected to continue to rise quite significantly. I understand why that would be the case for the adult disability payment, given that our adult population is becoming more ill as a result of a number of factors, but is the same driver behind the situation with the child disability payment or is it something else?

**Professor Roy:** It is a mixture of both things. The inflows into the child disability payment have been higher than those for previous benefits, so part of this is to do with our projecting higher demand in future. Some of that is linked to the economic situation, but some of it is linked to higher demand and the number of children who have become eligible for these benefits.

**John Ireland:** About a third of the increase is down to UK-wide trends, while the other two thirds is related to the launch of the new payment.

**Ross Greer:** On a different note—and moving away from that particular table—I heard at the start of the session Francis Breedon make a comment about the north-east no longer being as much of a drag on the Scotland-wide income growth figures over the next couple of years. When the committee took evidence—late last year, I think—on regional differences in income growth, we found that the really stark difference was between the east and the west of the country. That was reflected in the population figures, too, with all local authorities on the east coast projected to grow and Argyll and Bute and Inverclyde having the most significant decrease. How much of that regional data are you able to draw on for the purposes of this projection?

**Professor Breedon:** One of the useful things that we can get from the real-time information data is data on regional incomes and, in that respect, we have been very focused on Aberdeen, which historically has been the outlier. Scotland as a whole has tended to have rather similar earnings growth—and it, in turn, has tended to be rather similar to that in the rest of the UK—but Aberdeen has provided a variation. One thing that it has been important to understand—indeed, it has been a key part of our forecast—is the reason why Scottish earnings diverge, and what has been interesting in the latest data is that the Aberdeen area, which for a long period has had slower earnings growth than the rest of Scotland, has come up to the Scottish average.

That is in line with our story that the area will no longer be a drag on the figures—although, as Graeme Roy has rightly pointed out, it is really hard to judge at this point how long that will continue. We still think that the North Sea is a mature and declining sector and that the long-run trend is there in that respect, but what we are seeing is a bit of a mini renaissance in the area, because of what has been happening with energy prices elsewhere.

**Ross Greer:** Is the west, then, going to become that drag? Are we going to see the gap between earnings in the east and west continue to grow? Concerns have been expressed about that—I have certainly heard them locally—off the back of the announcement of free ports being established

in the north and the east of the country, but not in the west. I must stress that I am not in favour of free ports, but we are already seeing a fall not just in the population but in average income growth on the west coast compared with the rest of the country.

**Professor Roy:** As you said, a long-term trend in Scotland over the past 20 or 30 years has been the shift east in earnings growth et cetera. That has been partly to do with the sectoral mix, particularly with the growth in financial services and energy in the east.

I guess that what matters now is what happens as we move forward, because all of that is baked into the baseline. The fact that earnings in the west are slightly lower than those in the east has already been reflected in the initial adjustment, and what matters is what kicks on from there. That is where the issue of relative performance will become really important.

As you were asking that question, Mr Greer, I found a really good chart that basically answers your question. It is probably not great for the *Official Report* if I just show it, but we can write to you with it. It shows the difference between UK and Scotland, and the gap that has emerged in that respect, but crucially it contains a bit about Aberdeen and the north-east that will help explain quite a significant chunk of the issue. As I have said, what matters is what happens as we move forward.

**Ross Greer:** As I was bringing up the issue of free ports, another question occurred to me. Have you made any projections on the basis of their expected economic impact? I realise that we are still very early in the process.

**Professor Roy:** No. We would need to see clear policy in that respect. For us, the question is: will it have a material macroeconomic impact over the course of the five-year funding horizon? We would need to make a judgment call as to whether that would be the case and what displacement and dead weight would be associated with it.

**Ross Greer:** My final question is on the availability of data. I realise that this might be straying somewhat outside your remit, but I would be interested to hear your thoughts on this matter.

Obviously, you have access to significant amounts of public data that are not in the public domain, but when you look at some of the independent tax proposals that have been put together—for example, the paper commissioned by the Scottish Trades Union Congress—you see a significant difference between the additional revenue that the STUC says will come from some of its proposals versus what is in the ready reckoners. Do you think that there is enough information in the public domain to aid a healthy

public debate on the issue? After all, it creates a bit of tension if the STUC says that putting 2p on the top rate will raise an additional £200 million and the ready reckoners say that that will be essentially net neutral.

**Professor Roy:** Again, as you would expect me to say, the more information out there and the more accessible it is, the better. There are really good tax models out there—indeed, the Scottish Parliament has access to calculations in that respect—so I think that, as far as tax policy choices are concerned, people have the capability to set those things out.

Secondly, the issue that you have highlighted might well come down to behavioural changes. We have quite rigorous, open and transparent marginal taxes; certain behaviours will come into all that, and they will have material impacts on the end outcomes. The question, then, is: are the people out there with the other numbers doing that work? Are they talking about static or dynamic effects? That is, typically, where the big differences can be found.

**Professor Breedon:** It is worth adding that even if you were to get all the data that you ideally wanted you would also need a relatively long run of it in order to do the economic analysis. As far as Scotland is concerned, a lot of these questions are still relatively open, as we have only a relatively short run of data to look at. Moreover, with regard to behavioural impacts, we are obviously going to do as much as we can with the Scottish data, but that is why we have historically leant more on international evidence. That data is probably the same as the Scottish data, but there is a longer run of it and it can therefore be analysed in more detail than we can with the Scottish data.

**John Ireland:** I should add that we do not use that much private data. One of our general principles is that we prefer to use publicly available data, as it increases transparency. In any case, there is not a lot of private data floating around in this area—it is mainly public.

**Ross Greer:** Thanks very much. That is all from me, convener.

**The Convener:** I congratulate the committee and the witnesses for keeping us to time—we have done quite well. Is there anything else that the witnesses wanted to touch on?

**Professor Roy:** No, convener. I just want to thank the committee once again for allowing us to come along and speak to you. We will be happy to pick up on the long-term and capital work in future conversations.

**The Convener:** Thank you all for taking part and for your clear answers.

We will have a break and start again at 11 o'clock.

10:53

*Meeting suspended.*

11:00

*On resuming—*

## **Public Service Reform Programme**

**The Convener:** Welcome back to the second half of our meeting this morning. We now continue our evidence taking on the Scottish Government's public service reform programme. Today, we will hear from Claire Burden, the chief executive of NHS Ayrshire and Arran, whom I welcome to the committee. We were meant to also be hearing from a representative of the Argyll and Bute integration joint board, but they are unable to attend today. I apologise that you are in the spotlight, Claire, but I am sure that we will get on okay.

We have about an hour, but we do not have to use all that time—we will see how we get on.

We are looking at public service reform. Initially, we thought that the Government was going to have a very clear path for that; more recently, it has been more the case that each organisation will be looking at reform itself. Do you think that that works, or do we need a stronger steer from the Government about the kind of reform that it is looking for and where we should be going? Are you comfortable that your organisation and similar organisations can drive forward reform yourselves?

**Claire Burden (NHS Ayrshire and Arran):** Good morning. As ever, there is a mixture with regard to NHS Ayrshire and Arran. Given the unique nature of our population, there are things that I can do within the health and social care arena that perhaps would not be transferable to other parts of Scotland. In that way, in order to meet the needs of our local people, there are certain things, particularly for operational delivery, for which it is helpful to have that local flavour and a response that meet the needs of local people, as well as responsibility and accountability for designing services.

The opportunities in digital reform are perhaps where we start to touch on the scale of national policy, including making it more accessible and equitable. As a smaller territorial board, our finances are for the 385,000 people in our territory, which limits our capital capability. We know that, to get the greatest reform, we need to ensure that digital infrastructures and our infrastructure as a whole are as robust as possible. That will need a wider national steer and subsidy leverage, somehow, so that there is equity across all 14 territorial boards.

**The Convener:** Last week, we heard evidence on the information technology side, which was not

just about health, that all sorts of public bodies are fishing in the same pool for IT experts. There seems to be a shortage. Has that been your experience?

**Claire Burden:** Absolutely. We currently have quite a low baseline in NHS Ayrshire and Arran, and we are putting in foundations. We are not seeking whistles and bells; we want infrastructure that means that we are resilient and can cope with a power surge or the westerlies when we get cut off. If we are to do that with the best of technology, we would go to cloud and seek those larger enterprise opportunities. It would be more cost effective to have local servers, but it is not as resilient, so doing the right thing requires digital expertise and maintenance of a system for a wider population. Trying to do that for 385,000 people is just not the same.

**The Convener:** You have mentioned a couple of times the number of people you have. The Argyll and Bute IJB is not here, but its population is 85,000, so it is an even smaller organisation.

Last week, we heard from the police, and they are obviously an example of a major reform in recent years. They went from eight police authorities, or whatever it was, down to just one. Making anything like that kind of change in the health service could not be done internally, could it? It would have to be driven by central Government.

**Claire Burden:** Absolutely. There are regional and national networks over and above our territorial boards. The west of Scotland works as a region, and there will be opportunities to optimise what is available. At the moment, the response to digital by our 14 territorial boards will be meeting our local needs and working from our local infrastructure. Glasgow's current position is very different from mine, so it would take disproportionate investment for me to catch up. It would be as though I was slowing Glasgow down in order for us to catch up.

The important bit is scale. We started by thinking about where we could get the greatest reform, and digital is an area in which getting us all into the same ball park, at the national and regional level, would make a significant difference in terms of public reform. If we get our digital network right, we will meet our ambition of getting our health and social care partners aligned to a single patient record, so they will all have access to the same information. We need to future proof our digital platforms.

**The Convener:** One of the terms that we politicians hear from the public is "postcode lottery", which I personally detest and which I think really means local decision making. However, there needs to be a balance, does there not?

When someone turns up with a broken leg, they get the same treatment in Ayrshire as they would in the Highlands, Glasgow or anywhere else. On the other hand, you are dealing with a particular situation: you have two islands, the Highlands are completely different from that, and Glasgow and Edinburgh are different, too.

How do we get that balance? The police model has become more centralised. Does health need to have a more centralised model?

**Claire Burden:** In our sub-specialties, there is a need for regional and national models. They are already in place for vascular cardiac services, in which people go to a specialist centre. There are other areas where Scotland could consider working at a regional and national level, building on the NHS Golden Jubilee ambitions.

It is definitely a walk-before-we-can-run situation, in that our workforce is territorial. My workforce for Ayr is absolutely dedicated to Ayr hospital. Recruiting to Ayr hospital is no mean feat, with Crosshouse hospital being much closer—13 miles closer—to Glasgow. You would not have believed that recruiting to one of those hospitals would be so different from recruiting to the other, but the fact remains that it is.

That takes us back to where we started, on providing local services. When you break your leg, you need an emergency service that will fix your leg. It feels reasonable to have that within a 14 or 15-mile radius, in order that someone can get to hospital, wherever that is, within the golden hour.

The sub-specialty is where we get into replication. What is happening in vascular and cardiology might mean that you travel a little further, but you get to see the specialist who can fix you in a shorter period, because that is the nature of specialists. That has to have benefits in relation to outcomes. Our medical colleagues are in the best place to determine what those zones might be.

**The Convener:** My final question was going to be aimed more at the health and social care partnership, but I will try it with you anyway. Your area covers three local authority areas. Is that a problem, does it not matter or is it a strength? We know that other health boards, such as NHS Fife, for example, pretty well match the local authority area. Is that an issue for you?

**Claire Burden:** Without doubt, it would be easier to have one partner. There are four of us, and each of us is trying to deliver for our local population. The needs of people in the north, east and south parts of the area are different; given how small the area is, it is extraordinary how different those needs are. Our councils in the east know their populations well. Each has developed

services around the needs of local people, so diversity is offered across the three board areas.

I have been fortunate to have inherited health and social care partners who are committed to working together. The caring for Ayrshire strategy is not new, but I have been here for 18 months and it is clear to me that, if the fire and police services, along with the council, engage with the strategy, it means something to people in Ayrshire. That is currently sufficient to bind us together. We have our bumpy periods, because we all want to provide the best that we can in the here and now. The nature of emergency and urgent care in this post-pandemic era is such that we are not quite as focused on prevention as we would like to be. In an ideal world, we would put so much more into primary and community care, because that is the right thing to do, but at the moment the hospitals are spinning like tops, so they become our focal points.

**The Convener:** That opens up a discussion on preventative spend, which is a huge area on which the committee has already spent a lot of time. I will restrain myself on that point, though, and hand over to Michael Marra.

**Michael Marra:** You have talked a little about IT programmes, and I notice that in your submission you say that the work that you have been doing

“starts us on the journey of delivering”

the Scottish Government’s

“2015 Cloud First Strategy.”

Is that correct? Are you saying that, although the strategy that you are working to was published in 2015, you are only starting to deliver it now?

**Claire Burden:** It has since been revised. My understanding is that the IT strategy was revised in 2022, and we are aligned with the commitment to move to a unified platform and an enterprise model for Scotland. Any local platforms and interfaces that we put in place are compliant with the cloud first strategy.

**Michael Marra:** Thank you.

On reading your submission, I wondered about the scale of the change required. In the course of the committee’s inquiry, we have discussed the shift to preventative spend and the demographic challenges. Is the range of the programme that you are undertaking commensurate with the scale of the challenges that you, as a leader in your field, are seeing in demographics, technology and new forms of healthcare? Is the change that you have represented in your submission up to that task?

**Claire Burden:** I still think that it is conservative, but it is affordable. In the private sector, we would be looking at 3 per cent of budgets being

dedicated to IT, whereas ours is less than 1 per cent titrated over three years. The reform that we have put in place enables us to work with NHS Scotland with some parity with our digital capability; it sorts out our infrastructure so that it will be compatible with NHS Scotland requirements; and it will also unify our health and social care partners with regard to primary care.

I know that £10 million sounds like a lot when I am sitting with a year-end £25 million hole. However, we will have to spend £3 million, £5 million and £4 million in various places in order to get us where we need to be. It will be from interoperability that we will get our greatest return.

**Michael Marra:** I want to broaden that question out beyond the digital infrastructure to the delivery of health services across the whole board area, including where services are situated, and the way in which you are looking at the future of your geography and your people. Do you have a change programme that addresses that broader set of issues?

**Claire Burden:** The software that comes with the upgrades just puts us in a completely different place. In each of our two acute hospitals, we do not have a bed board; bed managers still have to go round in order to find out where people are and then manually note that. We have to run three operating systems in order to manage an acute hospital, but it is that one piece of kit that will enable us to know where patients are at any one time. That will help us manage risk, improve safety and reduce avoidable waste throughout the building and, as a result, change the landscape of emergency medicine in the body of the hospital. At the moment, the emergency department is not attached to the main hospital—it is a standalone system.

11:15

**Michael Marra:** On the broader issue of how you deal with a rapidly ageing population, are you advocating a technological approach to changing services instead of talking about, say, which areas of primary care might be addressed, how we might piece all of that together and so on? I am trying to think about this in a slightly broader way by looking at the driving forces, but you seem quite focused on the technology aspect.

**Claire Burden:** The aims of this year’s plan are threefold. First, we have to address our bed-based care, which is the most expensive component in the delivery of care. We talk about bed-based care as if it just happens in hospital, but that is not the case—we have beds all over the system. They do all sorts of things and are not necessarily in places where we want them to go. The second aspect is

financial recovery and sustainability, as we have some very high spend.

The third aspect is digital, which has an impact on the other two. We have remote and mobile technology, but that is only the tip of the iceberg in terms of what we are capable of doing. If I can equip clinicians at the patient bedside, wherever it is—in their home, in the community or in hospital—so that they can all see exactly the same thing, we will make better decisions on their behalf. That also relates to people's independence with regard to keeping them in their own homes. If I can equip decision makers with that information, they are more likely to be able to keep those people at home.

**Michael Marra:** On workforce planning, you have said in your submission that you have “around 9,400” permanently contracted full-time staff. Is that correct?

**Claire Burden:** That figure waxes and wanes by about 400, but that is right.

**Michael Marra:** In some of the evidence that we have had so far, there has been a little bit of dubiety about the Government's absolute position on managing the workforce. The resource spending review, which came out a while back under the previous cabinet secretary for finance, committed the Government to reducing head count to pre-pandemic levels. However, you seem to be indicating that your intent is to remove non-full-time-equivalent permanent staff by trying to manage down your bank nurses and other contractors. Is such a characterisation right?

**Claire Burden:** In the first instance.

**Michael Marra:** In the first instance?

**Claire Burden:** Until we can get into reform and dramatically change the way in which a hospital works, our ability to bring our head count down demonstrably and sustainably is limited. Our vacancy rates are such that we would be robbing a blind space, whereas there is the reality of the agency and bank spend, and the way that we choose to work with independent partners.

**Michael Marra:** So you think that your ability to meet any broader intent in that regard is limited until we get into reform. Is that a process that needs to be led more—with more indication—and perhaps in the direction that the convener talked about? Would it involve more intent from the Government? Is that what you mean when you talk about the need to “get into reform”?

**Claire Burden:** It is about our ability, as a health and social care system, to get into that more generally. Those in primary care are desperate to do more. If they were to speak to me—or to any of us—this afternoon, what they would say is that if we were able to move money

around with a bit more fluidity, they would be able to offer more support to patients at home in the community and get into the prevention arena, which would reduce demand on the acute setting.

At present, I do not have sufficient headroom to create that reform. It feels as if we need a year to 18 months of basics just to get our house in order and a really dedicated core workforce in place. It is not unusual in a rural territory, but we need more core staff to get teams to optimal levels of cover. Currently, I am running on the minimum. We have to focus on that recruitment, which will bring down our costs.

**Michael Marra:** But you have had consistent budget deficits for the past six years, and perhaps longer, prior to the pandemic.

**Claire Burden:** Yes.

**Michael Marra:** What would headroom that allowed you to invest in that shift look like? Would it eliminate the deficit, reduce it or give you a surplus? Have you had any guidance in that regard?

**Claire Burden:** It would reduce the deficit. I do not have an end point by which we can turn things around. I cannot overstate how important it is that we wrestle with what the models for bed-based care should look like. Our system is heavily dependent on unscheduled bed-based care being provided in an acute setting, but it does not have to be like that—there are other, successful systems. There are considerable margins for change in NHS Ayrshire and Arran but, at the moment, it does not feel as though that is possible. We are all in a position in which we are faced with what we are seeing. That is what I am working with at the moment.

**Liz Smith:** You said something very interesting about some people in the workforce taking a territorial approach. The same is also true of patients and families, who get very attached to their local hospital or medical service; indeed, we have seen what can happen when there is any hint that a hospital will be closed or that certain parts of it will be shut. However, you are correct to say that, for the benefit of medical services in the future, that is exactly what will have to happen to make the system more efficient. Given the nature of the reform that is needed, do you have any suggestions for what we should do to bring the public with us? I think that that will be a very difficult challenge.

**Claire Burden:** It is the medical voice that will make sense of that. The definition of a district general hospital is that it is there 24/7, when people need it. Maintenance of life, pre-hospital care and acute settings are core to the NHS. We need to be clear with people.

Ayr hospital is a perfect example of this; if you move anything, people get really worried that you are going to shut it. I cannot possibly support health provision in NHS Ayrshire and Arran without having both hospitals, so I need to find a way to keep both of them. However, should someone be unfortunate enough to have a brain haemorrhage, we need to get them to a neurological centre, because that is where their outcomes will be different, just by the nature of specialist care. If people hear from, say, the medics that we are able to move patients around Scotland effectively and give them speedy access to the right surgeon—and if the system is designed to say yes—the offer will become different.

**Liz Smith:** You are, in effect, saying that the better decisions—and the ones that will probably be more accepted by the public—will be those made by clinicians and medics rather than by administrators.

In relation to the Covid era, it is interesting that, given how serious the situation was for everybody, decision making in hospitals was pretty effective, because clinicians decided how they had to run the wards. It provides quite an interesting lesson for the future, as it shows how incredibly important clinicians and medics will be in changing the health service's whole set-up. I am interested in hearing your views on how easy it is in modern health services to ensure that the medics, rather than the administrators, take these decisions.

**Claire Burden:** We have just embarked on a change programme called clinically led, managerially enabled. Things have been a little bumpy, as this is not an insignificant change for both schools. For a start, we are putting medics in a position that requires some really difficult decisions to be made. There are some amazing services in Ayr, but I am finding it difficult to recruit into critical care. I cannot just magic up staff, but I can, with the clinical teams, build in all sorts of contingencies while we seek new staff.

There is also an issue for management in making clinicians' lives as easy as humanly possible by doing the things that they do not do. As a manager, you can bash out business cases and come and make cases in a political space. We can support clinicians through that space; they do not have to be good at everything, but they are steering us towards what is medically right and what will get us the best outcomes for Scotland. That feels the most appropriate and safest place to be.

**Liz Smith:** So you are recommending that the structure of oversight of the health service change a bit to facilitate that. I realise that we were due to speak to other witnesses, too, but does that

include the integration joint board structure? Would you recommend any changes on that front?

**Claire Burden:** We have had changes in clinical leadership in that area, too. Of course, I am representing only NHS Ayrshire and Arran, and our primary care clinicians and medical sponsors within those arenas are strong and vibrant. I think that the situation mirrors that in the NHS. We need to be clinically led. After all, this is the NHS—that is what it says on the tin, so we need that steer and guidance.

With modern medicine and what that means, and the desire for care closer to home, I am going to be asking something very different of our clinical leaders. There are what might be called helicopter roles, where I am saying, "Come and be my medical director and look after 385,000 people." That sort of thing is not necessarily in clinicians' first language, but they do it.

There is a huge opportunity to think about healthcare provision in a genuinely different way, and manager logic goes only so far. You need somebody to help steer things, as outcomes are generally going to be different.

**Liz Smith:** Thank you.

**Michelle Thomson:** Good morning, and thank you for joining us. Last week, we had interesting evidence from Police Scotland in which it was made clear that that body simply would not have been created had it not been mandated by Government. I want to ask you some perception questions about your world. In Scotland, with 5.5 million people, we have 14 territorial boards and five national boards, and there is duplication of human resources directors, information technology directors and finance directors. Have you and your equivalents had discussions about attempting to change the scale and the current organisational structure? I know that the British Medical Association has released a report on that, but have you looked at the issue or suggested some change with your face-off equivalents in other boards?

**Claire Burden:** No, I have not discussed that as a tack. Personally, there are things that I cannot do because I lack the scale. I am a proportional slice of 14, and that limits reform. That goes back to the original questions. Providing a national health service for 5 million people with this footprint is a health economics challenge. Therefore, working with our clinicians, there is a piece of work to be done through health economics about what needs to be done at scale. That is not an easy question, which is maybe why we have not gone there. However, in the 18 months that I have been in Scotland, for sure, whenever we have suggested something, we have



found that it has been considered four or five years ago.

I imagine that, if you were talking to a CEO with more experience of Scotland under their belt, you would find that that work on health economics will have been done at some stage. Possibly, the way in which Scotland has tackled the complexity of the social care agenda and the health agenda through integration and IJBs as a vehicle was an option in that initial appraisal.

11:30

**Michelle Thomson:** My next question follows on from that. Local boards might employ individual staff under different terms and conditions. Does that inhibit flexibility when trying to move staff around? Is there not the same ease of transition because they are employed by different boards? Do you experience that when trying to attract people into your area?

**Claire Burden:** The issue is banding, and that situation is extraordinary. Across the 14 territorial boards, we can have the same job banded at different rates. We have had a great challenge in employing digital practitioners—particularly network practitioners—and a head of estates. We are a band lower than NHS Greater Glasgow and Clyde. We are only a stone's throw away from each another, but we are encouraging people to come to a territory to do exactly the same job at a different band.

I have not come across terms and conditions being wildly different; they are pretty much transferable. However, banding is a national challenge.

**Michelle Thomson:** Thanks for that clarification. Given the autonomy of all the different boards, the Centre for Sustainable Delivery was designed to stop NHS boards working as autonomous units. Is it your experience that it does that?

**Claire Burden:** That it stops us working autonomously?

**Michelle Thomson:** Yes.

**Claire Burden:** That has not been my experience.

At this time, we are doing post-Covid recovery. We have to give ourselves a quick pinch, because nobody has done that before; no senior leadership team has led a recovery from a pandemic. We are pretty much learning on our feet. There are specialties in which people had to do something completely different from their day jobs for three years and we are now asking them to go back to those roles. There are other people whose jobs ticked over. You might think that merging those

two groups of people back together sounds horribly simple, but they had two very different experiences. In addition, some of the administrative workforce has been able to work well remotely, but we need to get people working alongside one other. That is the challenge at the moment.

In relation to the Centre for Sustainable Delivery, our discussion has very much been about how we get people back together, hence our clinically led reform that tries to provide a nucleus—a purpose—to bring people back together. Covid required the management of a single disease and we were all focused on that one thing at that time. We had to keep the front door running because people still had coronaries, heart attacks and everything else, but it was about wrestling that one disease. We are now back to the plurality that is the provision of health and social care. We cannot respond in the way that we did for three years because of that plurality. We need the specialists in the room to help us to make decisions. The Centre for Sustainable Delivery has been working with us to help to create that congruence of purpose again.

**Michelle Thomson:** I went through your submission and I note that you mention deficit reduction, efficiency in delivery and distributed working. I have asked you about staff—you corrected me to say that the issue is banding—and about the number of territorial boards and the Centre for Sustainable Delivery. At the start of this inquiry, Police Scotland commented that it would not have been created had that not been mandated. Are they the sorts of things that you would expect to see mandated by central Government? Is your primary focus therefore on the areas that you have set out both in your evidence today and in your submission?

**Claire Burden:** In terms of the delivery plan, there is quite a clear steer in the guidance that is given. I am not sure how much more mandated it could be. In relation to our elective recovery, there is a very clear steer on what good practice looks like—

**Michelle Thomson:** I meant with regard to changing something at significant scale—such as, for context, the 14 territorial boards and the five national boards—and restructuring it. I mentioned the Centre for Sustainable Delivery. I am talking about that scale of change and organisational restructuring. Is that something that you would expect to see mandated by the Government rather than being fed upwards from you or people who you face off with in other boards?

**Claire Burden:** I am sorry—I will try to answer through that lens. From a territorial perspective, the flexibility that we have is welcome and it is sufficient to allow us to design things locally. If

there was more of a mandated steer, it would be around the performance outcomes. Our concerns from a chief executive perspective—you talked about what the CEs are discussing—are about the ability to maintain the service that we have with the future that we have. With regard to change being mandated, I am working with the public, so I suppose that helping to manage expectations and thinking about how we have these discussions would be in that mandated area.

We are in a different position now. We are not the same service that we were three years ago. We are very different, and we are learning at pace how to get ourselves back. In the outcomes arena, more mandate is therefore an opportunity.

**Keith Brown:** You will be aware that there are Covid inquiries in Scotland and the UK. They will look at various things including the shortcomings of politicians, mainly, and others. However, having heard you speak, I think that it is worth saying that it was an absolutely fantastic achievement to get through Covid and keep the services running. I hope that, in due course, people will recognise the scale of that achievement.

Going back to the subject of Michael Marra's questions, I note that you said that you intend to reduce the numbers of supplementary staff by half this year. We are only about three months into the financial year, but do you have any idea how things are going so far?

**Claire Burden:** They are going well. In the past year, a considerable amount of work has been done to understand our dependence on agency and bank staff. A lot of work was done to encourage staff to consider their core hours in contracts. As we approached the celebration period and new year, we asked anyone who was on a reduced contract to take on additional hours, even in the short term, and some people very kindly did that. We expanded our bank, and in the past four weeks our agency ask has been 20-plus per cent lower, so that is a very positive start.

The committee will be aware that we were challenged to reduce our agency spend and that a cap was put in place on break-glass payments for out-of-framework agency staff. We are literally seven days into that. I think that people were expecting a bit of a mushroom effect from the NHS, but that has not happened. Some areas across Scotland have had to make break-glass payments for sub-specialists to get cover, but I am pleased to share that we have not had to break glass in the past seven days. However, as you say, it is really early in the financial year, and if there is ever a steady state in the NHS, it is this 16-week period between spring and summer.

We have reduced our bed base by 60 and we have reduced our delayed discharges—not to

where we want to be, but they are at least 50 lower than at the beginning of the year. The metrics show that those important aspects that make a difference to core services have started to be embedded.

**Keith Brown:** Thanks for that. With regard to the staffing issues that you have mentioned, and perhaps the additional problems for significantly rural health boards, I note that, a long time ago, I was in the military, and if you trained to do something specific that was quite expensive, they would keep you in the military and tell you where you would serve. In the NHS, whether in relation to GPs or other services, could there be some kind of local or national control whereby, once someone graduates from medical school, they would be obliged, at least for a period thereafter, to go to where there are shortages of GPs or whatever? Could there be a role for that or would such an approach simply not fit in today's health service?

**Claire Burden:** I am not sure that it would help us with retention if people were directed to where they were needed. I would like to think that keeping people in the country is an incentive. Our medics, our nurses and our allied health professionals all work hard. Once they have gone through their training, if there were a way of retaining them in Scotland by providing good job opportunities and giving them access to technologies, new practice, research and so forth, I think that that would be more of an incentive for members of our workforce to stay with us than mandating where they need to work.

Three years ago, our medical director introduced a new medical workforce into which clinical fellows were injected at pace. We used to have 20 clinical fellows and we now have 120. By incentivising colleagues to work in teams of a decent size, we can give them the opportunity to be the medics, nurses or practitioners that they trained to be, which I think is a most attractive way of keeping people.

**Keith Brown:** I recognise the pressures that you have mentioned. I live in an area that, like Ayrshire, has three local authorities, although it is probably not as big a land area as the Ayrshires. It has only one general hospital, which was built around 15 years ago.

I do not want to put words into your mouth but, in the areas where you said that you think that a more national role might be beneficial, to what extent do you think that health boards as they are currently constructed help or hinder the taking of such an approach, where it might be more appropriate and beneficial for the service? I realise that that is a difficult question to answer.

**Claire Burden:** I think that it would be fair to say that, by nature, we are parochial in the sense that we are trying to make our territorial boards sustainable. We are softly competing with people for staff and kit. The way that boards have been set up means that each of us is looking out for the survival of our own. I therefore do not think that taking a more national approach would be the easiest thing to do.

However, as a group of chief executives, the most important thing for us is sustainability for NHS Scotland. We have significant conurbations with major hospitals and we have district general hospitals that have managed to bring in exceptional specialties. I will do a quick shout-out for our urology service and our orthopaedic service. I will have missed someone out, which will be bad. There are services in rural boards that have managed to collect exceptional people who have created special teams around them. If there were opportunities to expand on that and offer regional and national services, I believe that every territorial board would have such an exceptional person.

The only other point that I want to share is that we regularly talk about what good practice we can replicate. A lot of effort goes into that. However, there are opportunities that emerge as a result of a board having a service that is led by someone exceptional. Perhaps that is the mushroom that we should be looking for. Rather than trying to replicate a situation in which we land up with exceptional individuals who attract other exceptional people and create something different, maybe we should ask how we can grow such an environment in that place for the benefit of more people.

**Keith Brown:** Thank you for that. I also thank all your staff for their work over recent years.

**Claire Burden:** Thank you—that is very kind.

**Ross Greer:** I apologise if I missed this in your answers to Michael Marra's questions about digital enhancement, but are you able to quantify the financial savings from upgrades? For example, do you know how much the bed management and patient tracking system that you mentioned has saved you? I am interested to know how much you would expect to save from such an upgrade—not that it is all about the money, obviously.

11:45

**Claire Burden:** I do not have that in a trajectory, but I will get it in a trajectory within the year. I mentioned how 3 per cent of budgets going to the independent sector would be normal; our figure is less than 1 per cent. Digital reform could be expected to return anything up to 11 per cent in internal efficiency, but I need to find something

that meets all the requirements of finance in order to get that into my cost avoidance.

I can share with the committee that a ward round in our current combined assessment unit takes four hours because staff have to go through the red file, the yellow file and three digital systems, and they have to look up labs and get into the primary and acute care systems. That should be a board-and-ward round in which clinicians can get round a ward in less than an hour. If I could save that amount of time for a clinical team by board rounding, it would genuinely mean time going back to being with patients.

That is not in the budget because there is not a piece of reform that I can lift and shift into a finance spreadsheet with any validity, but I challenge the system and say that we have to do that. We need to be able to demonstrate that £10 million against our budget over three years is not significant—but it is significant when I am not doing other things. I have a critical care unit that needs work and I have a day-case unit that needs to be expanded. We are sacrificing things to get the digital systems right so that we can make change, so I need to demonstrate to people what that is giving back to the system.

**Ross Greer:** It has been mentioned already that NHS Ayrshire and Arran has been running at a deficit since 2017, but quite a lot of progress was made in closing that deficit between 2017 and the start of the pandemic, when everything went out the window somewhat. How did you manage that year-on-year reduction in the deficit over that three-year period before the pandemic financial years?

**Claire Burden:** That was pre-me. The deficit went to £20 million in 2017 and my predecessor brought in a financial service improvement director who worked systematically with operations to reduce the bed base. Reducing the bed base in the acute sector year on year resulted in a baseline improvement across a wide spectrum of measures—not just in relation to the workforce and bed space but in relation to all the other logistics that go alongside them. Over a 24-month period, the deficit got down to £14 million just before the pandemic, but there was a systematic process of reducing beds in the acute sector.

**Ross Greer:** Your submission mentions opportunities for collaboration, particularly with local authorities when it comes to property and estates. Do you have any examples of where such collaboration has worked well to increase efficiency?

**Claire Burden:** We are possibly talking about the two areas of delayed discharges and sharing working spaces within hospitals and community hospitals. Rehabilitation and our stroke pathways

were put into a community hospital to share that facility and reposition rehabilitation services. The cancer unit was moved to the Kyle unit. Those services were in the acute setting; we took the non-critical patients into a community setting and developed a unit within the community. That was at the height of the pandemic and people were quite worried about it. Now, the patients prefer that to the acute setting—not least, those who are poorly with cancer who can pitch up to the community unit and walk in, as opposed to pitching up at the front door of an emergency department and having to walk past everybody, when they are feeling a little grim. That was significant.

There is also distributed working in which we share office space and can book desks anywhere in the system. The zero-desk policy is still new: once again, it is a little bit bumpy as we navigate our way through it, but it means that we can look to centralise where we need accommodation.

**Ross Greer:** Thanks very much.

**Douglas Lumsden:** I want to ask about shared services. Obviously, we have multiple health boards, 32 local authorities and the IJBs. Each has its own finance director, HR director and IT director. Is there scope in the public sector landscape to reduce the number of such roles and to consolidate into more of a shared-service model?

**Claire Burden:** Yes. As ever, however, it is not simple because there are well-established structures now. My understanding in relation to NHS Ayrshire and Arran is that work that was done in 2016-17 was close to unifying IJBs in a single IJB with North, East and South Ayrshire collaborating. After a period of months it was all but there, when the infamous Covid came along—and here we are. The backdrop of the proposed national care service is a bit of a distraction from that. We are in the process of renewing our partnership agreements—to go back to those. We are in the five-yearly review of partnership agreements and, at the moment, the IJBs are still within the three councils. There has been no discussion of going back to what was achieved in 2017 and I have not heard that there is any appetite for that.

**Douglas Lumsden:** Can organisations make such a change voluntarily, or does this go back to the point that Michelle Thomson, I think, made—that it would have to be mandated from the centre before we would get real reform among those organisations?

**Claire Burden:** I think that that would take a mandated change. Structures are already in place, so the change would be quite difficult. It would be like me thinking about having a single west of

Scotland board and thinking that taking away a health board would be the right thing to do. I have 13 colleagues who might completely disagree with me. A health board serving a population of 1 million would have a slightly different landscape to navigate than would four or five boards that cover the same population.

**Douglas Lumsden:** You mentioned prevention earlier and seemed to suggest that you would like to do more on that but do not have the resources of people or cash to make that switch.

**Claire Burden:** Yes.

**Douglas Lumsden:** How do we break that cycle? We hear from Government ministers that prevention and early intervention are key and are how we will make savings later, but I do not see a firm change to using the prevention model.

**Claire Burden:** I need to reduce spend in the acute sector in order that we can reinvest in the community. Rafts of work are still referred to the secondary and tertiary services for advice, and we are following traditional models. We have outpatients—the person is added to the list and then they get there. I have teams of people desperately trying to work through those lists.

Primary care practitioners in the community want a discussion or a test or access to something. If it were simple, of course we would have done it. In the transformation wheel that we have at the moment we understand that we are cash-strapped, which means that we have to get to the stage at which we can lead through our clinicians.

Primary care people have said that they want to do more in the prevention arena. I am fortunate to have very strong positive primary care provision, both in and out of hours, and those people will help us to scope out what they need in order to do more. There are already diabetes and respiratory programmes that are run perfectly well with a community-led bias; we need to lean on those again.

It is about safety and opportunities, and also about working with our medical colleagues who have chosen secondary and tertiary care to help them to understand that this is not about taking activity away from them but about wanting to give them more time for the people who genuinely need to be in their arena. That will be made so much more possible if we have the voice of the clinicians in the middle of it. We are short of medics and nurses, so there is plenty of work for everybody. I have a five-year order book for acute services. This is a case of, “Please don’t worry about your jobs. What I’m desperate to do is get the right patient in front of you so that you can be the best person you can be.”

**Douglas Lumsden:** Absolutely. You mentioned 60 beds being removed. You are looking to reduce supplemental staffing support by half, which by my calculation would be 475 full-time equivalent positions. How can you do that without impacting on patient care, especially when waiting times are already increasing?

**Claire Burden:** I do not think that it would involve quite that many staff, just because of average salaries.

When we rolled forward, we had 185 additional beds in the acute system. That additionality cost us £13.5 million last year and has made everything else slower. Our average length of stay in Ayrshire is longer than the average in many other parts of Scotland because we are spread too thinly. For us to reduce our average length of stay to the average for Scotland, I would have to have no additional beds. Because of our additionality, we also immediately have £13.5 million against our deficit. If we were to get to the upper quartile of lengths of stay, I would have two empty wards. Two empty wards would give us £3 million to do whatever can we do differently, and/or flex for winter.

I am very careful where I have these discussions, because when you look at the system at the moment, where we have people who are living in a malaise—that is, in Covid recovery—and we have suboptimal staffing and not enough people to go round, I sound like a lunatic, because there are ambulances queuing outside, so of course the currency must be beds. The currency is not beds—it is workforce and decision makers. They are what genuinely make us efficient. I appreciate that the numbers feel really high, and hearing about averages does not fill one with confidence, but at the heart of running a hospital is the ward round, and wards need teams. I think that you would be hard pressed to find a fully resourced team in any part of my service.

**Douglas Lumsden:** You mentioned the length of stay, which is obviously key, in that you want to get people in and out as quickly as possible. Why is the length of stay so high in your board, and how will you change that?

**Claire Burden:** It is high, first, because of the additional beds. As you have seen, the workforce has gone up, but not all the new staff are on the wards. I am running with minimum staffing levels, which means that I am not making optimal decisions every day for every patient, because there are 185 people in the wrong place. At its peak, we had 200 delayed discharges, so 15 per cent to 20 per cent of the bed base was filled by people waiting to go home. Those are all things that you can go at.

The average waits for a response for patients with my three health and social care partners are between three days and two weeks. It is nobody's fault. Their operating models are different. South Ayrshire had a model that was heavily dependent on the private sector, and the private sector has withdrawn from home care. Rural home care, in particular, is a very difficult thing to pull off in a private enterprise.

Within what we have, there is absolutely scope to do more and to do things differently, but I have 10,000 people to convince that it is within their gift. When you are working at 110 per cent, it is quite difficult to sound sensible—but that is the job.

**Douglas Lumsden:** Thank you.

**The Convener:** Thank you very much, Ms Burden. You have been very frank and open. Maybe it has been beneficial that you have not been in your job for a long time, as you have given us a fresh approach and been prepared to be honest with us. I am very grateful for your input this morning.

Is there anything else that you would like to say that we have not touched on?

**Claire Burden:** No. Thank you very much.

**The Convener:** Thank you. That concludes the public part of the meeting.

12:00

*Meeting continued in private until 12:21.*



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

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