OFFICIAL REPORT
AITHISG OIFIGEIL

Social Security Committee

Thursday 10 October 2019

Session 5

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Pàrlamaid na h-Alba

Thursday 10 October 2019

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SOCIAL SECURITY COMMITTEE
22nd Meeting 2019, Session 5

CONVENER

*Bob Doris (Glasgow Maryhill and Springburn) (SNP)

DEPUTY CONVENER

Pauline McNeill (Glasgow) (Lab)

COMMITTEE MEMBERS

*Dr Alasdair Allan (Na h-Eileanan an Iar) (SNP)
*Jeremy Balfour (Lothian) (Con)
*Michelle Ballantyne (South Scotland) (Con)
*Keith Brown (Clackmannanshire and Dunblane) (SNP)
*Mark Griffin (Central Scotland) (Lab)
*Alison Johnstone (Lothian) (Green)
*Shona Robison (Dundee City East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Shirley-Anne Somerville (Cabinet Secretary for Social Security and Older People)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Social Security Committee

Thursday 10 October 2019

[The Convener opened the meeting at 09:01]

Decision on Taking Business in Private

The Convener (Bob Doris): Good morning, and welcome to the 22nd meeting in 2019 of the Social Security Committee. I remind everyone present to turn mobile phones or other devices to silent mode so that they do not disrupt our meeting. We have had one apology. Unfortunately, the deputy convener, Pauline McNeill, will not be with us. She has other commitments.

Under agenda item 1, the committee is asked to agree that agenda item 4, consideration of evidence, is taken in private. Does the committee agree?

Members *indicated agreement.*

Social Security Assistance: Annual Uprating

09:02

The Convener: Agenda item 2 is on the annual uprating of devolved social security assistance. The committee will take evidence from Shirley-Anne Somerville, the Cabinet Secretary for Social Security and Older People. Accompanying her are Veronica Smith, policy officer and Vana Anastasiadou, economic adviser in the social security policy analysis team. They are both from the Scottish Government. I apologise whole-heartedly for stumbling over your name, Vana. I should not have read it for the first time in my brief; my apologies. Welcome to all three of our witnesses. I believe that the cabinet secretary has an opening statement.

The Cabinet Secretary for Social Security and Older People (Shirley-Anne Somerville): Thank you. Good morning, convener and committee. It is a pleasure to be here to talk about the uprating policy paper and the analytical report that has been produced. As you know, we debated uprating the carers allowance and the carers allowance supplement in February this year. At that time, I gave a commitment that I would consider a process that would allow the committee to engage on the policy for uprating prior to the laying of the uprating regulations in January 2020. That commitment was extended to the Scottish Commission on Social Security. We also gave assurances that alternative methods of uprating would be kept under review.

The report before you provides an in-depth analysis of the measures that are available to the Scottish Government for uprating devolved social security assistance and also looks at emerging inflation measures.

The purpose of uprating is to ensure that the assistance that individuals receive maintains its value over the time when prices are changing. For that purpose to be fulfilled, the most accurate measure requires to be chosen. The evidence presented in the report makes it clear that the retail price index as an uprating measure remains a flawed measure, and we should all be able to agree, I hope, that we want to use the most accurate measure of price inflation.

In the response to the House of Lords' report, "Measuring Inflation"—which I recently sent to you—Sir David Norgrove, chair of the UK Statistics Authority, confirmed that both the UK Statistics Authority and the Office for National Statistics are clear that RPI is not a good measure of inflation.

The Chancellor has agreed with the UK Statistics Authority's proposal to align RPI's methodology with the consumer price index including owner-occupiers' housing costs, or CPIH. Over time, CPIH would become the single measure of price inflation. However, any changes are unlikely to take place before 2025, and following a consultation.

That brings us to our proposed approach to the uprating for 2020-21. The CPI has a methodology that meets international standards and is the measure used by the Bank of England for its target level of inflation. I am of the view that CPI remains the most appropriate measure for uprating for the next few years. I am pleased that the Scottish Commission on Social Security shares that view.

As we move toward 1 April 2020, when we take full responsibility for all of the devolved disability and carer benefits, the use of CPI will also support the safe and secure transition of benefits from the Department for Work and Pensions. As you are aware, we will have a phased approach to the introduction of the benefits, with first launch of new claimants and thereafter the transfer of existing claimants. Our top priority will always be that people will continue to get the regular payments they are entitled to, on time every time. While there is an agency agreement with the DWP to administer existing claims, we are committed to annually uprate the benefit at the same rate as applied by the DWP. Therefore, this year uprating of carers allowance will follow a similar process used in 2019-20, as will carers allowance supplement.

In addition, for the first time, we will also uprate our funeral support payments and young carer grant using powers under the Social Security (Scotland) Act 2018. The funeral support payment was launched on 16 September this year. That payment is an additional investment of £2 million by the Scottish Government, taking overall spending to over £7 million. We have widened eligibility to help more people on that benefit. Unlike the DWP, we will uprate the flat rate elements annually.

The young carer grant, like the carers allowance supplement, is an investment in our carers and the young carer grant is unique to Scotland. Although the payments will start this autumn, we will uprate the payment in April 2020.

We will also future proof the Scottish child payment with a commitment, which will be included in the regulations, to uprate the payment each year.

To ensure that you are able to scrutinise our actions, we will lay a report under section 77 of the 2018 act in the Scottish Parliament annually. The report will set out the effects of price inflation on the benefits that we are delivering and what we intend to do. This year, we will report on the funeral support payment, young carer grant and best start grant.

The section 77 report will be informed by the report that is before the committee and by your response to it, and taking account of the comments from the Scottish Commission on Social Security. The report will be laid in the Scottish Parliament around the time of the budget. We will then provide draft uprating regulations to SCOSS to scrutinise under the super-affirmative process before they are laid in the Scottish Parliament towards the end of January 2020.

I hope that the uprating policy paper and analytical report have assured you that we have looked at all the options available to us for uprating devolved social security assistance and that our proposal of uprating by the September CPI, rounded to the nearest 5 pence, is the best option. I am happy to take questions.

The Convener: That is very helpful, cabinet secretary, thank you. I have read the Scottish Commission on Social Security's response to the Scottish Government position. You are quite right that the commission's recommendation 3 backs the Government's position that the CPI should be adopted in the short term. However, it does invite the Scottish Government

"to actively monitor comparisons between the CPI, CPIH and RPI and develop future projections."

I apologise if it was included in your opening statement, but does the Scottish Government intend to do that?

Shirley-Anne Somerville: We will remain interested in what is happening by comparing the differences between those measures. We took that forward as part of the process for the analytical report. We set out what the differences between the measures were and what those differences would mean.

As part of our on-going work, we actively monitor the comparisons between the different inflation measures, while developing future projections. We will also keep a very close eye on the new measures that are being looked at that do not fulfil the requirements to be used as an inflationary measure at this point, but may be of use in the future.

We do not consider RPI to be a viable measure. Until it is reformed, that will not change, but the figures will be available to see what the difference could be using the different measures, and that is certainly something that can be made available in the future, as we have done in the analytical report that is before the committee.

The Convener: That is helpful. I was checking that that is an on-going analysis, rather than a one-off body of work.

You mentioned 2025 as a potential date for moving to another inflationary uplift model and mentioned CPIH as a possibility. Recommendation 5 from the Scottish Commission on Social Security asked for more clarity on

"using CPI for the foreseeable future",

what that means and what the timescales on that would be. Perhaps that is 2025. Could you confirm that?

The commission also asks what triggers would prompt a review regarding changing the measure earlier than that. If something else was to happen in the data that you are actively monitoring and things were to shift, what triggers would you be looking at? Clarity on those two points would be quite helpful.

Shirley-Anne Somerville: When a measure becomes an official national statistic obviously sits outwith the power of the Scottish Government, so we will watch with interest what is happening at that level.

The easiest way to describe it is to say that a material change would require us to look at the circumstances. I mentioned RPI, for example, and the timeframe that is being talked about by the United Kingdom Government for when changes might be made, following consultation. That is one example of when our approach might require another look.

As I mentioned earlier, there is obviously the development of household and region specific measures, which are very interesting and could be useful in the future, but they are very much a work in progress at this point. It will take a considerable amount of time—I would suggest way beyond 2025—for them to become national statistics.

In summary, convener, it is about when there is a material change in circumstances that would change the underlying assumptions that we have made in this analytical report about what stands the test of a good measure of inflation.

The Convener: Apologies, cabinet secretary, but folk will be wondering what a "material change" would consist of. Could you give an example of what a material change might look like?

Shirley-Anne Somerville: A material change would be if RPI was looked at in the future, a consultation took place, changes were made to the way RPI was measured and it again became a national statistic—a verifiable and trusted measure of inflation.

Alternatively, a material change would be if the household and region specific measures that are being looked at by the ONS become national statistics. Those material changes to what the ONS, for example, would classify as a robust measure of inflation would be the types of changes that we would look at.

Mark Griffin (Central Scotland) (Lab): One of the key objectives of the new social security system was that it would be designed with the people of Scotland on the basis of evidence, and that includes the uprating methods. What consultation has taken place with experience panels or those with a lived experience of the changes to uprating methods that George Osborne introduced in 2010?

Shirley-Anne Somerville: When we look at uprating, it is important that we look at what is an internationally regarded national statistic and a good measure of inflation. I appreciate that people will have different views on how they would like benefits to be uprated, and I respect that. Over a number of months, and particularly since we had the previous debate on this issue, I have spoken to stakeholders who have different opinions on uprating, as I am sure that Mark Griffin has. We cannot use a measure that is not regarded as a bona fide measure of inflation.

Over the past few months and years, I have had a number of discussions with stakeholders and I appreciate that they have different views. I utterly respect that other people will have different opinions on this, but even if those are strongly held opinions, I cannot use them as the basis for using something that, for example, the ONS does not determine to be a good measure of inflation. People will have opinions on it for their own reasons, but I have to use the evidence of, for example, the ONS and take into account the views of experts and statisticians about what is a good measure of inflation.

09:15

Mark Griffin: I appreciate what you are saying and that you have spoken to stakeholders, but I wanted to clarify whether the experience panels have had any involvement on which method of uprating should be used.

Shirley-Anne Somerville: I am not aware of experience panels being involved. I have certainly had discussions with stakeholders.

Mark Griffin: It has been purely stakeholders—okay.

I know that there is a range of opinions on what measure of inflation should be used; we have had debates here and in the chamber on that. Has the Government looked at any methods of uprating beyond inflation? There is no restriction in the 2018 act to simply use inflation. Ireland, for example, has uprated payments by €5 per week. Denmark uses wages to inform uprating, Norway uses a combination of measures, and the Netherlands uprates twice a year, using a measure that is linked to the minimum wage. The Reform think tank has proposed a new index altogether. What work has gone on in Government to look at uprating methods beyond inflation?

Shirley-Anne Somerville: I would differ from your conclusion that there is a range of views on what a good measure is. When you look at what the ONS, the House of Lords and a number of different studies have said recently, you see that there is uniform acceptance that RPI is not a good measure of inflation. When we are looking at the expert advice that is coming in, I do not see a range of views about what is the best measure of inflation.

Mark Griffin: I am not talking about inflation. I have not mentioned inflation at all. I am talking about methods of uprating beyond inflation.

Shirley-Anne Somerville: With respect, I thought the beginning of your question was on the different views around inflation.

I will deal with the different aspects that you mentioned later in your question. The Social Security (Scotland) Act 2018 says specifically that we must consider inflation and changes in prices. The 2018 act states that we have to report on that. I was not involved in the details of the Social Security (Scotland) Bill when it was going through Parliament and therefore cannot comment on why it was drafted in that way and what may have been discussed in committee during its passage, but the 2018 act specifically requires the Government to look at price changes.

You are quite right to say that there are other areas that Government could look at. I would separate out what we are required to do in the 2018 act on uprating, which is around price inflation. That is what the analytical report details and that is what we have gone into today.

If there are calls for the Government to do more than what it is required to in the 2018 act, I would suggest that that is looked at as part of our annual budget process. If parties are looking for us to do more than increase payments by price inflation, that would form the part of our annual budget process, where such calls are made either by the committee or in discussions between political parties and the finance secretary. We are moving rapidly into that time of year. If there are suggestions that the Government could or should be doing more on those aspects, of course parties should be encouraged to have those discussions either with myself or the finance secretary.

Mark Griffin: I take on board what you are saying, but section 78 of the 2018 act does not limit the Government to use inflation. Section 78 specifically says that the Government should uprate by "at least" the inflation measures, which you set out in your analytical report. I was simply asking whether the Government had done any exploratory work on whether there are any international comparators that you could look at favourably.

Finally, I would like to ask about the situation that we may have in this Parliament, where wages are increasing at a faster rate than inflation. We could potentially be in the position where this Parliament decides to increase MSP's wages at a greater rate than the increase in assistance to carers or disabled people. What is your view on the reputational risk to this place of MSPs' salaries increasing at a greater rate than assistance that we will provide through Social Security Scotland?

Shirley-Anne Somerville: I am not responsible for the setting of MSPs' salaries. I reiterate that if a political party wants the Government to do more than it suggests to do in its budget, the responsibility would be on that party to put forward a measured, detailed and costed response about what it would like to see and, importantly, what would be cut to allow the budget to balance that.

The Convener: We have to move on, but the opportunity to discuss that further will arrive in about 20 minutes' time, as the cabinet secretary is sticking around for some pre-budget scrutiny questions under the next agenda item.

Michelle Ballantyne (South Scotland) (Con): How much does the risk of policy overspill affect your decision making when you are looking at uprating? How closely are you working with the UK Government and the ONS in terms of ensuring that we make the right decisions about uprating, so that we are not at fiscal risk if we diverge?

Shirley-Anne Somerville: I would argue that the issue of overspill is separate to what we are looking at at this point, which is the Government's requirement, under the 2018 act, to uprate by the best measure of price inflation. We have set out in the analytical paper our proposed best method of measuring inflation and the details of how we would implement its use.

I am not aware of any spillover issues that we need to be cognisant of with regard to uprating. If there is a divergence between the uprating measures of the Scottish Government and the UK Government, we will of course investigate that, but in my opening statement I highlighted that where we have agency agreements with the DWP, we are required to use the same uprating measure. The DWP uses CPI, and our analytical report concluded that CPI is the best measure of inflation as far as we are concerned, so those two things fit nicely together.

Michelle Ballantyne: My second question is on working with the UK Government on the choices around uprating. Obviously, both Governments are looking at the future, and there is some talk about moving to CPIH or revisiting RPI, which a lot of people believe was taken off the menu because it was skewed by the impact of clothing costs. As the UK Government looks at the best options for uprating, it might make changes, so timing could be key here. How closely are you working together? If Scotland diverges on what it thinks is best, it could have a financial impact for us.

Shirley-Anne Somerville: It certainly could if we used different methods for uprating. I refer back to the earlier answer that I gave on timeframes. Any changes seem quite far away. There are on-going discussions between the UK and Scottish Governments about how we are moving forward on those aspects, and they will continue. I do not foresee any changes in the short term to what the UK Government is doing, and therefore there is no requirement for us to look at that in more detail than we are at the moment. If the discussions at an official level start to flag those things up in future years, we would have to take that into consideration and see whether there would be a financial spillover implication for the block grant adjustment.

Dr Alasdair Allan (Na h-Eileanan an Iar) (SNP): You mentioned the way that you make allowances for price inflation. When it comes to the social security forecasting process and thinking into the future, do you have to plan for or make predictions about things other than price inflation?

Shirley-Anne Somerville: It is important for me to separate out the distinct areas that we are responsible for. As I said earlier, we have a responsibility and an obligation to carry out uprating and to do so using price inflation.

When we are looking at benefits over a number of areas, we are of course very aware that there are other ways of measuring. I know that there are studies of statistics that look at the cost of funerals, for example, but those are not official statistics. There are areas that could be looked at, but the challenge is that they would not sit comfortably with the Government when it is considering how benefits could be uprated.

In effect, those are studies, forecasts and analyses done by private companies. They are useful and of course we take cognisance of them in the widest sense—for example, when we consider funeral poverty—but they are not something that I would look to use for uprating. I go back to the fact that we have to use a statistically robust measure of price inflation, but we look at those studies for policy development in the round.

Dr Allan: I want to pick up on the point that was made about spillover—and I appreciate that you might feel that some of this is spilling over into other areas of policy. The fiscal framework outlines conventions around spillover and the principle that there should be no detriment to either the UK or Scotland as a result of Scottish Government or UK Government actions. When you are looking ahead, predicting and making plans around social security, are you satisfied that that principle is being applied and that you will not be subject to detriment at any point?

Shirley-Anne Somerville: It is not something that either Government has made a claim on up to this point. However, my officials are very cognisant of that as we make our decisions, whether on uprating or anything else. We have to look very carefully at what is in the fiscal framework on spillovers. We might get into more detail on this in the session on the budget later in the meeting. When we look at all the areas of social security decision making, I have to bear in mind that the vast majority of decisions will come with a price tag and a requirement for that money to be found. If the policy decision differs from what is happening in the UK Government's policies, there will be a requirement for that money to be found within the Scottish block grant. Whether we are looking at uprating or anything else, we have to be cognisant of the fiscal framework. The challenge of spillover—and a call that would be made by the UK Government—weighs heavily when we are looking at the policy changes that we could make.

Jeremy Balfour (Lothian) (Con): I have one quick question, which probably shows my ignorance rather than anything else. We have the three types of uprating but, from what I can read in our papers, we do not actually have how much each would cost. It is possible that I might have missed that, but can you provide us with the actual figures on what using the CPI, CPIH and RPI would look like, so that we can make that comparison?

Shirley-Anne Somerville: Some of that information is in the analytical report, although it probably does not go as far as you might like. We have certainly modelled those figures in our work on the report, so if it is not in the documentation that has been made available to you, we can furnish the committee with that in writing in due course. We absolutely do monitor what the differences would be. If that is not in the information that the committee has, we can supply that.

Jeremy Balfour: I am obliged. Thank you.

Keith Brown (Clackmannanshire and Dunblane) (SNP): On RPI, I do not see why anybody would be proposing to use a measure that is, if not discredited, certainly not accurate and is not an official ONS measure. The only reason for that that I can think of would be posturing.

It seems entirely legitimate for somebody to say they want to see a more generous uprating. Given that we have heard that that should be evidence led, is the cabinet secretary aware of any worked-out, evidence-based proposal that any party in the Parliament has brought to the budget process?

09:30

Shirley-Anne Somerville: We have not had any suggestions on that in budget discussions in previous years. The issue came more to light after the budget deliberations concluded last year. As I said earlier, we are going into the next budget round. If there is a requirement or a feeling that the Government should be doing more than we are, that opportunity will arise in the budget process. Nothing on this area was delivered to the finance secretary in the budget discussions last year.

Keith Brown: If CPIH is a measure that includes owner-occupier housing costs, that seems both flawed and likely to penalise those parts of the UK that have lower levels of owner occupation. We have seen low interest rates, not least because of the financial crash, that have had a beneficial impact on owner-occupier costs while there have been higher increases in the private rented sector and other sectors.

The UK Government is going to use CPIH, but would it not be better for Scotland to think about not doing that, given that owner occupation is lower in Scotland than it is in most parts of the UK and therefore using CPIH would have a disproportionate effect in Scotland?

Shirley-Anne Somerville: We are looking at that very important area. One aspect is whether something is a good measure of inflation—as you rightly pointed out, RPI is widely recognised as being a flawed measure of inflation. There are further discussions at the UK Government level around using CPIH. You are right to say that CPIH includes owner-occupier housing costs. CPI and CPIH are broadly similar, but CPIH includes owner-occupier costs.

It is something that we will look at in the future. We would want to ensure that CPIH had established a reliable track record as a national statistic before we even considered using it for uprating. Once it had reached that level, there would need to be a sense check on whether it would be a good measure of inflation, given the demographic in Scotland that we are considering when it comes to social security, and whether a measure that included owner-occupier costs passed the test.

Those are the kind of areas that we will look at in the future. We are not really at the stage of that sense check yet, because CPIH does not have a track record as a national statistic. You are quite right to point out that we should take cognisance of what it measures and whether it would be right for the demographic that we are dealing with regarding social security. That is something that we will need to look at in the future, once there is a material change and CPIH passes that first test.

Alison Johnstone (Lothian) (Green): My apologies for missing the beginning of your evidence this morning, cabinet secretary.

How much attention has been paid to the generally higher inflation experienced by lower-income households in many situations? Has that been taken into account when making the decisions on uprating?

Shirley-Anne Somerville: That is an important area that we look at. The Government needs to use a robust measure of inflation for uprating, which is why CPI has been used. There is obviously a challenge in using that, as lower-income households experience higher inflation. In the analytical report, we have explored in detail alternative measures for uprating that could be used in the future. That report tried to tease out that different household types experience inflation differently, exactly as you point out.

One area that the ONS is looking at is household cost indices, which is an experimental measure that looks at various household groups, but that is not yet robust enough for us to consider using it for uprating, and that is why we go back to CPI in the analytical report. However, we have looked at the other measures and we will keep them under review to see whether any of them become national statistics in the future. The challenge is to find a national statistic that is a robust measure of the higher rate of inflation experienced by lower-income households that we could use to determine uprating.

Alison Johnstone: I appreciate that this is a complex area, but you will appreciate that when it appears that a group of low-income people, who might be particularly vulnerable, are being offered an increase that is not all that it might be, people will be rightly concerned and are going to want to debate and understand why that has happened. I note that when people are paying back their student loans to the Students Awards Agency for Scotland, the interest is in line with RPI. That is an instance of people paying money back at that higher rate, but when money is being paid out, it is at the lower rate. How much of a holistic overview is there?

Shirley-Anne Somerville: My understanding is that the Scottish Government does not decide whether RPI or CPI is used for student loans. There are a few legacy areas where RPI is still used, and that is one example. Other areas use RPI under contract. As I said, I am not aware that it is within the Scottish Government's gift to change the arrangements in the example that you gave.

I take your point that it looks unfair if that is the rate that is being taken off people, but we are talking about the money that is being given out. The challenge is that if people think that we should not be using CPI because it does not reflect what is happening to people, what should we use? We have looked at all the other measures that are national statistics and there is not one that we could use instead of CPI. I appreciate that people might not feel that CPI fully covers every aspect, particularly for certain demographics, but there is not a robust alternative that we could move into its place at this point.

The Convener: There are no other questions. The cabinet secretary is sticking around for us, but I thank her for her evidence and her officials for their support in this session. That ends agenda item 2. We will suspend briefly before we move to item 3.

09:39

Meeting suspended.

09:43

On resuming—

Pre-budget Scrutiny 2020-21

The Convener: Agenda item 3 is pre-budget scrutiny. Last week, the committee took evidence from the Scottish Fiscal Commission on its role and its forecast for Scottish social security spend. Today, the committee will continue its pre-budget scrutiny and discuss social security spending priorities for the next financial year, 2020-21.

I welcome back Shirley-Anne Somerville, the Cabinet Secretary for Social Security and Older People. I also welcome, from the Scottish Government, Alison Byrne, who is deputy director of social security programme delivery support, and Ruth Steele, who is social security strategic financial policy team leader.

I know that you are struggling a bit with your voice, cabinet secretary, but can I invite you to make another opening statement?

Shirley-Anne Somerville: Thank you, convener. I would like to think that this is an improvement on the last time that I was before a committee, when I could barely speak at all.

It is a pleasure to be here to discuss the pre-budget scrutiny. The social security and older people budget allocation for 2020-21 will continue to support this Government's commitment to creating a fairer Scotland. It will allow work on the transfer of social security powers under the Scotland Act 2016 to continue at pace and support the delivery of many more benefits.

By the end of 2019, Social Security Scotland will have introduced seven payments, which will put more money into the pockets of low-income families. From April 2020, we will take on full responsibility for the more complex of the devolved benefits. Those benefits present us with the greatest opportunity to do things differently, meet the needs of people who are being failed by the current system and ensure that we have a service that treats everyone who needs it with dignity, fairness and respect.

09:45

We will also introduce our transformative new Scottish child payments, with the first payments being made to families with children under six by Christmas next year, well ahead of our original schedule. Up to 170,000 children will be eligible for targeted direct financial support to low-income parents. That brand new benefit to tackle child poverty will be delivered by Social Security Scotland, which will pay, on a four-weekly basis, £10 a week per child to families in receipt of qualifying benefits. The payment will be fully rolled out to eligible children under 16 by the end of 2022. Once fully rolled out, the payment will benefit up to 410,000 children and will reduce child poverty by 3 percentage points, lifting 30,000 children out of poverty—a significant investment in our children and families, and continuing our commitment to give children the best start in life. We will need to make space in our timetable of delivery to accommodate the Scottish child payment. As a result, delivery of carers allowance, disability assistance for older people and the completion of case transfer has been slightly revised. That timetable was confirmed in my 4 October letter to the committee.

While the introduction of the payment is good news for parents and shows how we can use our new powers, it is a different scenario for those in receipt of reserved benefits. The UK Government continues to refuse to listen to the overwhelming evidence that its roll-out of universal credit is causing significant hardship. It refuses to pause the roll-out and fix both policy and delivery. We had previously estimated that UK Government welfare cuts since 2010 could reduce social security spending in Scotland by £3.7 billion a year by 2021. Subsequent changes by the UK Government have done little to reduce the scale of those cuts. The United Nations special rapporteur on poverty and human rights, Professor Philip Alston, recently described the changes as window dressing to prevent political fallout. The changes do not address the benefits freeze, the two-child cap or the extended wait for a first payment under universal credit.

In 2018-19, the Scottish Government invested £1.4 billion to support low-income households. This year, we will spend at least £100 million to mitigate the worst effects of the UK Government's welfare cuts. That is money that we should have been investing elsewhere to help pull people out of poverty; instead, we will use it to protect people from the impacts of another Government's welfare policies—a position that the UN rapporteur has described as outrageous.

Social Security Scotland has established its head office in Dundee and has an operational hub in Glasgow. When fully operational, it will employ at least 1,900 people, with at least 750 in each site and a further 400 people spread across the country to provide local service delivery. It will administer close to £4.2 billion in payments per annum, yet the powers that we have been given cover only 16 per cent of total social security spending. We will receive funding from the UK Government under the terms of the fiscal framework for the benefits being devolved to Scotland, which in essence forecasts what the UK Government would have spent under its policies on the benefits that we are responsible for. However, managing demand-led spend on that scale within a balanced budget presents significant new challenges for financial management. My officials are working closely with others across the Scottish Government and Her Majesty's Treasury to manage those risks. I must stress that the cost of any policy changes or an increase in benefit take-up in Scotland must be met from the Scottish block grant. The budget will also make clear next year the difference between the Office for Budget Responsibility forecast used to determine the block grant adjustment and the Scottish Fiscal Commission forecast used to determine expenditure in Scotland. That will include, for example, the Scottish child payment.

On implementation costs, we have always been clear that the cost estimate set out in the financial memorandum was an initial estimate based on the best information available at the time and that those estimates would change materially as policy decisions moved on. In her evidence to the Public Audit and Post-legislative Scrutiny Committee, the Auditor General for Scotland said:

> "It is inevitable that the initial estimate will change, particularly in an area that is as complex and fluid as social security."—[*Official Report, Public Audit and Post-legislative Scrutiny Committee*, 16 May 2019; c 13.]

Audit Scotland's May 2019 report recommended finalising revisions to the programme-level business case, which we are doing. The refreshed business case will serve as the overarching strategy document and a baseline for the requirements of the programme, defining a list of key strategic assumptions and how dependencies will be managed between all programme stakeholders. That will be published around the time of the Scottish budget, and I will be happy to update the committee then on the revised implementation costs.

The Social Security (Scotland) Act 2018 and our charter recognise that social security is a human right and a public service. That informs all the work that we do. People should be able to access what they are entitled to without any fear or stigma. Making sure that everyone gets financial support is a basic step in putting dignity, fairness and respect at the heart of social security in Scotland. That is why we will continue to ensure our systems and processes are simple and inclusive, seek to remove barriers, and continue to promote the take-up of our benefits.

In conclusion, the social security and older people portfolio budget for 2020-21 reaffirms this Government's commitment to creating a fairer Scotland and tackling poverty and inequality, which is a central aim of our programme for government. I am happy to take questions.

The Convener: Thank you. In a moment I will ask a question that may shock you—it will appear to be a call for more money for a part of the budget line. You make the point about balancing budgets and money having to be identified. It is only fair to ask about the child supplement in the context of new spend in the coming financial year. When it is fully rolled out, we understand that the Scottish child payment will cost £180 million per annum. You said that it would affect 170,000 children in the first financial year, and 410,000 once it is fully rolled out. What is the estimated cost of rolling it out to the 170,000 children under six who will benefit in the coming financial year?

Shirley-Anne Somerville: Our initial estimates are that the cost of the investment in the under-six portfolio will be about £70 million. The cost within year will depend on the go-live date of the payment, but we have set out in the programme for government our analysis of that go-live date, and believe that the first payments will be made before Christmas.

The Convener: I absolutely get that there will be degrees of uncertainty as you roll the programme out. I have not heard anyone be critical of the new policy initiative; in fact, the Joseph Rowntree Foundation and the Institute for Public Policy Research were very supportive of it at an event that committee members attended on Monday during challenge poverty week. I think that the figures you gave were based on an 82 or 83 per cent uptake of the child payment. That would be a strong uptake, but it would be lovely if it was higher still. Can you give an assurance that when the budget appears, it will have built-in flexibility for a higher uptake, should that occur?

Shirley-Anne Somerville: The Scottish child payment, along with the vast majority of the other benefits that we have, is demand led, and we want to increase uptake as much as we can. Part of the challenge of the social security budget is that we will make forecasts for what we estimate the benefit take-up to be. That is challenging, particularly when it is a brand new payment. We saw a flavour of that with the best start grant as it moved from a UK Government scheme to a Scottish Government scheme. Our changes around increasing benefit take-up demonstrated how challenging it is to forecast ahead, even when we are moving from one type of benefit to another. When you add to that the challenge that the child payment is brand new, it makes it exceptionally challenging for us to forecast. However, my reassurance to you is that this is a demand-led budget. We want take-up to be as high as possible, and that money will simply have to be found within the Scottish budget.

As I said in my opening remarks, the management of demand-led budgets to this scale is something very different for the Scottish Government. Everything is being done within Government and the Scottish Fiscal Commission to ensure that we forecast as accurately as possible, given all the information that we know, but that does not make it a perfect science.

The Convener: That is helpful, cabinet secretary. The payment, with money going to 250,000 households once it is fully rolled out, is hugely welcome. However, demands for additional spend immediately come in. There is a financial envelope within which any Government operates, but the demands are understandable and it is reasonable to put some of them on the record. We heard calls for an under-six income supplement beyond the £10 a week, additional money for teenage children, particularly in summertime because of extra costs at that point, and for the payment to be extended to 17 and 18-year-olds. I am not trying to draw you on the policy scope and criteria for the Scottish child payment—we all welcome the work that the Government is doing—but it is in that context that we now have to look at the budget that will be coming to this Parliament.

We asked people in Twitterland—if that is a thing out there—if they had any questions for you, cabinet secretary. We heard from a regular correspondent with the committee, Mr Ian Davidson, who had some questions about the Scottish welfare fund. I should point out that the committee has previously called for the Scottish welfare fund to be increased from £33 million a year, which is what it has been since its establishment. The welfare fund has been protected, but it has been cut in real terms because there has never been an uplift. In previous years, the Scottish Government said that the fund had been underspent in some parts of the country but that it would keep it under review. In that context, Mr Davidson said:

> "The fund was fully spent in 18-19. It is time to 'do the right thing' and rectify this situation. Will it now be increased?"

It would be helpful if you would comment on that, cabinet secretary.

Shirley-Anne Somerville: On your point about the Scottish child payment, I read with interest the report and recommendations from JRF/IPPR.

As with pretty much every area of social security, recommendations come with additional policy costs. The modelling that we have looked at suggests that extending the child payment to 17 and 18-year-olds would cost an additional £20 million. A premium for under-sixes, on top of the £10 for zero to 16-year-olds, comes in at about £70 million. That is on top of the £180 million that will be the full cost of the roll-out of the Scottish child payment. There are obligations for us to look very seriously at what is proposed by IPPR, JRF and others, but we also need to be cognisant of what that would cost to implement and whether it should take priority over using the money elsewhere in the Scottish Government budget because, of course, the money can be used only once.

That ties in to your other line of questioning, about the Scottish welfare fund. We will look at the fund, as we always do, within the future budget process. This is not the only area of support that the Scottish Government gives, and I would point out that £1.4 billion-worth of support goes to low-income households. The Scottish welfare fund is one area of the £1.4 billion that the Scottish Government invests. It is an important area, but it is one policy lever and one of the myriad of different ways in which we support low-income households, and it needs to be looked at in the round. We are working with the Convention of Scottish Local Authorities—I have had direct discussions with COSLA—to gather evidence on local authorities' use of the welfare fund and to support them to share and learn from each other. The discussions with COSLA are on-going.

10:00

Finally, I point out that the Scottish Government made a significant additional investment of £9.2 million when the Scottish welfare fund was introduced. This is an area that has been heavily invested in and, as I say, is but one area of the support that the Scottish Government gives to low-income households across Scotland.

The Convener: When you have those discussions with COSLA, cabinet secretary—and when you have discussions with the Cabinet Secretary for Finance, Derek Mackay, about the budget before he puts the budget to Parliament—will you raise the stats that we have received?

For example, applications for crisis grants were up 11 per cent last year, awards were up 5 per cent and spending was up 14 per cent, but the acceptance rate for getting those grants dropped 3 percentage points to 65 per cent. Statistics are just that—statistics—but we want to make sure that there is no gatekeeping or rationing of the welfare fund because resources are tight. It is only fair to put some of those figures on the record. Will you look carefully at those figures in your discussions with COSLA and the finance secretary?

Shirley-Anne Somerville: We will certainly look at all the available statistics on the Scottish welfare fund. Some local authorities have spent their budget allocation, whereas others have underspent their allocation. We are looking seriously at that issue. Of course, decisions on individual cases are for local authorities to make. We produce guidance at a national level and we work closely with local authorities on how the guidance can be used to share good practice among the decision makers. As I said, we are having discussions with COSLA and we are seeing what evidence it can provide in relation to the Scottish welfare fund.

The Convener: You mentioned that some local authorities are underspending, which I understand has happened over a number of years. Will the discussions with COSLA involve the formula by which the welfare grant is allocated to each local authority? It could be argued that the local authorities that are underspending do not understand the level of need that is out there and are not promoting the fund or, alternatively, that other local authorities are having to supplement moneys. We may not have the formula right and we may need to rebalance where that money goes across Scotland. Is COSLA up for those discussions? Are they taking place?

Shirley-Anne Somerville: The formula was looked at recently and the method of allocation has just been settled on, which is for the money to be allocated between the 32 local authorities based on the Scottish index of multiple deprivation. That funding formula was agreed between the Scottish Government and COSLA. If COSLA wishes to have further discussions about the formula, I am more than happy to do that. It is not a decision for the Scottish Government to make alone and it should rightly be done in partnership with COSLA.

Mark Griffin: The cabinet secretary will be aware of the committee's evidence session with the Scottish Fiscal Commission and our concerns about policy spillovers and the potential effect on the Scottish budget. The committee is fairly clear on the process for direct effects of policy spillovers but we are far less clear on the process for how behavioural effects would be negotiated between Governments. Has there been any progress in developing guidance on policy spillovers as the result of behavioural effects?

Shirley-Anne Somerville: There is not agreement on the area of behavioural spillovers. Mark Griffin is quite right to point out that the UK Government and Scottish Government agreed guidance back in December 2017 on how direct effect spillovers would work. There has not been agreement on behavioural effect spillovers. That is a matter for the joint exchequer committee and an agreement has not been reached on that between the two Governments.

Mark Griffin: If there were to be any behavioural policy spillovers before any agreement is reached, what impact—if any—would there be? Is it something that simply will not or cannot happen until that agreement is put in place?

Shirley-Anne Somerville: I have to look seriously at what is in the fiscal framework. I need to be very aware of the potential repercussions of making any decisions that would allow the fiscal framework spillovers to kick in. However, there needs to be agreement between both Governments for that to happen. That is one level of reassurance that I can offer.

However, I have to bear in mind those potential long-term implications when making policy decisions. There is currently no agreement between the two Governments about how to handle that. If there is an agreement in the future and we have made policy changes that would have an impact, it would kick in at that point. Any decisions that we are making now could have a long-term impact on these areas so I need to bear that in mind.

Mark Griffin: My specific concern is whether the Scottish Government would be liable for costs if it were to run a general benefit entitlement update campaign that resulted in relatively higher levels of uptake of reserved benefits in Scotland than in the rest of the UK. Do you foresee a bill for that landing at the Scottish Government's door from the UK Government, which could affect the Scottish budget?

Shirley-Anne Somerville: I would certainly not attempt to read the mind of whatever secretary of state is in post at that point or of the UK Government, so I cannot anticipate what might happen, but it is a possibility. Given the level of investment that we are talking about here—the size of the numbers—we need to be clear that it could seriously impact on the Scottish block grant.

I cannot anticipate whether that would happen. It is purely for the UK Government to decide whether it thinks that a behavioural spillover has taken place. It is perfectly possible and perfectly plausible that it could happen and I have a responsibility to take that into account when making decisions about what the Scottish Government could do.

Mark Griffin: Bearing in mind that that is a possible outcome, is that a shortcoming of the fiscal framework agreement? If the Scottish Government is rightly doing the best it can to increase uptake of entitlements, that could result in a negative impact on the Scottish budget. That is a shortcoming that potentially should be negotiated out of the fiscal framework agreement.

Shirley-Anne Somerville: There is an obligation on the UK Government to increase benefit take-up. It is arguable whether it will do that but it has a responsibility to do that for reserved benefits. When the fiscal framework was being set up, a review was built in. Now that we are a couple of years in, this is a timely opportunity to look at the evidence of how it works in practice in ways that we simply could not have foreseen or which were not discussed at the time that the fiscal framework was being looked at.

Mark Griffin gives one example of how the Scottish Government could end up being liable for a behavioural spillover change when what we are doing is quite rightly pointing out to people that they are entitled to and eligible for a benefit take-up. It would be useful to have discussions about that when there is a review of the fiscal framework.

I hope that the Scottish Government and the UK Government would be able to agree that it is in everyone's best interests to have the highest level of benefit take-up. It is good for the Scottish Government, it is good for the UK Government and, more importantly, it is good for individuals. I take on board Mark Griffin's point. When we review the fiscal framework, it would be to the benefit of us all to see that aspect changed.

The Convener: Before I move on, does any other member want to ask a question specifically about policy overspill?

Shona Robison (Dundee City East) (SNP): You have answered this to some extent, cabinet secretary, but—in the same vein—if behavioural change happens as the result of a change of benefit entitlement by the UK Government, for example, if it scraps or cuts a benefit, and that has a knock-on effect of increasing applications for a different benefit here in Scotland, do you have mechanisms in place so that you can demonstrate the causal effect of one leading to the other to the UK Government?

It strikes me that that would be quite a difficult thing to do, but it is probably quite important if you are trying to show that a policy change by the UK Government has led directly to a potential strain on Scottish Government resources.

Shirley-Anne Somerville: The word that you used near the end is the important one—"directly". There is a difference between behavioural change spillovers and a direct impact. There is an agreement between the UK Government and the Scottish Government about how that would be handled.

In the scenario that you give, the Scottish Government would look at evidencing that direct effect and quantifying it. The next step is for that effect to be agreed on by both Governments. There is agreement on how that should be handled. That does not necessarily mean that we would have agreement at the end of the day about how we quantify the effect compared with how the UK Government quantifies it. That would still be up for discussion, but we can evidence it, quantify it and then agree on it. You could see some spillover agreements taking place. In theory, that would result in a fiscal transfer either to or from the Scottish Government, depending on which way the direct impact flows.

Shona Robison: How would you evidence it? Would you ask those who apply for a benefit why they are applying? What mechanisms could you use to gather that evidence?

Shirley-Anne Somerville: We would look at whether the levels of benefit applications have increased and the correlation between such an increase and that UK Government policy change.

Jeremy Balfour: One of the comments we hear quite often from the First Minister when we talk about budgets is that every penny is allocated and if we want to move one penny from one place, we have to find it from somewhere else. With the issue of potential spillovers, higher take-up and so on, are you looking at a percentage differential to cover any overspend or will your budget literally have every penny accounted for?

I appreciate that you cannot give us the exact figures but there is an issue, particularly for the first couple of years, if every penny is allocated and then there is an overspill or there is a greater take-up. How will that demand be met?

Shirley-Anne Somerville: That is something that focuses my mind when we look at this budget, because you are absolutely right that there is not a separate pot of money available. It is crucial that we get the forecasting as accurate as possible. Our budgets are based on the Scottish Fiscal Commission's forecasting and that is why we work closely with the Scottish Fiscal Commission to get the forecasting right on this. I will give an example of the potential scale of the forecasting error just to focus minds even more on this.

10:15

I asked for analysis of the historical forecast error between the UK OBR statistics and the outturn for the benefits that are being devolved. The Scottish block grant adjustment will be based on the OBR forecasts but we will have to take into account the outturn of the benefits some 18 months later. The analysis shows an average error for one-year-ahead forecasts of 3.7 per cent. If you apply that to the £3.5 billion-worth of expenditure that is within the Scottish Government's responsibility, that can become a forecast error of £130 million. That is the rough area of forecast error of the OBR statistics, which is how the block adjustment would be looked at.

We will base our budget on the Scottish Fiscal Commission's statistics. There is likely to be a difference between the OBR forecast and the fiscal commission forecast. That will partly be because of policy changes that we have made and which will need to be done through the Scottish block grant. If there is, quite rightly, an increase in take-up or if the forecasts are out, that money will simply have to be found within the Scottish block grant; that is the area of the demand-led budget that we are working in.

Within the fiscal framework, there are some avenues that the Government could look at to deal with that. It involves the use of reserves and the amount of borrowing that comes from that. It is important to look at the potential of being able to use those reserves. I gave one example of the fact that the reserve is capped at an aggregate of £700 million. The reserve is there for not just social security but tax. The reserve and the borrowing requirements that are set out in the fiscal framework are there to assist with the smoothing of that process, if there are in-year changes to the forecasts, but the amount is exceptionally tight, bearing in mind the changes in a demand-led budget that we may see due to behavioural changes because we are doing things differently.

When you put all that together, it focuses the Government and the Parliament on the social security budget and how we use the powers that we have within the fiscal framework in a responsible and sensible way because, inevitably, we will have to take account of changes between what is forecast, with the best knowledge that we have, and what happens in reality within that year.

Jeremy Balfour: I have a question on forecasting, particularly in relation to what we heard from the Scottish Fiscal Commission and also how this committee and this Parliament work. At best, we will see three benefits with different regulations in the 2020-21 budget. The disability assistance for children and young people comes into place next summer. I think that we received a letter from you just this morning to say that the draft regulations for that will be available in early December. I presume that that means that the regulations will not be passed by the time that we pass the budget. How can we as a Parliament have assurances on that?

The fiscal commission said to us that it forecasts based on the information that it has. If it does not know what the final regulations are, it will simply have to make a guesstimate of what they will look like. Do you see a danger in regard to that?

Also, I do not think that we have a draft regulation for the carers allowance supplement—that could come in early 2021, and I think that the draft regulation in relation to older people is coming in 2021 as well. We have three sets of regulations that we are having to include in our budget consideration but we do not know what those regulations are. How does the Parliament make a decision?

Shirley-Anne Somerville: I absolutely take on board your point that it is exceptionally challenging when we are moving at pace to deliver change within the year. We work very closely with the Scottish Fiscal Commission and that was borne out in its evidence to the committee that our sharing of information with it is good. We will pass on our methods of working and our assumptions about what we are doing and we will absolutely keep the fiscal commission updated about any changes and the impact that they might have on a demand-led budget. We will have to keep a close eye on that and be aware of the budgetary implications of changes.

That is a set of circumstances that I quite frankly cannot see a way around because the only other way to do it would be to have a larger gap between the introduction and the enactment of the regulations to allow the fiscal commission to have a gap between when it has to make its forecast and then when we would be enacting the regulations through our budget. I do not want to see that delay.

I absolutely take on board your point that during this year, using the agile method that we have for social security, the Government will be making policy decisions, SCOSS may come back with suggestions for changes to the regulations, and indeed the committee will come back with suggestions. The best way that we can do this is to be absolutely frank about the financial implications of those changes, so that everybody has the same awareness that we have within Government that if we want to make a change, the implication for the budget is X, Y, or Z.

That is certainly how we work with the fiscal commission—we detail our ways of working and our assumptions. We would be happy to share that way of working if people are looking at specific changes and what they might mean for budgets in-year.

I hope that that is helpful; I do not think that it solves the problem but certainly I want our way of working to be as full and frank as possible about the implications of any changes and how we could deal with those.

The Convener: I would like to check something, just for clarity. That was a really helpful line of questioning. It was my understanding that the Fiscal Commission gets early sight of the Scottish Government's thinking under protocols to ensure that it can start making projections based on what the regulations might look like, and it is also sighted on what the policy options for any adjustments to those regulations might be, so that, when they are eventually lodged with this place, that will not be first time that the commission has considered them and, if they are amended in any way, that would not come from left field for the commission because it will be in step with the Scottish Government in relation to information that you have, so it will be able to make as accurate a forecast as possible. None of this will be a surprise to the commission, will it?

Shirley-Anne Somerville: No, I should absolutely make clear that the situation is not that we work internally, come up with draft regulations and then give them to the commission. There is close working about our assumptions as we build forward with aspects, but there is a moving feast as we work through that agile process, which the Scottish Fiscal Commission is kept up to date with.

Recently, the Scottish Fiscal Commission visited the Scottish Government to work closely with officials and talk through the assumptions about where we are with various issues. However, I stress that this is a learning process for us and for the Fiscal Commission. The positive thing is that the Fiscal Commission and the Scottish Government are keen to make sure that the process works as effectively as possible. It does nobody any favours for the Scottish Government to have information that it does not pass over to the Fiscal Commission or to do anything to make the Fiscal Commission's life more difficult. Anything that we can do to ease that way of working is absolutely something that we and the Fiscal Commission are keen to consider. I can absolutely reassure the committee that a discussion is going on around ways of working, and we will share with the Fiscal Commission assumptions that we make internally before they reach the public domain.

The Convener: That chimes with what we have heard from the Fiscal Commission.

Michelle Ballantyne: We have moved forward, so I will move on to the next area, which concerns fraud and error.

Audit Scotland gave a qualified opinion on Social Security Scotland's annual accounts. That related to the agency agreements that made it difficult to estimate fraud and error that may be occurring in relation to Scottish claimants. Have you made any changes to the agreement with DWP as a result of some of the work that has gone on? What concerns do you have around it and what kind of actions might you take? Obviously, again, that could cause some difficulties if we do not get it right at the outset and there are forecasting errors when transfer occurs.

Shirley-Anne Somerville: There was some qualification of the Social Security Scotland accounts due to issues around carers allowance. The DWP accounts themselves have, in effect, been qualified—not signed off—for a number of years due to concerns around the level of fraud error within DWP around carers allowance. This is obviously an area that the agency and Government will continue to discuss with DWP. I give the example of the fact that a letter was sent from David Wallace to the DWP permanent secretary to try to see what can be done working together to resolve the issues.

We face a challenge. As we work with agency agreements, there are some areas of the DWP's accounting practices that might be flagged by Audit Scotland. As I say, there are long-term issues with the DWP accounts. Discussions are on-going between the agency and the DWP but, to give a context to how long those have been going on for within the DWP itself, it would be surprising if the DWP's accounts were signed off next year, when they have not been for some years up to now. This might be an area that we will come back to in future years. The agency is taking the issue very seriously and Audit Scotland is taking it very seriously, and the agency and Government will do everything that we can do to reassure Audit Scotland that we are doing everything that we can to ensure that our processes are in place. Audit Scotland was reassured by the fraud and error processes within the agency. The area of concern is particularly around what is happening within DWP through that agency agreement.

Michelle Ballantyne: For clarity, did you review the carers allowance agreement in September, and were any changes made at that point?

Shirley-Anne Somerville: The carers allowance agency agreement will need to be extended because the case-transfer window that we will have will run beyond the time that we had initially set. The review that took place in September is the annual review as these processes move forward. There is no reason to change the agency review at that point but there has, of course, been an exchange of correspondence around the fact that the agency agreement will need to be extended. However, that process is rather separate from the annual review process that looks at how the agency agreement is working in practice.

Michelle Ballantyne: Can you update the committee on the costs of those agreements?

Shirley-Anne Somerville: The agency agreement is public and is shared. As other agency agreements are signed, they will be made public as well. The reassurance that I can give to the committee is that the cost of agency agreements is a fair one. It is managed by Her Majesty's Treasury's managing public money guidance, which ensures that the DWP cannot make a profit from them.

We will share the agency agreements for the benefits as they are signed in due course, but I hope that that gives the committee some reassurance around their cost. The agency agreement ensures that the DWP provides a service that Social Security Scotland would otherwise be delivering directly.

10:30

The Convener: Before I take another member—which means please catch my eye and you can ask a question—I will ask a question on behalf of Bill Wells, who contacted the committee with a question to ask you, cabinet secretary. Bill is interested in social security support for under 18s. I will read out his question. He said:

> "What is the Scottish Government doing to provide support for under 18s not in fulltime education, young people who are not eligible for JSA/UC or access to careers advice?"

I am sure that the committee would quite like to know how budgets are supporting, or will support, the under 18s.

Shirley-Anne Somerville: It is an area on which perhaps it would be best for me to refer back to the committee in written correspondence. Much of the support for under 18s sits outwith social security, so the best answer that I can give today is only a partial one. For example, I can talk about our support around the best start grant and its availability to under 18s, and the work that we are doing over our different benefits to encourage benefit take-up, particularly among the younger demographic that might not be fully aware of its rights and so on.

As I said, the question sits in an area that is much wider than just social security, so, with your agreement, convener, I will get back to Mr Wells in due course, via the committee, to reassure him about the further work that is going on to support under 18s.

The Convener: That is helpful. We can publish that correspondence and make sure that Mr Wells gets access to that response.

Keith Brown: I will go back to the discussion about the Scottish welfare fund. To me, it seems axiomatic that, if the UK Government reduces or further constrains social security payments, that is bound to have an effect on a demand-led fund that is looking to address things like the bedroom tax and housing payments.

I hear what you say about some local authorities underspending and some overspending, and I agree with the idea that the Scottish Government will be concerned to ensure, using the Scottish index of multiple deprivation and other measures, that it is actually addressing need. I understand that point. The Scottish Government decides what the global amount is but, within that, would it not be possible for the maximum control to rest with local authorities? For example, once the award is made and it is apportioned according to the formula, there could be a top slicing under COSLA's direction that goes into a fund that those authorities that are experiencing further pressure can access. That could all be done at a local authority level, once the Scottish Government has satisfied itself that issues have been addressed in terms of need and the global budget. That would leave the control with local authorities and might be a better way of addressing the particular needs of individual local authorities rather than the Government trying to get involved to further refine and complicate the process. Do you agree?

Shirley-Anne Somerville: If COSLA wanted to bring that forward, that would be a matter for it. I am respectful of the fact that we decide the formula in partnership with COSLA. If COSLA is looking to make changes to that formula, we could do that in partnership.

The responsibility of the Scottish Government is to set the budget for the Scottish welfare fund, to ensure that the guidance is available and to encourage and facilitate good practice among local authorities, but it is absolutely up to local authorities to decide how to spend that money. If there is another way of doing that, COSLA could come to see me about it. My door is open.

Keith Brown: I have another point, unrelated to the last one. We have a lot of discussions in the committee about the effect of actions of one Government—either the Scottish Government or the UK Government—on social security demand in the other jurisdiction. The example usually has been that a benefit take-up programme in Scotland that increased the take-up of reserved benefits would result in a cost to the UK Government—we understand that there is a process for that. I am trying to test how widely that could be interpreted.

Let us consider the recent decision of the UK Government to restrict pension credits in cases where someone of pensionable age has a partner who is not—I am not saying that this is an example; I am just using it for illustrative purposes. On the face of it, that seems likely to lead to an increase in the take-up of benefits of one description or another in Scotland. Is that an example of the kind of changes to payments that the Scottish Government would interpret as being something that it could take up with the UK Government and in relation to which it could seek redress through the mechanisms in the fiscal framework? How far would you test that?

Shirley-Anne Somerville: It is an area that we would have to test in relation to whatever example that you give. You give the example of pension credit. You used the word "interpret", and the challenge is that we might interpret something one way and the UK Government might interpret it an entirely different way.

We have a challenge around what is within our power. For example, income replacement benefits are not something that we have responsibility for, so we could not replace pension credit. If we ran a benefit take-up strategy, the two Governments' interpretation of those aspects could vary widely.

The pension credit issue is a fascinating example of what can happen around benefit take-up in relation to publicity and awareness. We can come back to the committee with the details, but I was recently told that there was a high increase in the take-up of pension credit because of the publicity surrounding the removal of the free television licence from the over 75s. Ironically, the increase in pension credit payments might be more than it would have cost to supply the free TV licences. That shows that, when you shine a light on a benefit, people recognise that they might be eligible for it and the level of uptake can change markedly.

There are advantages to encouraging people to take up their eligibility. However, as I said earlier, I am cognisant of what is in the fiscal framework in relation to the implications of something that we do in Scotland touching on a reserved benefit. That would be down to the UK Government's interpretation of that, not just ours.

Keith Brown: I hope that, in that context, the Scottish Government would take the broadest possible interpretation of measures that were taken by the UK Government that had the effect of increasing demand-led budgets for social security in Scotland. I am talking about where you can prove cause and effect. The cabinet secretary is quite right to defend the position on additional payments that the Scottish Government might be liable for in relation to actions that it has taken. I think that we should be alert to what the UK Government does with regard to anything that leads to increased costs in social security in Scotland.

Shirley-Anne Somerville: I agree.

The Convener: I have some housekeeping for members of the committee. Michelle Ballantyne and Jeremy Balfour want to raise some points. We have 20 minutes or so left. I am conscious that this is a pre-budget scrutiny session and we have a number of questions to ask in relation to informing that scrutiny. I have a specific question about discretionary housing payments, cabinet secretary.

Discretionary housing payments are intended to cover short-term crises in budgeting for housing costs and are also the mechanism by which the Scottish Government decides to mitigate the UK Government's bedroom tax. In the current financial year, £52.3 million went to local authorities to mitigate the bedroom tax and £10.9 million to cover the wider short-term housing crisis cost. Clearly, we will want to look at the numbers look like in the coming budget.

It would be hard to identify what a sufficiency of funds looks like, cabinet secretary, because my understanding is that, in the past financial year, 18 local authorities overspent their discretionary housing payment budgets while others did not, but we do not have any data about what they are spending the money on. The local authorities get the money, the larger chunk of which is to mitigate the bedroom tax, the other bit is for short-term housing crisis costs but they get the money as a lump sum and they spend it as they spend it. That could leave the Government unclear about how much of the £52.3 million did mitigate the bedroom tax and how much of it was spent on short-term housing crisis costs, or vice versa.

I am not criticising or commenting on whether the money should be moved from one policy intent to another within local authorities. That might be a power that they should have; I do not know. I am open-minded about it. However, how does the Scottish Government intend to set a budget to make sure the numbers are sufficient for the policy intent at local authority level?

Shirley-Anne Somerville: We expect to ensure that we are mitigating the bedroom tax in full. That is the mitigation measure that we have in place until we can take away the bedroom tax at source. We are determined to do that, but we are dependent on the UK Government setting the timetable for making the changes to their systems that will allow us to do it.

A number of statistics that are published by the Scottish Government show the reason for DHP awards. For example, we publish the number of DHP awards and total spend in each local authority. We collect and monitor DHP outturn data from local authorities biannually. That data includes each local authority’s spend on local housing allowance, the benefit cap, and core DHPs. We intend to begin publishing that data to coincide with the DHP official publication in November. I hope that will deal with some of the areas in question. If you feel that that still does not allow the type of information that the committee might find useful to be in the public domain, I would be more than happy to look into it on your behalf.

The Convener: That would be good. Is the data that the Scottish Government is working on with local authorities new and emerging data, or is it pre-existing data that can show a trend over time?

Shirley-Anne Somerville: I will have my analysts look at what is being done over time and what is being published in the first instance and get back to the committee on that.

The Convener: That would allow us to better understand the numbers once the draft budget is published, thank you.

Are there any other bids for questions at this point?

Michelle Ballantyne: I want to ask you about welfare rights advice. There was no line in the most recent budget specifically for advice, although you have given a fair bit of money along the way. Will you specify anything in the budget documents this year? Also, do you anticipate that the direct support you will give through Social Security Scotland arrangements and so on will have any impact on the funding you might or might not otherwise give to other welfare rights agencies?

Shirley-Anne Somerville: On the second point, it all sits separately. What we are determined to do within Social Security Scotland is provide pre-application support for people, as is their right and entitlement. As I said during my initial remarks, that is moving forward through the 400 staff across Scotland as part of the local delivery. That sits separately to any decision about budgets for advice.

The reason it was not in the budget last year is that it does not sit in my portfolio. There are areas within Ms Campbell’s budget around what is now called the money talk team. I do not have portfolio responsibility for it. Of course, other funding that has been made available for this also sits in Mr Hepburn’s portfolio.

In the round, therefore, we are investing about £3 million this year to help households maximise their income. That includes help with reserved benefits, and providing advice for welfare reforms. It also includes, for example, the money talk team that I mentioned earlier.

The reason that welfare rights advice does not have a budget line in my area is because it sits in a budget line elsewhere.

10:45

Michelle Ballantyne: How do you manage needs as you bring in new benefits, as we get more devolved benefits, and in particular as we run up to the changeover for disability benefits where obviously people will need to really understand any changes that are taking place, how to go about it and so on? If the money to do some of that sits elsewhere, how do you manage that across the portfolios when you are making your decisions about what is needed?

Shirley-Anne Somerville: We manage it across the portfolios by ensuring that there is extremely good cross-Government awareness of what is happening within my portfolio and other portfolios. Ministers are fully aware of the timetable for changes to when a devolved benefit will come in.

Of course, with the exception of the Scottish child payment, this is about a change in responsibility for a benefit. Advice agencies already give a wealth of much needed advice on disability assistance packages and they will move to providing assistance and support on our version of that when it becomes available. We keep very close contact with organisations that provide such advice and assistance so that they are fully aware of the changes that we are looking at and how the new benefit will look and feel to people.

I hope that provides some reassurance about what goes on to ensure that Government is fully aware of what is happening, and the impact it will have on portfolio responsibilities, whether that is financial or in the much wider sense. We are also working with the wider stakeholder community so that people can be fully aware at the earliest opportunity of the changes that we are looking to make around policies and regulations on the assistance packages that are coming forward.

The Convener: That was a helpful line of questioning, Michelle.

Last Friday, on behalf of the committee and as part our inquiry into benefits uptake, I attended the quarterly meeting of Rights Advice Scotland—the organisation that represents frontline local authority advice workers. There were a number of questions and comments that might form a written submission to the committee, but it is reasonable to say that a number of people in the room suggested that they would welcome any funding for welfare rights and advice services. They were concerned—we have to test evidence on this; we do not have a view as a committee—that that money went directly from the Government to various organisations, but they thought that local authorities were best placed to marshall those budgets and decide whether to invest in and develop their years of in-house experience to offer welfare rights and advice themselves, or whether to put it out to valued partners in the third sector. A number of people in the room thought that perhaps the way it currently works, irrespective of whether we think there is enough money, might not be the best way of doing things.

I am not sure whether there is a question in that, cabinet secretary, but Rights Advice Scotland will be following this evidence session, and it is aware of the on-going committee inquiry, so if I did not raise that with you in the context of Michelle Ballantyne's question, I would be doing it a disservice. Feel free to comment on that or just note the contents, cabinet secretary.

Shirley-Anne Somerville: I will do a little bit of both, convener. I will certainly note the comments and absolutely appreciate where that view comes from. It is not an area for my portfolio to make any policy decisions on; it would be for another minister. I will perhaps leave it there for today but we will ensure that the minister responsible is aware of the feedback that you had. I am sure that you will update me, and I can update my fellow ministers likewise, especially if there is written evidence that it may be useful to draw another minister's attention to areas that sit directly in my portfolio.

The Convener: That would be good. We would like to be able to identify a budget line and better understand the flow of cash from that budget line. There is maybe a lack of clarity around that as things stand so that is helpful.

Alison Johnstone: Have there been any discussions or work around the method of transferring funds for the cold weather payments and the winter fuel payments?

Shirley-Anne Somerville: We are still having a great deal of policy discussion about what that would look like in Scotland. We are carrying out experience-panel work on that and what people want from cold weather payments. We are also having a close dialogue with the UK Government about that transfer taking place, and how it would happen. Our assumption is that the method of the transfer will be the block grant adjustment because that funding is demand led. Once that is finalised, and once those assumptions have been tested and agreed with the UK Government, we will get back to the committee. Our thinking on policy and implementation is fluid. Once it firms up, we will be able to update the committee.

Jeremy Balfour: I have a brief question about disability assistance for children and young people. It is the Scottish Government's intention, for which it probably has cross party support, to move from 16 to 18. What forecasting have you done in case that comes in next year? If the regulations stay the same, would it mean that more people would stay on that benefit than would swap to personal independence payments? What is the differential in numbers, so we can do some work on budgets?

Shirley-Anne Somerville: I will get back to you with more detailed information about the differentiation in number than even the weighty tome that I have in front of me today contains on that.

We are already working very closely with the DWP on that. For example, the DWP expects to send out letters to those who are approaching their 16th birthday, and I assure members that we are working closely in agreement with DWP about how those letters are handled, when it will happen, what the letters will say and so on, so that the client is getting the best and most up-to-date information and messages that have been agreed by both Governments to allow the transition to be seamless, and so that people are not receiving one set of information now and another set in six months. With your permission, I will get back to on the specifics of the numbers.

Jeremy Balfour: I am obliged, thank you.

Shona Robison: On a different issue and just for completeness, given the topicality of the subject, have you done an assessment on the implications of Brexit for the social security budget?

Shirley-Anne Somerville: We are taking a close interest in that, as is every single other area of Government.

You will be aware of the different announcements that Aileen Campbell has made around this issue. She announced the £1 million fund for fair share last week, or maybe the week before, and also said that a £7 million vulnerable communities fund will be made available to local authorities. In the event of a no-deal Brexit, it will be for local authorities to look at whether that should be the Scottish welfare fund, discretionary housing payments, or whatever. Local authorities are absolutely best placed to do that.

We are looking at the impact of the worst-case scenario on the uptake of benefits if, for example, the unemployment rate increases or people move into less secure jobs or have fewer workplace hours. If those things happen, we expect to see an increase in the uptake of reserved benefits that affect the eligibility for best start grant and best start foods, for example, and that will lead to a change in the level of forecasted expenditure within Scotland.

At the moment, we are looking at is a combined increase of expenditure in the region of £10 million per year if the worst-case scenarios around unemployment increases and so on were to take place. We will have to keep a very close eye on that.

If we do move towards a no-deal Brexit, our most vulnerable communities will undoubtedly be hit the hardest, and they will not be able to cushion themselves from the blow. That is the reason for Aileen Campbell's announcements about the £1 million for fair share and the £7 million vulnerable communities fund in the event of a no-deal Brexit.

To be clear, the Scottish Government cannot mitigate the impact of a no-deal Brexit—no Government can—given the sheer scale of that impact.

There are also areas that do not sit within the responsibility or powers of the Scottish Government, which is why Aileen Campbell has written to ask the Secretary of State for Work and Pensions to look seriously at what they should be doing immediately after a no-deal Brexit, if that does indeed take place. For example, it needs to ensure that the benefits cap and benefits freeze are lifted, and that those who are on universal credit are not obligated to pay back their advances.

We will do what we can within the Scottish Government's budget, and the Deputy First Minister has set some of that out. However, to be absolutely clear, we cannot mitigate the scale of the impact, particularly on vulnerable communities. The UK Government is absolutely responsible for ensuring that a no-deal Brexit does not happen; if it does, it is absolutely obligated to take account of the impact that that will have and to move quickly to alleviate some of it. I have given some examples of how they could do that within the responsibility of the Department of Work and Pensions.

Shona Robison: Can we have regular updates as we go forward, convener, depending on the situation that we find ourselves in?

The Convener: Absolutely. That would be welcome.

Shirley-Anne Somerville: I would be happy to do that.

The Convener: It was right to ask the question and put the issues on the public record when we are looking at pre-budget scrutiny.

As there are no further questions for the cabinet secretary, I thank her and her officials for being here and doing two sessions with us. You do not get off that easily, however. I believe that you are back with the committee again at the end of the month for another evidence session, along with David Wallace, the chief executive of Social Security Scotland. We shall see you then but, for the moment, thank you very much.

10:57

Meeting continued in private until 11:32.

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