



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Finance and Constitution Committee

**Wednesday 13 September 2017**

**Session 5**



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**Wednesday 13 September 2017**

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**FINANCE AND CONSTITUTION COMMITTEE**  
**20<sup>th</sup> Meeting 2017, Session 5**

**CONVENER**

\*Bruce Crawford (Stirling) (SNP)

**DEPUTY CONVENER**

\*Adam Tomkins (Glasgow) (Con)

**COMMITTEE MEMBERS**

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

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Chris Boyland (Scottish Government)  
John Ireland (Scottish Fiscal Commission)  
Lady Susan Rice (Scottish Fiscal Commission)  
Dave Signorini (Scottish Government)  
Professor Alasdair Smith (Scottish Fiscal Commission)  
Kevin Stevens (Scottish Government)  
James Wallace (Scottish Government)  
David Wilson (Scottish Fiscal Commission)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

The David Livingstone Room (CR6)



**Scottish Parliament**  
**Finance and Constitution**  
**Committee**

*Wednesday 13 September 2017*

*[The Convener opened the meeting at 10:02]*

**Interests**

**The Convener (Bruce Crawford):** Good morning, and welcome to the 20th meeting in 2017 of the Finance and Constitution Committee. As usual, I remind members to switch off their phones, or at least to put them in a mode that means that they will not interfere with proceedings.

As this is the first public meeting of the committee that Alexander Burnett has attended, agenda item 1 is for him to make a declaration of interests. I warmly welcome him to the committee and invite him to declare any relevant interests.

**Alexander Burnett (Aberdeenshire West) (Con):** Thank you, convener. I refer members to my entry in the register of members' interests. Specifically, I declare an interest as an owner and manager of property including agricultural, residential and commercial lettings, recreational and sporting usage and forestry, as a shareholder in a renewable energy company and as the holder of remunerated positions in companies related to those areas.

**The Convener:** Thank you.

**Decision on Taking Business in**  
**Private**

10:03

**The Convener:** Item 2 is to decide whether to take in private item 5 and any future discussions of the work programme. Do members agree to do so?

**Members** *indicated agreement.*

## Scottish Fiscal Commission (Forecast Evaluation Report)

10:03

**The Convener:** Item 3 is evidence on the Scottish Fiscal Commission's "Forecast Evaluation Report September 2017". We are joined from the Scottish Fiscal Commission by Lady Susan Rice, who is its chair; Professor Alasdair Smith and David Wilson, who are commissioners; and John Ireland, who is the chief executive. I warmly welcome them to this morning's meeting and invite Lady Rice to make a short opening statement.

**Lady Susan Rice (Scottish Fiscal Commission):** Good morning, convener and committee. I should probably thank you three times over. First, I thank you for inviting us to give evidence today, and secondly, for engaging with us at various times earlier in the year, especially when the Organisation for Economic Co-operation and Development representatives were over and held a conference here in the Parliament. Thirdly, in preparing for the meeting, it suddenly dawned on me that we had not been in front of the committee officially and formally since the end of last year, so I thank you for the reprieve. That does not really make a difference, because you are always on our minds.

I gather that this is the committee's first meeting in the new parliamentary year, and that this is your first public conversation after the recess. This is our first appearance since the Fiscal Commission became a statutory body. I am, for the first time, joined by my colleagues, whom you have just named.

As you know, there was another first this year on 1 April when the commission assumed responsibility for independently forecasting Scottish gross domestic product, devolved tax receipts and devolved demand-led social security expenditure. The transition from being a non-statutory body scrutinising the Scottish Government's forecasts to becoming an independent non-ministerial department has been a fair piece of work. We will leave it at that.

However, I think that the committee will want to know that we have agreed a formal protocol with the Scottish Government, which is set out in a framework document. We are in the process of finalising similar arrangements with the Office for Budget Responsibility, Her Majesty's Revenue and Customs, Revenue Scotland and other bodies.

Since April, in addition to induction for my colleagues here—I joined those sessions because it never hurts to be reminded—we have recruited 15 or so analytical staff from the Scottish civil

service, the United Kingdom civil service, academia and the private sector. They have quite varied backgrounds: their experience includes fiscal forecasting, macroeconomic modelling, housing market analysis and public sector finances. They are a good team—we are very pleased with them, and we have been getting down to proper work.

We published our draft corporate plan yesterday, which members might have seen. If you have not, we hope that you will. Last week, we produced our first publications: the "Forecast Evaluation Report September 2017", which we are here to discuss with the committee today, and a paper setting out how we propose to approach our forecasts at the time of the draft budget later this year.

We have also kicked off a programme of external engagement, because it is important that the people who care about what we do know us. That includes this committee, so we were pleased that a number of its members were able to attend the session that we held for parliamentarians in June. Over the summer, we also had some forecasting experts from around the UK engage with our teams in going over the forecasts, turning them inside out and commenting on the work that we are doing right now and what we will do in the future.

We will be meeting informally with a number of other economists next month to take them through our approaches and ideas. As with the journalists whom we met earlier in the year, we want to keep our stakeholders as well informed as we can—partly because it is the right thing to do, and partly because it reflects our adherence to the Organisation for Economic Co-operation and Development's principles for independent fiscal institutions—IFIs—which is what we are.

That brings us full circle to this evidence session, in which we will be happy to answer questions about our "Forecast Evaluation Report September 2017". I am sure that members want to get into the detail, so I will leave you with a couple of what I call keepers, or high-level thoughts. The first is that forecasting is a challenging but also inexact science, so at any point in time a range of valid and reasonable forecasts could be made. There is no single right forecast that we can pull out of the pot. Forecasting typically involves judgment, and judgments change over time. I know that committee members, wearing their other hats, have been grappling with the changing relationship between the UK and the European Union. That issue is also an example of where the commission will have to make broad judgments about the flight path, if you will, in order to produce our forecast, which will come later in the autumn.

The second thought is that forecasts benefit increasingly as data accumulate. You will see from the report how the approaches to our devolved taxes developed between 2015 and 2016 as we got more data over time. Under the new taxes, especially under a newly structured tax such as land and buildings transaction tax, the models will be further enhanced and developed. One example is the additional dwelling supplement—ADS—which was very challenging to forecast in the first instance because there were no data to start with. We therefore used the best approximation of the baseline numbers. We now have the first full year of data on how many properties fell under that category and we will have more over time, so that forecast will improve.

For us, the insights from the evaluation report have been really helpful as we develop our models for the forecasting that we will do later this year. We hope that the committee, too, found the report helpful. We are happy to try to answer your questions. Thank you for listening.

**The Convener:** Thank you, Lady Rice. I remember that the whole issue of forecasting became clear in my mind—if forecasting can ever become clear in anyone’s mind—when Robert Chote said that it is a bit like spot the ball, if somebody was always moving the ball in the picture. That is for those of you who are old enough to remember spot the ball.

Paragraph 4 of your executive summary states:

“The residential LBTT forecast is sensitive to changes in house prices and the volume of ... purchases”,

and that brings with it overall forecast errors. However, I am not sure that that fully explains the forecast changes between December 2015 and December 2016 that we see in table 1. Therefore, it would be helpful if you could explain to the committee the main reason why the Scottish Government forecast for residential LBTT for 2016-17 was £282 million in December 2015 and £181 million in December 2016.

**Professor Alasdair Smith (Scottish Fiscal Commission):** The main difference between the two Scottish Government forecasts is the basis on which house prices were forecast. In the earlier forecast period—I think that the report says this somewhere—the Government forecasts considered a rather long period of experience with house prices, including before the global financial crisis of 2008, and expected that the economy and the housing market would revert to historical patterns, in due course. However, by 2015, we all understood that the effects of the global financial crisis on the housing market and elsewhere were pretty long lasting, so it was no longer reasonable to suppose that the housing market would go back to what it was in its pre-2008 period. There was

therefore a substantial change in the view of what data about the housing market were relevant for the forecast. That is the big change that took place between the two Government forecasts. In the later forecast, no attention was paid to prices before 2008 because they were regarded—rightly, in our view—as ancient history by that point.

**The Convener:** Okay. That sets the scene. Ash Denham has some questions on LBTT, as well.

**Ash Denham (Edinburgh Eastern) (SNP):** Some of my question has been covered by the previous answer. However, I want a bit of clarity on the log-normal distribution model. Your report suggests that the model fitted the data, but then goes on to say that the

“forecast error for the top two tax brackets”

is

“partially due to the fit of the log-normal distribution”.

Will you explain that for me?

**Professor Smith:** Yes—I will try. There is nothing magic about log-normal distribution. It is just a mathematical way of describing certain kinds of distribution, of which house prices—or, indeed, house transactions—are one. It happens to work pretty well in the Scottish housing market, as in other housing markets, except at the very top, because of the distribution. It is not that something extraordinary is happening up there; it is just that that little piece of mathematical kit does not fit so well up at the top, so it is necessary to make an adjustment. The adjustment that was needed in the second period was slightly larger than the one in the first period.

It is just a statistical way of describing the numbers that proves to be useful. Making the adjustment makes it more accurate. It is not perfectly accurate, but it is a very good working tool that helps the forecasters to make their forecasts.

**Ash Denham:** So that is the tool that you would use to make the forecasts and you have no plans to move to anything else. Is anything better available, or is that best practice?

**Professor Smith:** Our current plans are that the adjusted log-normal will still play a central role in the forecast, but we plan to develop the tools further by, for example, looking in greater depth at behavioural effects. Maybe we will come on to that. However, we envisage that the log-normal approach will still play a central role.

**The Convener:** Alexander Burnett has a question about LBTT in the north-east.

**Alexander Burnett:** One component of the errors is the number of property transactions. I think that the error accounted for £6 million last

year, which is a £23 million swing on the errors for the previous year. What breakdown is there for the number of transactions in geographical regions? Were they in line with forecasts throughout Scotland? Specifically—if I understand the figures in the report correctly—you say in paragraph 2.34 that the north-east and Aberdeen housing market was in line with the forecast. If so, I wonder where that evidence comes from.

10:15

**Lady Rice:** Let me give you the first part of the answer, then I will turn to one of my colleagues to follow up. Last year, in our previous guise, when we were having challenge meetings with the Scottish Government forecasters, we saw variation in the numbers that were coming—that was all work in progress, probably in the summer of 2016—and we speculated that there might be an impact because of the economic constraints in the north-east and suggested that that be looked at specifically. We do not do regional analysis for 32 local authorities, or anything of that sort, but we felt that that was a significant area to explore, which is why it was teased out. Actually, what we found was that there was not a noticeable impact on house-price growth from what happened in the north-east—at least, at that point in time.

**Professor Smith:** Paragraphs 2.34 and 2.35 set out what we did, and it is the case that house prices in Aberdeen and Aberdeenshire have had lower growth than prices the rest of Scotland. Figure 2.8 shows the effects on the 2015-16 forecasts of Aberdeen and Aberdeenshire having been different. Had Aberdeen and Aberdeenshire followed the Scottish average, there would have been much more LBTT revenue. As is set out in paragraph 2.35, there would have been 2.5 per cent and 7 per cent more revenue in 2015-16 had house prices in Aberdeenshire risen at the Scottish average, so there has been an effect.

**Alexander Burnett:** Thank you. I would like to focus on the transactions element. You are saying that there is no link, and that when you do the modelling you are not collecting data from the 32 councils. If you are not taking in planning data and consents, how are you predicting how many transactions will take place?

**Professor Smith:** That is done using national data that covers the whole of Scotland, rather than data that is broken down by region.

**Alexander Burnett:** Potential transactions come through the planning process, though.

**John Ireland (Scottish Fiscal Commission):** We have historical data on the number of transactions and we use that to predict the path of transactions in the future. A Scotland-wide transaction prediction equation is used, rather than

finely detailed information about planning consents and things like that, because that would be an awful lot of work compared with the standard forecasting approach of using historical transaction data.

**Alexander Burnett:** So, are you saying that there is no link between the model and what is physically being built on the ground?

**John Ireland:** No. There is a definitive link, because what is being built on the ground feeds into the transactions data. Remember that it is transactions data for the whole market, not just new build, so the links are there, but they are relatively weak.

**The Convener:** I think that Ivan McKee's question is on the same theme—or, at least, it is on LBTT.

**Ivan McKee (Glasgow Provan) (SNP):** Yes—my question is on tying up the forecasts. I have been looking at the charts bridging the forecast and the tax that was raised. In particular, I am interested in table 2.3, which shows the December 2015 forecasts for 2016-17. To clarify, and to put it on the record, are you saying that by far the lion's share of the difference between the forecast and the outturn was down to average house prices, and that the forecast was out by £75 million? What you are saying about the distribution fit, if I understand it correctly, is that if there had been a change in the profile of the price bands, that is where it would have shown up, so that that had a minimal impact in the broad scheme of things. Is that correct?

**Professor Smith:** That is correct.

**Ivan McKee:** The other point that I wanted to raise was about the report's references to behavioural effects. Are those short-term effects, as in forestalling, or are there other longer-term behavioural effects that you are trying to pull in? I am not quite clear about how you can isolate those from what you would see in the normal movement of one of the other factors—be it average house prices, median or the log normal.

**Professor Smith:** The behavioural effects include longer-run effects as well as forestalling.

**Ivan McKee:** Okay.

**Professor Smith:** We will continue to look at both. In some ways, forestalling is easier to look at, because we can see it fairly easily in the data: at one point, transactions go up and then they immediately go down. Longer-run behavioural effects are harder work, because you have to look at whether, in particular areas of the market, transactions are falling off not as a result of a tax being introduced but because a tax is at particular level. The short answer to your question, however, is yes—both aspects are contained under the

heading “Behavioural effects” in figure 2.3, and both will continue to form part of our forecasts.

**Ivan McKee:** Again, compared to the change in average house prices, it is a fairly small part of the overall error.

**Professor Smith:** That is right.

**Ivan McKee:** Okay. That is fine.

**John Ireland:** I would add, though, that the £13 million in that particular forecast represents a behavioural adjustment that the Government made to its forecasts. It is therefore not the commission’s estimate of the behavioural effects—it is the adjustment that the Government made when it produced its forecasts.

**Ivan McKee:** Thank you.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** On the same theme, you highlight a similar error in calculating non-residential LBTT, because of the use of averages and the way in which a high-value item skews the average price of a particular type of property. In general, is it safe to continually use averages in the methodology, when perhaps the median value of a transaction might be more accurate?

**Professor Smith:** I am happy to have a go at that question, too.

**Willie Coffey:** I feel as though I am at one of my numerical methods lectures at university.

**Professor Smith:** What is being described is an inescapable problem. Non-residential LBTT revenue is heavily influenced by a small number of transactions, and no statistical trick will get round that hard reality. As a result, looking at medians rather than means is probably not the way to go. The median would be looked at if the shape of the distribution in question was very off centre, but if the outcome depends on just a few big numbers that might vary a bit, the forecaster just has to do their best, look at experience and make a guess.

For forecasting, it is perhaps more important to form a good sense of how much uncertainty there is, instead of trying to be spuriously accurate. It is as important to tell a user of forecasts how much confidence you have in your central forecast as it is to tell them the central forecast. However good a forecast is and whatever fancy tricks have been used, the confidence interval will necessarily be wide in this area, because of the nature of the issue.

**The Convener:** That deals with LBTT. We are keeping to the themes, so we will now deal with non-domestic rates.

**Murdo Fraser (Mid Scotland and Fife) (Con):** On the forecasting for non-domestic rates, your report says that, although the forecast growth in

total rateable value for 2016-17 was 1 per cent, the outturn was 0.33 per cent. I appreciate that that is not a huge cash sum in relative terms—it is a difference of about £10 million—but it is quite a major gap in percentage terms. Indeed, the outturn is a third of the forecast amount. Will you shed any light on why the outturn was so much lower than the forecast?

**David Wilson (Scottish Fiscal Commission):** That gets to the question of the buoyancy of the changes in the increases in non-domestic rates from year to year, which we have to make an assumption about. The 1 per cent figure that we were evaluating against was the assumption that the Government rather than the Scottish Fiscal Commission made, and it seemed to us to be a reasonable assessment last year, based on what we knew about the trends in buoyancy.

However, we and, I think, the Government statisticians think that providing a statistical estimate of buoyancy based on some form of economic determinants is extremely difficult. In the past, the view was that the rate of change of non-domestic rate income somehow reflects economic circumstances or economic determinants. There is increasingly a view that, on the data, in one sense the economy must have some impact, but it seems to be so far removed from the year-on-year changes that we end up in a situation in which the estimate of buoyancy is a residual rather than something that is based on economic determinants.

The issue is perhaps similar to the previous LBTT issue. By definition, it is difficult to develop statistical measures to forecast such a thing when it falls out of a whole series of factors that are built into the system around appeals and changes in the overall system.

The main message is that the estimate was a reasonable one to make at the time about something that is extremely difficult to forecast. As you rightly said, the position has made some difference to the outturn, but we are not reading too much into it, as it reflects the need for a substantial change to how we make such forecasts in the future.

**Murdo Fraser:** From what you have said, it sounds as if it is very difficult to forecast in this area. Are you really just guessing where the figure will end up?

**David Wilson:** The term “just guessing” is perhaps pejorative. A judgment needs to be made that is based on the best possible evidence that we can bring to bear. We are keen to get it across to members that the judgments are difficult to make, but we recognise that part of the reason for setting up the commission was that the overall budget process requires somebody to make a

decision on the basis of the best estimate that we have, however difficult that is. That is the role that we need to play.

**Murdo Fraser:** I have one follow-up question for clarity. Your report mentions that one possible reason why the level of growth was lower than the estimate is that there were

“several significant removals from the Valuation Roll”.

What does that relate to? Does it relate to properties being demolished? Does that explain it?

**David Wilson:** Again, I will draw a comparison with large transactions in LBTT. I will not go into the details of individual cases, but there are large properties and facilities that are no longer in use, and buildings are being replaced. I am not sure whether the St James centre can be seen from the Parliament, but it is an example of a large property that is changing its status and payments. A number of such developments are leaving and entering the register.

One measure that we could look at is a more detailed listing of major properties that are moving into and out of the system. Tracking that might help to indicate year-on-year changes. We have been looking at that issue. However, it is inevitable that the timings of precise changes, in the light of reviews, appeals and construction times, mean that the task is fairly demanding to undertake.

10:30

**Lady Rice:** I have a tiny point to add. To put it in simple terms, there is what is happening on the ground to buildings, as David Wilson just explained, but there has also been the court decision that moved properties into different categories, so there is an administrative impact, too, which makes the situation rather complicated.

**The Convener:** As no one else has questions on non-domestic rates forecasting, we will move on to more general forecasting and the link between that and the fiscal framework, which Maree Todd wants to ask about.

**Maree Todd (Highlands and Islands) (SNP):** We have talked about the fact that what is significant is not the differential between the forecast and the outturn but the difference between the outturn and the block grant adjustment. Given the complexity that we face as a devolved nation, there is an added layer of complication. Will you explain how your forecasting fits in with the fiscal framework?

**Lady Rice:** I am sorry—I am trying to pinpoint what you are looking for. Are you asking how our forecasting affects the block grant negotiation or outcome?

**Maree Todd:** My question relates to the fiscal framework. There is the amount of money that is forecast and there is the amount of money that we collect. On top of that, there is the amount of money that the UK Government is forecast to get and there is the amount of money that it collects. An adjustment is made between the two Governments. I am sorry to be simplistic, but will you explain that process a bit more?

**John Ireland:** I think that you have got it. The block grant adjustment depends on the difference between the revenue that is raised in Scotland and the revenue that is raised in the rest of the UK. We forecast the Scottish component of that and the Office for Budget Responsibility, by default, forecasts the rest-of-the-UK part of that. Those two things give the block grant adjustment, which is the Scottish Government’s additional money. You have got it exactly right.

**The Convener:** In that case, we will move on to the commission’s readiness.

**James Kelly (Glasgow) (Lab):** Good morning, panel. Lady Rice, in your opening statement you talked about the commission’s readiness to produce its first official forecast later in the year. As I see it, there are three strands to that. There is the resource that you need to do that—you mentioned that you have taken on 15 staff. There are also the models that you use and the methodologies that underpin those models. Will you give us an overview of how robust you feel that all that is as you move towards the production of your first official forecast?

**Lady Rice:** I will give you an overview before handing over to John Ireland, who, as chief executive, has played a key role in pulling so much of the work together over recent months.

As I said, we have a really good team. A couple more people are due to join us, so the team is still forming, but the people we have are working together well and bouncing off one another well. We are pleased with the people we have. We think that we have the resources that we need for our remit and our responsibilities this year. If we find in a few years’ time that the remit grows, we will need to have more resource, as we do not have anybody spare at the moment. We think that we have the right people.

Bringing in the experts whom I mentioned in my opening comments helped us to develop our views as commissioners—we need to do that because, ultimately, we are responsible for the forecasts that will be produced in December. The experts’ job was to provide another independent view, at our behest. After going into the forecasts, they reported back to us, as commissioners, and to members of our senior team. They offered lots of thoughts and suggestions and made many

interesting points, but overall, in all cases, they felt that we were on track. We take some comfort from that, as well as from our own judgment that we are on track.

Our report “Current Approach to Forecasting September 2017” summarises some of the points on modelling. We are building on models for the taxes that already existed in a devolved form. We judged them to be reasonable, with some challenges, and they are a good place to start. However, that does not mean that they will stay the same for ever, because we will enhance and change them over time.

For the new devolved taxes, we have to build the models ourselves. A lot of work is being done on the air departure tax, and we are building new models for the categories of social security that we are responsible for in the first instance.

John Ireland might want to say something about our overall resources.

**John Ireland:** Susan Rice has covered the resources that we have access to and the evolution of our models from those that we inherited from the Government and those that we have built in-house. However, I can add something on quality assurance.

We have three levels of quality assurance in the modelling work that we have been doing over the past year. First, there is an internal challenge process—the commissioners have been working closely with staff to go through the model. Secondly, we have worked closely with the Government analysts—we have taken back to them the models that we took from them, explained our changes and got their feedback. Finally, we have been working with external people, such as David Eiser at the Fraser of Allander institute, on things such as our income tax model. As Susan Rice explained in some detail, we employed three academics from the south to come up and, over three or four days, give us their insights into the modelling that we have been doing.

Having gone through that process of quality assurance, we are reasonably confident that we are in a good starting place for our forecasting.

**James Kelly:** Does the quality assurance check cover the process of the model? Have you done any testing that is based on numbers?

**John Ireland:** Yes. The experts and our quality assurance process have considered both the ability of the models to forecast and their methodological approach. One of the earlier questions was about whether it would be a state-of-the-art approach and whether there were alternatives. We have assessed that.

We have certainly been considering how well the models perform. The forecast evaluation report that we have just been discussing is an important part of that. We have also been carrying out similar exercises internally.

A new area of forecasting for us is to forecast the macro economy. We have constructed models and used the National Institute of Economic and Social Research Scottish Government global economic model—that framework was built for the Scottish Government. We have been producing dummy macro forecasts over the summer, and we are now in our third round of internal forecasting using that framework. We have been producing numbers and running our eyes over them.

**James Kelly:** So there is an iterative process in the sense that you have taken soundings from experts on the methodology, you have run tests that in some cases used live data and you continue to check that.

**John Ireland:** Yes—very much so.

**Adam Tomkins (Glasgow) (Con):** I have a follow-up question on one aspect of the methodology that takes us a little bit beyond the evaluation report. It might be that you are not prepared on that point and would prefer to come back to us in writing, which is absolutely fine.

Lady Rice, you have mentioned a couple of times this morning—in your opening remarks and in your comments to Mr Kelly—that the Fiscal Commission has already taken on new responsibilities for making official forecasts for spending on devolved social security. What methodological challenges have you faced in developing models for that and how are you overcoming them?

**Lady Rice:** If no one else wants to pick up on social security, I will touch on that and address air departure tax.

In the first instance, social security will be responsible for about £2.5 billion to £2.8 billion of a £40 billion spend. That represents a few programmes in social security, and part of what has to be done to begin with is understanding how those programmes will work. We anticipate that they may change as they are devolved and administered from Scotland. However, I will put that aside for a moment.

Air departure tax—or air passenger duty, as it was called—is an interesting space. We need to start at the beginning by understanding what numbers are included. For example, what is the base number of passengers departing, and what are the categories? Some of the information on passenger numbers comes from surveys. You may have been stopped in an airport and asked where you were going. If you said that you were

going to London, for example, you would go into the count, but if you said that you were en route to somewhere else, you would not.

It is a case of understanding the baseline numbers, just as we had to have proxies for understanding those in relation to the additional dwelling supplement in its first year. I am not sure whether that answers the question, but that is where we have to start.

**The Convener:** I guess that you are telling us that, at this stage, you do not know what the baseline numbers are in social security. I can see that John Ireland is beavering away trying to find an answer, but it would be better if you reflected on the question and let us know what early preparations you are making to begin dealing with the issues.

**John Ireland:** I can point to where that information is now, if that is helpful.

**The Convener:** Okay.

**John Ireland:** Section 8 of the “Current Approach to Forecasting September 2017” method paper that we published, to which Susan Rice referred, outlines where we are on social security modelling. The Government has been working on that for some time and we have been working pretty closely with it. It has access to Department for Work and Pensions data, which gives us a fair amount of historical data.

There are particularly difficult methodological issues when it comes to take-up, for example. Our judgment and work will be really focused on that. We can get reasonable data—not perfect, but reasonable—on the health characteristics of the population. If the aim of the Scottish approach to social security is to operate a kinder system—to reflect some of the language in the programme for government—how we model that in terms of hard take-up data is quite a challenge. That is where our judgment will be most needed.

**The Convener:** Okay. You have signposted us to where the material is available.

**David Wilson:** I hope that it has become clear that we take a different approach to forecasting the different areas of our responsibilities depending on what is needed. For example, the developing work on forecasting onshore GDP is a combination of statistical models and overall judgment about the development of the economy. That requires expertise in modelling and data but it also requires significant engagement with external commentators, business representatives and others who are also thinking actively about the issues. That will all feed into the work that we are doing. Therefore, it is not all about the modelling; it is also about external engagement through a variety of different processes.

Much of the work on social security is about engagement with the teams that are implementing the new approaches that the Scottish Government will take on and developing specific expertise in and understanding of the possible expenditure. It is partly about the development of statistical models, but a big part of our work at the moment is active engagement with the teams that are developing and implementing those systems so that we can work with them to ensure that there is an understanding of expenditure.

I clarify that it is not all about having a single model that will give us all the answers. There is a significant amount of engagement and collaborative working with various organisations to produce the estimates.

**Adam Tomkins:** That is helpful.

**Patrick Harvie (Glasgow) (Green):** I have a question that is not about the doing of the work—which is extremely complicated for most people, including us, to understand—but about the communicating of it.

We are all familiar with the political impact of the “Government Expenditure and Revenue Scotland” publication. Whatever we think about why it is what it is, it tends to further the polarisation of the stories that we tell one another about the Scottish economy rather than shedding light on things.

10:45

I am hopeful that the summarising of your forecasting will not become a similarly polarising political event in the year and that publication of the block grant adjustment does not become an opportunity for all us politicians to say, “Well, that proves exactly what we have been saying all along.” That is not a very helpful dynamic, although it is something we are all guilty of participating in. There is an opportunity for the Scottish Fiscal Commission, as an independent body, to become a better source of publicly accessible, authoritative information.

To be fair, most people will not have hours to spend reading and wrapping their heads around the detailed reports that you publish. I am wondering how you intend to communicate in more accessible ways the key findings of your reports. Will you engage when, for example, the block grant adjustment is confirmed? Do you see informing the public about how such things have come about and what they really mean as part of your role? You have an active social media account, for example, but it mostly consists of links to your main publications rather than anything that is more digestible.

**Lady Rice:** The fact that we have a social media account shows that we are moving on in

that respect. You raise a really important issue and it is something that we are conscious of, care about and speak about among ourselves a lot. I will give you a couple of answers; I am sure that my colleagues can add to those.

Last year, we inserted an executive summary at the front of the report that we issued alongside the draft budget—those were not our forecasts, but we commented on them. When we read the content of the report, we thought that many people would not find it very accessible, so the purpose of the executive summary was to try to articulate in a way that might be more accessible what we were talking about in relation to the small number of devolved taxes. We think that that is important. We also intend to use our website to clarify things and speak in easy language, if you will. However, there are also those people who are highly technical and want to know about the technical side of our work, so we need to do both.

We will be able to comment on the work that we are responsible for because we understand it. We will not be commenting on other aspects of the fiscal infrastructure that are outside our purview because we will not be expert in that space. We will not be commentators in that sense. That would not be helpful.

John Ireland thinks a lot about communications.

**John Ireland:** In addition to the structure of the reports, with the non-technical executive summary, there is enormous value in charts. As today's questions and the LBTT decomposition charts have illustrated, some carefully chosen charts can do an awful lot. We are spending a lot of time thinking about the charts that we produce and how we can use them in social media as well.

**Patrick Harvie:** That is helpful. In December last year, you produced a series of infographics—charts would be a stage beyond that simplistic presentation of a single statistic.

There would be great value in ensuring that the commission is seen as a source not just of detailed information for the Government, academics and people who want to explore that detail, but of authoritative, clear information for people who might only read the headlines.

**Lady Rice:** We endorse that view.

**David Wilson:** I welcome what you say about the role of the commission. To build on what Susan Rice has said, we are very conscious that there are some very major issues that will underpin the forecasts that we will make and in which there will be significant political interest. For example, on page 12 of the evaluation report there is a graph about the current position on productivity trends. Although it is often said that, when it comes to growth of wage incomes—the

money in people's pockets—and Government fiscal revenues, it is not all about productivity, most of it is. On the fundamentals of what is happening in the economy around productivity, behavioural responses to any tax changes and, as Susan Rice put it earlier, the flight path of how things will develop, we want to take on the role of communicating some of the major issues that underpin that.

I will add a slight caveat in relation to the wider issues around the block grant adjustment. We see our role as principally being about assessing the income side of the balance sheet—the income that the Scottish Government will receive from the devolved taxes—rather than dealing with the wider set of questions about the fiscal framework, which is a matter for the respective Governments to sort out for themselves. We play a key part in that overall framework, but it is for others to develop the more detailed understanding and precise minutiae of how the block grant adjustment will be taken forward.

**Patrick Harvie:** That is helpful, thank you.

**The Convener:** Yes, it was helpful and took us into some areas that I intended to cover.

All that remains is for me to thank the witnesses for coming along this morning. You have thrown some light on the commission's forecasting and have enabled us to begin to understand the journey that you are on.

10:51

*Meeting suspended.*

10:55

*On resuming—*

## **Social Security (Scotland) Bill: Financial Memorandum**

**The Convener:** Our next item is evidence on the financial memorandum to the Social Security (Scotland) Bill from the Scottish Government's bill team. I welcome to the meeting Chris Boyland, who is the legislation and delivery team leader; Kevin Stevens, who is the senior finance business partner; and David—forgive me if I do not get this right—Signori.

**Dave Signorini (Scottish Government):** It is Signorini.

**The Convener:** Thank you for helping me out.

I also welcome James Wallace, who is the head of finance in the social security division. I thank you all for coming along to give evidence.

All members have received copies of the written submissions that the committee has received, along with a briefing from the Scottish Parliament information centre and a paper by the clerks, so we will move straight to questions.

The written submissions highlight the demanded nature of the majority of devolved social security benefits. That will bring with it uncertainty and a new budget risk, which the Scottish Government will have to manage. There will also be new risks associated with the block grant adjustment mechanism as each benefit is devolved. How does the Scottish Government intend to manage those budgetary risks and ensure that it can meet the costs of providing the relevant benefits when they are devolved to Scotland? I would be most grateful if you would concentrate on the risks associated with the block grant adjustment process, because I know that Ash Denham wants to ask about the wider range of risks.

**James Wallace (Scottish Government):** There is a risk created as a result of the block grant adjustment. The fiscal framework agreement between the UK and Scottish Governments sets out the arrangements by which the block grant adjustment will operate. The block grant is based on expenditure in Scotland in the year prior to devolution. If we were to devolve a benefit in 2018-19, the allocation would be based on the forecasts of the Department for Work and Pensions from 2017-18. An initial adjustment would be made to the block grant for the Scottish Government as a whole, which would be reconciled in line with the fiscal framework. The technical annex to the fiscal framework says that that reconciliation can be done in-year. If there

were variations from the forecast down south and expenditure was on a different trajectory to the forecast, an adjustment could be made through the autumn budget in the rest of the UK. Adjustment could be made in-year, using supplementary estimates.

However, that creates a risk for the Scottish Government with regard to cash management in-year. If the forecasts were to track away from actual expenditure, we might require to pay more in cash in-year than had been transferred through the budget, and there would be convergence later in the year.

We are attempting to manage that risk through our forecasts. A number of analysts in the Scottish Government are working to prepare detailed forecasts of likely expenditure on benefits, which will be used to inform our view on whether the block grant adjustment is appropriate. The Scottish Fiscal Commission will prepare forecasts and the OBR will prepare forecasts, and the block grant adjustment will be based on those. It is a new risk and one that we are very alive to, and we are putting in place arrangements to manage it.

Kevin Stevens might want to add to that.

11:00

**Kevin Stevens (Scottish Government):** We are building procedures and processes in different ways. We are considering three main areas. In the social security directorate, we have a finance hub, which will be staffed by appropriately professionally qualified people to manage the finances there. Central finance will work closely with that hub. We have good working relationships there. We are developing good working relationships with the communities analysis division to ensure that we understand the internal Scottish Government forecasts and that we embed new processes into the Government's business-as-usual financial management. We have good working relationships with Her Majesty's Treasury as well. There will also clearly be links to the work that the Scottish Fiscal Commission will do.

It is clearly complex, but we are setting up robust, transparent processes that enable all those areas that I outlined to work together productively.

**The Convener:** You have a risk to manage and there will be a reconciliation process at some stage. Will you talk us through that? If there is an increase or decrease for the Scottish Government, that will need to work its way through the system and there will have to be a date at which that is reconciled.

**James Wallace:** In essence, the reconciliation process is described in the fiscal framework and its technical annex. When the fiscal framework

was negotiated, the Scottish Government and the UK Government recognised that there was a risk of variations. I should say that it concerns variations for a particular reason. It relates to expenditure deviating from the forecast, not to the result of policy changes, demographic changes or divergences between the way that expenditure grows in Scotland and the way that it grows in the rest of the UK, which will need to be accounted for differently. It particularly concerns forecast error as a result of the way that the initial block grant adjustment is calculated.

Because the block grant adjustment is calculated in year 1 for the year preceding the devolution of a benefit, we know straight away that there will require to be an indexation adjustment to account for the movement in a year forward. However, we are also aware that the demand-led nature of the expenditure means that we are not working with an expenditure limit. We are working with expenditure based on demand, so it will be based on the factors that affect demand and we will require to ensure that we adjust the block grant accordingly.

Linked to that, the fiscal framework describes a number of new cash management and resource borrowing powers to deal with cash management and forecast error in particular. Those allow the Scottish Government to draw on the resource borrowing powers along with the Scotland reserve to ensure that we can manage its cash flow prior to the in-year adjustment—if we choose one—taking place through the supplementary estimate process down south.

**The Convener:** Ash Denham has questions about the demand-led risks.

**Ash Denham:** James, you just mentioned the factors that will affect demand. Risks to the public finances will clearly be created by managing demand-led expenditure on such a scale. Could you outline for us what you see those risks as being?

**James Wallace:** The main risks are policy and demographic. The financial memorandum goes into that in detail. The way in which population changes in Scotland—the ageing population—could encourage greater growth in some of the devolved benefits over the rest of the UK.

On the policy differentials, the Scottish ministers have a desire to change policy in some areas. Some of those are outlined in the financial memorandum. That will cause divergences over time from the UK Government's position. Those differences will not be accounted for through the block grant adjustment; it will be for the Scottish Government to make up any shortfall with its own resources through the spending review process and the annual budget process.

For balance, I should add that there is also the possibility of a variance downwards. It is not necessarily the case that expenditure will rise above comparable UK spending; it could also fall below UK spending, depending on policy and demographic differences. That would in effect release money into the Scottish Government budget.

**Ash Denham:** You have mentioned issues such as the ageing population and we can, to a degree, see what that might be in future. You would also know the likely impact of a policy change before it was made. Is there anything in the financial memorandum that you would see as being less predictable?

**James Wallace:** There are difficulties with prediction. There is always an inherent uncertainty in forecasting. Our analyst colleagues are working through that to understand where the variances will occur and how we can improve our modelling to ensure that we are in the best position to forecast expenditure.

There will be occasions when it is difficult to forecast, particularly in some of the areas around the uptake of benefits. There are what I would describe as incomplete data sets, and when we have incomplete data sets, it obviously affects the validity of the forecasting that we can do. Again, our analyst colleagues are well aware of those limitations and are working on new models to enable them to either gather the data or get around the data limitations.

Kevin Stevens might have something to add on forecasting.

**Kevin Stevens:** As the social security system in Scotland diverges from that of the UK, assessing the impact of changes to take-up in the Scottish system will be a new area and an inherent source of uncertainty. That is why the analysts are developing their capability to produce models to forecast the effect of those changes, while acknowledging that the evidence base for take-up rates in the existing system is limited, as James Wallace says.

**The Convener:** Ivan McKee has a supplementary.

**Ivan McKee:** I want to explore a bit more on that line on the demographic profile. Correct me if I am wrong, but my understanding is that the way that the BGA works on the tax side—I assume it is the same here—means that an adjustment is made to take account of overall population.

**James Wallace:** Yes.

**Ivan McKee:** Therefore the issue that you are talking about in demographics is the profile of the population within the overall population. You are talking specifically about the ageing population, or

the lack of working age population. Is there a risk to population growth specifically from immigration that could have an impact? Would there be an opportunity if Scotland had a different immigration policy post-Brexit that would allow us to grow the working age population that would give a significant advantage in terms of the way in which the BGA is calculated? Just looking at the way in which the numbers are calculated and how they flow through and not commenting on the policy as such, is that correct?

**James Wallace:** As far as I am aware, no specific modelling has been done on the scenario that you describe. My understanding would be that you are correct. If the population was to grow, it could increase tax receipts in the wider economic sense, which would put more receipts into the Scottish consolidated fund, which would make more funding available to pay for benefits.

However, population growth should be accounted for in that way through the index per capita model. Kevin Stevens might want to comment on that.

**Kevin Stevens:** That is a fair comment. I would also highlight that the benefits that are being devolved as set out in the financial memorandum are related to disability and age; they are not primarily related to economic activity. Our focus is very much on understanding the behaviours of the benefits that are being devolved into the Scottish system.

**Ivan McKee:** In the scenario that the working-age population as a percentage of the total population grew, meaning that the elderly population as a percentage of the total population reduced, is it correct that there would be not only increased tax take but also a benefit from the BGA specifically on social security?

**Kevin Stevens:** Yes.

**The Convener:** We will move on to questions about set-up costs.

**Adam Tomkins:** I want to know whether I have understood the numbers correctly. It is highly likely that I have not and the panel can correct me.

As I understand it, the projected set-up costs for the new Scottish social security agency are estimated at £308 million over four years. In the fiscal framework, the UK Government agreed to make a one-off transfer of £200 million, a much smaller amount. The estimated running costs of the agency are about £150 million annually, again exceeding by a considerable margin the £66 million to be transferred annually from the UK Government.

Are those numbers broadly correct?

**James Wallace:** Yes, they are.

**Adam Tomkins:** Why are the numbers that the Scottish Government gives so much greater than the amount of money to be transferred from the UK Government?

**James Wallace:** Others have commented widely on the fiscal framework. In the Scottish Government's view, it represents a fair financial settlement.

The total was not what the Scottish Government asked for. The transfers were only ever intended to represent a share of implementation and administration costs. They were never expected to be the total amounts. There is not a relationship between the two sets of figures, in the sense that one should cover the other.

**Adam Tomkins:** Okay.

**James Wallace:** That was not the way that the fiscal framework was designed. We believe it is a fair financial settlement. The £200 million on implementation and the £66 million on administration, which are for all of the Scotland Act 2016 powers and not just social security, can be topped up by the Scottish Government's own resources to enable it to implement and run the system for social security in Scotland.

**Adam Tomkins:** That is very helpful. The margin between the two sets of figures—£308 million versus £200 million and £150 million versus £66 million—is to be met from within the Scottish Government's own budget.

**James Wallace:** Yes, it will require to be met in that way.

**Adam Tomkins:** I have an unrelated question about what is not included within the financial memorandum—unless I have missed it, in which case forgive me.

I could not find anything in the financial memorandum about costs associated with the proposed charter on social security rights. Is that correct?

**James Wallace:** It is correct to an extent. The agency running costs detailed in the financial memorandum are based on the outline business case for social security in Scotland published by the Scottish Government.

The outline business case analysed the costs from DWP in order to build the current activity-based model. DWP supplied us with detailed activity-based information on cost, from which we built a model to work out in a robust evidence-based way what an agency in Scotland is likely to cost. Within those costs would be the cost of reviewing the charter. We do not believe the cost to be significantly above the material threshold that would require us to update the figures.

**Adam Tomkins:** That puzzles me, because one of the principal features of the Social Security (Scotland) Bill is that it seeks to put devolved Scottish social security on a human rights footing. One of the most important human rights is the right to have your rights enforced in a court of law. It puzzles me that there has been no thought given to the extent to which there will inevitably be increased litigation costs that will have to be borne by the Scottish budget because of the way that social security is being put on a human rights footing in the bill.

I do not understand why that is not above what you have described as a material threshold.

11:15

**James Wallace:** Our current view is that the costs will not be significant, but let me expand on how we will take forward our work on costs. As I said, we used the current activity-based model to set out the costs, as recorded in the financial memorandum. The outline business case goes on to discuss the future activity-based model, which our analyst colleagues are developing. At the moment, the best information that is available is historical information. We are conscious that we will do things differently from how DWP does things and that there might be variations in costs as a result. Our colleagues are working on a future activity-based model, which maps out the to-be systems and processes of a new agency for Scotland. That will enable us to wrap cost information around those future systems and processes. The work might flush out variances, the likes of which you described. However, currently our view is that the costs will not be significant.

**The Convener:** We have started to talk about the information that the DWP has provided. Patrick Harvie has a specific question about DWP estimates and costs, which arises from the paper that the Scottish Parliament information centre provided to us.

**Patrick Harvie:** The activity-based model that James Wallace described is the basis for the Scottish Government's estimates of DWP costs of administering devolved benefits in Scotland. I want to make sure that I understand the matter. Is it about calculating a cost that the Scottish Government will provide to the DWP for its continuing administration?

**James Wallace:** No, it is not.

**Patrick Harvie:** So, are we talking about the period after the period of DWP administration?

**James Wallace:** The DWP provided us with detailed cost information, which we used to build a model for a social security agency for Scotland.

We used that historical information on how much administering benefits costs the DWP as the basis. We applied it to the Scottish situation to enable us—

**Patrick Harvie:** So, this does not at all relate to what DWP will continue to administer in the short term.

**James Wallace:** I am sorry. Yes, absolutely—if you put it that way. The cost information that the DWP has supplied relates to the DWP's operations; if the DWP's operations continue, an element of those costs will relate to any benefits that it continues to administer.

**Patrick Harvie:** Has the DWP agreed with the estimate?

**James Wallace:** Do you mean our estimate?

**Patrick Harvie:** Has it agreed with the estimate that you have made?

**James Wallace:** I do not believe so.

**Patrick Harvie:** Is it not important to get agreement on the costs of administration?

**James Wallace:** Do you mean for the agency in Scotland? I am sorry. We have not used the information to estimate funding flows from the Scottish Government to the DWP. It is the DWP's cost information; I assume that that activity will continue to cost what it currently costs. It does not relate to funding flows between the Scottish Government and the UK Government.

**Patrick Harvie:** Why, as a percentage of the overall benefits that are administered, is the estimate of the Scottish agency's running costs lower than the DWP's running costs? You said that currently the DWP's administration costs are 6.3 per cent of the value of the benefits that are administered, and you estimate that they will be 5 per cent for the Scottish agency. Why can you say with confidence that the Scottish agency will have lower administration costs?

**James Wallace:** The analysis is intended to show that we are within a margin of error. We are forecasting here, so there are margins of error involved. We intended to show that the method by which we estimated the costs of the agency in Scotland is robust and that costs will be comparable with those of the DWP; I do not think that we intended to show that our costs will be lower than those of the DWP.

The future activity-based model relates to that. Those will not be the final costs of the agency in Scotland; they are our current estimates, based on our current design assumptions. As the programme to implement social security in Scotland matures and decisions are taken on how we will administer benefits and the exact set-up of

the agency, processes might change and costs will have to be reviewed.

**Patrick Harvie:** Can you say anything about the nature of the administration that the DWP has been doing and which will be done in Scotland in the future? For example, does any of what we are talking about relate to benefits that are currently administered by way of paper records in warehouses in London, which will need to be separated according to geography and moved up here? Currently they are stored by name, so there is not a separate batch that can easily be moved to Scotland.

**James Wallace:** I will bring Chris Boyland in on that point.

**Chris Boyland (Scottish Government):** The industrial injuries disablement benefit is entirely paper-based. I do not know where the warehouse is, but I am confident that the administration is paper-based.

**Patrick Harvie:** Is the intention to move the paper and digitise it in the process or to administer it differently?

**Chris Boyland:** We do not have a decision on that. Before we do anything, we would need to identify the records that relate to Scottish recipients. That sorting job would be the first—and, arguably, the most important—part of that process.

**Patrick Harvie:** I presume that the DWP would have to do that sorting because the warehouse is the DWP's, wherever it is.

**Chris Boyland:** I am not sure that the DWP would have to physically provide the staff to do that. I cannot be certain on that point.

**Patrick Harvie:** The answers leave me a little unclear as to how the Scottish Government can be confident of a lower administrative cost, with the scale of the benefit being administered, if even principal decisions—such as how it is going to be done physically—have not been made yet.

**The Convener:** The costs are just indicative, at this stage.

**Kevin Stevens:** We have done a detailed piece of analytical work that took the DWP's database and built the current activity-based model from the data that it provided. Our analysts looked at details such as caseload and new cases coming into and leaving the system, and built a granular understanding of how the flows might work for the different benefits. We made assumptions about corporate costs, such as running costs, audit costs and internal audit costs, and built up a picture of what we think it would cost the DWP to administer the current system in Scotland. That was done

because the DWP does not provide separate statistics on Scottish running costs.

**Patrick Harvie:** That is the whole problem.

**Kevin Stevens:** We did that exercise and overlaid assumptions on how the system would run in order to provide a broad indication of figures and give a good benchmark of what it might cost in Scotland.

The important point moving forward will be the future activity-based model. Service design experts on the social security programme are designing new fit-for-purpose processes to support a new organisation. We have analysts in the communities analysis division who are building detailed models to model the future. The links between the service design and the analytical piece will enable us to understand how much it will cost to administer the system in the future. However, we know that our current assumptions are reasonable because they broadly tie in with what we estimate it costs to run the system now.

**Patrick Harvie:** Okay. Fingers crossed. *[Laughter.]*

**James Kelly:** The financial memorandum has £190 million for IT set-up costs. In some previous projects in Scotland and the UK, IT costs have spiralled out of control, so it is important that that figure is robust. Can you give some indication of what the £190 million includes?

**James Wallace:** It is important, first, that the financial memorandum makes it clear that a number of decisions on detailed design are still to be made. Costs will vary materially as a result of decisions on what we buy, and how and when we buy it. The Scottish Government wishes to provide the committee with as much information as possible on implementation to enable scrutiny of costs, but it is important to mention the caveats within the financial memorandum.

The figure of £190 million is based on a specific set of assumptions about our designing and building our own IT system for a social security agency in Scotland. That may not be the method by which we do it; we may reuse, as appropriate, or buy customisable off-the-shelf packages, which may push costs down.

To come to that figure, our colleagues within the social security programme scoped out exactly what system they would build—or possibly build—and wrapped costs around that. We then took the Treasury's green book—"The Green Book: Appraisal and Evaluation in Central Government"—and applied the appropriate optimism bias to the cost figures that our colleagues presented. As the process moves forward and decisions are taken about the detail of the system's design, more information on IT will

become available and we will ensure that that is supported by a business case that follows the green book, the five-case model and the best standard methodology. We will apply optimism bias where necessary and the appropriate amounts, as per the green book, to account for the possibility that costs may rise beyond those that were in the initial business case.

Kevin Stephens may want to add to that.

**Kevin Stevens:** Within the programme, there will be business cases at project level. We will be happy to share those business cases with the committee and we will publish them in due course to provide the evidence base for spending decisions.

**Chris Boyland:** The Minister for Social Security wrote to the convener of the Social Security Committee last week with a couple of things, one of which was a relatively brief update on IT implementation for social security. If it would be at all helpful, we could arrange for committee members to receive that as well.

**James Kelly:** Is the assumption that you will build the system in-house and not outsource it?

**James Wallace:** The cost in the financial memorandum was arrived at on the assumption that the system will be built in-house, but no decision has been taken within the programme on what we will do in practice. Different parts of the system may be built in different ways.

**James Kelly:** You do not have a system specification or a business case.

**James Wallace:** At the moment, we do not. We are not at the stage of spending money on the detailed design of IT systems, but there will be a business case for some of the benefits that are about to be procured. The wave 1 benefits were pushing towards creating a system that would enable us to administer those benefits, and there will be a business case for that.

**James Kelly:** I do not understand how you are able to arrive at a figure if you do not have a system specification or a business case, because those would provide for the component parts of any system. The detailed costs—even the high-level costs—would derive from those.

**James Wallace:** You are correct in saying that what we spend on IT will be driven by a detailed system specification and a business case. However, we wanted to give the committee an indication of the likely costs, so we made a number of assumptions for a system that would be built in-house and costed those using a broad design for a potential system. We wrapped costs around the potential components of the system and applied optimism bias and contingency as

appropriate in order to come to the £190 million cost.

Your line of questioning is about why the financial memorandum is heavily caveated with regard to the implementation costs. The reason why is that there will continue to be uncertainty as the programme moves along and defines precisely what we are going to build or buy.

**James Kelly:** Convener, it may be helpful if the panel were able to write to us, providing more detail of how the figure of £190 million was arrived at. An awful lot of assumptions seem to have been made.

**The Convener:** Okay. Willie Coffey has questions on the same area.

**Willie Coffey:** A substantial figure has been set aside for the IT procurement—it looks to be more than half the total implementation cost for the entire programme. When must the system go live, and where are we now? Are we at the pre-specification stage? That seemed to be what you were saying to Mr Kelly. When does the system need to be live?

**James Wallace:** Different elements of the system will need to be live at different times. The Cabinet Secretary for Communities, Social Security and Equalities has announced the wave 1 benefits—the carers allowance supplement will be live by summer 2018, and funeral expense assistance and the best start grant will be live by summer 2019. Systems will be required to administer those benefits within those timescales. Timescales have yet to be announced for further benefits, but I imagine that elements of IT will be required to support those, as they are announced.

11:30

**Willie Coffey:** When are we going to start the process of spec'ing the requirements so that the system is ready in time for the first benefit?

**James Wallace:** I invite Kevin Stevens to describe our programme's agile methodology, which might assist with that.

**Kevin Stevens:** The low-income benefit project is undertaking a discovery exercise to scope out what the requirements might be for that. It is important to say that, fundamentally, we are taking a phased approach to the development of the different parts of the system, in order to de-risk the programme more generally—it is not a big-bang approach. If we look at the phasing of the wave 1 benefits, the individual components that are required will be developed in due course—we are gathering the requirements in a discovery phase. Does that help?

**Willie Coffey:** Sort of, but it does not really answer the question about when the process to spec what we need will begin, so that it is ready for summer 2018. This is September.

**Kevin Stevens:** The work is on-going at the moment in the discovery phase.

**Willie Coffey:** But is the spec'ing of requirements that Mr Kelly referred to under way at the moment? One of the fundamentals of any software development is specifying the requirements, understanding what those are and sticking to those and delivering them.

**Chris Boyland:** The first Scottish benefit that will be paid is the carers allowance supplement. That will be paid in the form of two roughly six-monthly payments each year, which between them will account for a year's worth of the carers allowance supplement. My understanding is that that benefit has been designed in that way so that it can be delivered through the Scottish Government's existing SEAS—Scottish Executive accounting system—payment system. The system and service design requirements for the first benefit are quite deliberately intended to require less in terms of new build, new systems and so on.

As Kevin Stevens said, the service and system design for wave 1, which is due in 2019, is on-going. The work is going into a discovery phase and it will go from that to the alpha build, the beta build and so on. If the question pertains to the first payments—the carers allowance supplement payments—and the system requirements work for that, that benefit has been designed in order to make it as manageable as possible within the envelope that we can currently deliver with our own systems without needing new build.

**Willie Coffey:** The financial memorandum says quite clearly that the number of transactions that the Scottish Government will carry out in a week with the new system is more than we currently carry out in a year. We are anticipating a huge volume of transactions. Are you confident that the system will be able to cope with the volume that will come through it to be processed?

**The Convener:** If I am right in understanding what has been said, most of that will not happen until 2019.

**James Wallace:** Perhaps beyond 2019. As Chris Boyland said, the initial wave 1 benefits are on the smaller side relative to the number of transactions that are being devolved as a whole. Work is on-going to look at a payment platform that will ensure that we have a robust system to make payments to the people of Scotland. It is viewed by the programme team as being an absolutely critical factor in our work. We must ensure that payments go when we say they will;

there cannot be failure there. The work has started, we are looking at a number of options for systems, and that work will develop over time to ensure that we have a system in place when we need it. We are using existing systems for the likes of the carers allowance supplement. We plan to pay that through the SEAS payment platform because we know that it is a robust and reliable system, and that will ensure that we are at no risk of not meeting our payment dates.

**The Convener:** Before I bring in Neil Bibby on the view of the Convention of Scottish Local Authorities, I think that James Kelly—whose point Willie Coffey followed up on—is right: it would be best if the Government were to write to us to lay out, over the period of the roll-out of the programme, what it knows about the procurement process and the various stages that will be required between now and the point at which the benefit becomes its responsibility. That would be helpful. I recognise that, technically, that is not what the bill is about—it is an enabling bill—but although the information that has been requested goes beyond the support that will be available for the bill, the questions that have been asked are still legitimate.

**Neil Bibby (West Scotland) (Lab):** In its submission, COSLA states:

“on the figure of £21m for local delivery, it is unclear what assumptions have been made and what might be in or out for local delivery, given the levels of uncertainty that still exist. More detailed scoping of local delivery services and costings will be needed to understand what is actually required to deliver the principles outlined in the Bill”.

What has been done, and what will be done, to address councils' concerns?

**Chris Boyland:** We are currently engaged in a programme of engagement activity with all of Scotland's local authorities. I think that we are at the point at which local delivery colleagues will have visited 16 out of the 32 authorities, and the intention is to continue that engagement until we have discussed matters with all of them. So far, we have made the point that the agency's local presence will take the form of agency staff, not local government staff. We are talking about adding a new agency resource into local government areas rather than rebadging existing local government staff resource.

We have been talking about local government areas partly because that is a reasonably easy way of describing the locality part of the process. I think that we have made it reasonably clear that we are not necessarily talking about using local government premises, sites or facilities in all instances. The minister has said that we intend to base our local presence in places that people already visit. Those places might be local government premises or NHS Scotland health and

social care premises. The decisions on those matters will be taken on an area-by-area basis, depending on what we believe will work for each specific area.

To an extent, it is useful to talk about local authorities, because local authority areas are a good way of breaking up the country and describing what we mean when we talk about a specific area, but we do not intend to use local government facilities in all cases. In each case in which we use local government facilities, there will be recharging—the Scottish Government will meet any costs on the local authority that are incurred as a result of us occupying or using its premises. However, until we have an area-by-area breakdown and a model for each area of what we will be putting where, it might not be possible to interrogate the impact on each local authority in detail.

**The Convener:** Murdo, do you have a follow-up?

**Murdo Fraser:** No.

**The Convener:** Patrick Harvie wants to ask about the potential value of savings in other budgets and how that will be accounted for.

**Patrick Harvie:** The financial memorandum does not address only the immediate impact of the bill; it touches on the longer-term operation of the newly devolved powers. However, it seems to me that, for the most part, it is still cast purely in terms of the additional costs that will come from paying benefits. How and to what extent does the Scottish Government intend to estimate the additional value to the public purse of paying benefits through reducing the demand on other public services, such as the healthcare system? I am talking about attaching a value to certain benefits rather than just financial costs.

One example would be the proposal that we made, and to which the Government seems to be open, for a young carers allowance, which would be specific to young carers. If that is delivered well and it achieves its objectives, it should enable young people who are also carers to get greater value from their education and remove some of the barriers that they currently face to that publicly funded education service achieving what the money is being spent for. How, and to what extent, will the impact of benefits on public finances or the effectiveness of spending public money be assessed in terms of more than just the extra financial cost of paying benefits?

**James Wallace:** I will start with that and then bring in Kevin Stevens. You raise a good point. When our colleagues prepared the outline business case for the agency in Scotland, we began to look at that issue. The OBC goes into detail on the marginal utility gained as a result of

social security expenditure. For every pound that we spend in the lower income deciles, a greater marginal utility is gained by those individuals. The OBC details that and attempts to quantify that benefit in a weighted way to show the benefit of social security expenditure in Scotland.

In more detail and more specifically, related to that are the points that you raise about how we quantify the impacts on the other areas of the public sector. There is an element in the fiscal framework where we describe how we will do that. The fiscal framework covers the interaction between the UK public sector and the Scottish public sector. It accounts for spillovers where we make a policy decision that has an impact on the rest of the UK and how marginal savings that might be gained might be transferred between the Governments.

**Kevin Stevens:** The outline business case used a multi-criteria analysis framework to weigh up the relative merits of the different options for the design of the agency. Factors such as dignity and respect, and implementability and risk were used in the scoring process. I imagine that when on-going decisions are made on the programme, that kind of framework will be used. When we then transition into measuring what we call the measurable improvements that the programme is delivering, we will have a measurable improvements strategy that will ensure that the money that is spent on the programme is aligned with the measurable improvements that are being delivered, so that we can assess the value for money of the programme.

As Patrick Harvie said, it is important to bring in the wider societal impacts so that we are not just setting up a payments platform to pay money to people but are setting up an agency that will treat people with dignity and respect. Finding wider measures to demonstrate the measurable improvements and the benefits that the agency is delivering will be important.

**Patrick Harvie:** That is an on-going area of thinking.

**Kevin Stevens:** Yes. There is a role on the programme for someone whose job it is to bring this kind of thing together. It feeds into the business cases and the socioeconomic case of the programme business case. By including financial and non-financial measures, we can establish the wider value for money of a particular project or initiative.

**The Convener:** I think that I have caught everybody who wanted to contribute and ask questions. I thank the Government bill team for coming today. We will reflect on the evidence that you have provided to us and we will write in due course to let the lead committee know the

outcome of our discussion. I am grateful to you for coming.

11:44

*Meeting continued in private until 11:51.*

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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