



OFFICIAL REPORT
AITHISG OIFIGEIL

Social Security Committee

Thursday 20 February 2020

Session 5



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SOCIAL SECURITY COMMITTEE

5th Meeting 2020, 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)
Kevin Stevens (Scottish Government)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Social Security Committee

Thursday 20 February 2020

[The Convener opened the meeting at 09:37]

Decision on Taking Business in Private

The Convener (Bob Doris): Good morning everyone and welcome to the fifth meeting in 2020 of the Social Security Committee. I remind everyone to turn off mobile phones or set them to silent. We have no apologies. Shona Robison MSP hopes to be with us as soon as she can but is delayed with other commitments at committees elsewhere.

Item 1 is a decision on taking evidence in private. Does the committee agree to take item 3, consideration of evidence, in private?

Members indicated agreement.

Budget Scrutiny 2020-21

The Convener: Item 2 is scrutiny of the budget 2020-21. The committee will take evidence on the Scottish Government's budget for the forthcoming financial year, including the revised social security programme business case, which was published on 12 February.

I welcome Shirley-Anne Somerville, Cabinet Secretary for Social Security and Older People—thank you for coming along—and her team: Kevin Stevens, head of strategic and programme finance, social security directorate; and Alison Byrne, deputy director, social security programme delivery support, both of whom are from the Scottish Government; and James Wallace, deputy director, finance and corporate services, Social Security Scotland.

Thanks to everyone for coming along to support our scrutiny of the Scottish Government's budget this morning. We move to an opening statement from the cabinet secretary.

Shirley-Anne Somerville (Cabinet Secretary for Social Security and Older People): It is a pleasure to be here today to talk about the social security budget as this is a landmark year in the devolution of social security benefits. April 2020 will see £3 billion in benefits spend transferred to the Scottish Government. It is a key milestone in our journey to deliver a social security system based on dignity, fairness and respect.

The total budget allocation for the social security and older people portfolio is £3.8 billion, which includes £3.4 billion in forecast benefit expenditure that will reach approximately 800,000 people and make a real difference to their lives.

I now turn to specific benefits. Since it was introduced on 1 April 2013, the Scottish welfare fund has paid out more than £220 million to more than 357,000 households in crisis. As committee members know, the fund is under pressure in many parts of the country because of the increasing demand that is being brought about by deep United Kingdom Government welfare cuts and the continuing effects of austerity. Therefore, we are allocating an additional £3 million funding—an increase of almost 8 per cent—to further support that vital fund for people who need it. That will enable local authorities to continue their positive work to help the most vulnerable people in our communities.

As set out in the programme for government, we are also committing a further £2 million in discretionary housing payments to support care-experienced young people. That is in addition to our continued commitment to fully mitigate the effects of the bedroom tax through almost £60 million of funding and funding of £10.9 million for

other discretionary housing payments, including support for those people who are affected by local housing allowance rates and the benefit cap.

The funeral support payment helps to alleviate the burden of debt that clients can face when paying for a funeral and so helps to reduce funeral poverty. We have already committed additional funds to support the widened eligibility that we introduced here in Scotland. In addition, we have increased the standard rate from £700 to £1,000 to support people even further. The benefit is expected to support around 5,000 people each year.

The effects of the payment were highlighted recently by a funeral director's feedback. He said that funeral directors were

"amazed at the speed of the decisions and how quickly the payments are coming through. This is making a huge difference to the state of mind of our clients who are worried about what to do about the bill if it takes a long time for a payment to come through".

That feedback is extremely positive and is yet another demonstration of how we are already making a real difference to the lives of the people of Scotland.

The committee is aware that we will not take an austerity-led, target-driven approach, in which all that matters is driving down the cost of supporting the people who need it. We recognise the risks that are associated with demand-led spend on that scale. Forecast variation, either up or down, in demand-led spending could have a wide impact on the Scottish budget. For example, a 10 per cent variation in forecast for 2020-21 is more than £300 million. We are working with stakeholders and experts across the Scottish Government to develop processes and procedures that will enable the effective management of those risks, both in-year and for future years.

Benefits that are being introduced in the financial year 2020-21 include the job start payment, which is a brand new benefit that will be launched in spring 2020. It will help young people aged 16 to 24 who have been out of paid employment and in receipt of an eligible benefit for six months or more. A one-off payment of £250, or £400 if a young person has children, will cover the cost of transport to work, clothes or food. Care leavers can claim until they are 25. It is expected to help around 5,000 young people.

Applications for child disability payment will open in summer 2020, and we will ensure that young people, carers, parents and guardians can navigate the process of applying for and maintaining their benefit by phone, online or by post, using a medium of their choosing. Additionally, from winter 2020, children in receipt of the highest rate of the care component of child

disability payment will receive child winter heating assistance, which is an annual payment of £200. That will help an estimated 16,000 families with severely disabled children and young people to ensure that they can maintain a consistent temperature in their homes throughout the winter.

From spring 2021, we will deliver extra financial support to people in receipt of carers allowance who care for more than one disabled child, in recognition of the impacts on carers' health, wellbeing and ability to work and to have a life outside of caring. We are working with carers and stakeholders to develop that new support.

Autumn 2020 will see the introduction of the Scottish child payment, which is a brand new benefit for families with children under the age of six. Up to 170,000 children will be eligible for those early payments. In line with Scottish Fiscal Commission forecasts, the Scottish Government has allocated £21 million for benefit expenditure in 2020-21. The payment will be a preventative measure to mitigate further cuts and will fundamentally shift the curve of poverty. It will be fully rolled out to eligible families with children under the age of 16 by the end of 2022. Once that has happened, the payment will benefit 410,000 children and reduce child poverty by 3 percentage points, lifting 30,000 children out of poverty—a significant investment in our children and families.

Finally, we are committed to launching disability assistance for working-age people in early 2021. Our priority is the safe and secure transfer of disability assistance, which means that we will not make fundamental changes to the benefit structure in the immediate future.

However, we have bold ambitions, and have already identified a number of ways of providing disabled people with a different experience when accessing the support to which they are entitled, from pre-application right through the client journey to when a decision is made.

As we continue to balance the Scottish budget, challenging decisions will have to be made about any new policy suggestions that we receive, and we will need to ensure that any new changes are affordable and present value for money.

09:45

I will give an example. We recently explored in a position paper the option of introducing a mobility element to disability assistance for older people, which is the Scottish replacement for attendance allowance. The clear and significant financial implications—they are estimated to be about £580 million a year—and other identified risks resulted in our decision not to pursue that option.

I move on to our programme of implementation. We are reforming welfare and implementing a programme that is delivering the necessary infrastructure for a brand new public service for Scotland, ensuring that the service meets the needs of the people of Scotland now and well into the future. The new assets are an investment in public services that will facilitate the delivery of devolved social security for decades to come.

Our investment in the social security programme represents less than 0.5 per cent of benefit expenditure over the next 30 years—that is £651 million on programme implementation to 2024-25, compared with an estimated £150 billion in benefit expenditure to 2050. We are investing £175 million in 2020-21 to continue the programme of implementation.

The social security programme continues at pace, delivering on commitments that the Scottish Government has made. As the Auditor General stated in her May 2019 report:

“The programme is already working at a high pace. Given the emphasis on safe and secure delivery and the complexity and scale of work ahead, it is difficult to see how the programme could progress more quickly.”

We are building a brand new public service from the ground up. It has been co-designed with our clients to ensure that it will meet the needs of the people of Scotland now and well into the future. We have always been clear that the process of devolution must be safe and secure, and Parliament has endorsed that approach on a number of occasions.

I often talk about the complexities of the implementation programme, and how we are using agile methodology to manage those complexities. Committee members took the opportunity to visit programme staff in Victoria Quay and see that agile programme in action. The hard work and dedication demonstrated by the staff working on the social security programme and in the agency shows their commitment to designing and delivering a fairer, more inclusive system, and is to be commended.

In 2018-19, Social Security Scotland provided £190 million in payments to more than 91,000 people across Scotland. In this financial year, it expects to spend around £341 million. Once fully operational, Social Security Scotland will administer around £4.2 billion in payments a year, and employ more than 1,900 people across central and local functions.

We are delivering efficiency while responding to the wishes of the people who are using it by providing a service that is based on human interaction rather than digital by default. We aim to have running costs that are broadly the same as the current UK system, measured as a percentage

of benefit expenditure. In 2020-21, we are investing £186 million in Social Security Scotland to ensure that £3.3 billion of benefit expenditure gets to the people who need it most.

Making sure that everyone gets that financial support is a basic step in putting dignity, fairness and respect at the heart of our social security in Scotland—a key principle of the Social Security (Scotland) Act 2018. We will continue to ensure that our systems and processes are simple and inclusive, seek to remove barriers, and continue to promote the take-up of our benefits.

I look forward to the committee’s questions.

The Convener: Thank you, cabinet secretary. That was a lengthy statement, but I suppose that that reflects the increase in powers, funds and budgets at your disposal and the corresponding growth of Social Security Scotland.

We will start by scrutinising an issue that the committee has consistently looked at over a number of years: the money available for the Scottish welfare fund. Since my time as the convener of this committee—and, I think, since the time of Clare Adamson, who convened the committee before me—we have consistently called for an increase in the Scottish welfare fund. On behalf of the committee, I welcome that there is to be an increase. I see from the numbers that we have at our disposal that there will be an increase from £33 million to £35.5 million in grants that go out to vulnerable individuals who are in crisis. How did you arrive at that increase?

Shirley-Anne Somerville: I recognise the work that the committee has done on the issue over the years, and I appreciated receiving the convener’s letters that suggested that we look very seriously at increasing overall expenditure on the fund. When we considered all the options, I was keen that we should provide not simply an increase in line with inflation but an increase that recognises that there are increasing demands on different areas of the country because of the UK Government’s welfare changes. It is not only a reasonable increase but a substantial increase of, as I said, nearly 8 per cent.

The funding formula is agreed with the Convention of Scottish Local Authorities and is based on figures from the Scottish index of multiple deprivation. The increase will be fed into the usual formula that is used.

The Convener: It would be helpful to know whether you think the current SIMD formula is fit for purpose. We must target the Scottish welfare fund at areas such as my constituency where there is a desperate need to provide crisis grants and support to vulnerable constituents. However, Glasgow City Council easily spends its share of the fund and then some more again. My

understanding is that, in previous years, some local authorities did not spend their full allocation. I hate to say, "Use it or lose it," but my local authority is spending all of its allowance as well as providing additionality from time to time. How do we ensure that the money goes to those who are most in need and to local authorities that are most proactive in helping the most vulnerable?

Shirley-Anne Somerville: The formula was agreed with COSLA, and any change to it would, of course, be done in partnership with COSLA. If COSLA or other stakeholders come forward with a different proposition, I would be open to considering that suggestion. The formula is still quite new; it has just bedded in within local authorities. The Government is certainly not considering a change to the formula, but we are open to suggestions.

In conjunction with COSLA, we are gathering evidence on the Scottish welfare fund. I am keen to review the effectiveness of the fund, and I have on-going discussions with COSLA on that basis. I am not against a change to the formula, but the Government is certainly not proactively considering such a change at this point. We are keen to work with partners in local government to ensure that the scheme works as effectively as possible.

The Convener: I should point out that I wish that COSLA used the SIMD more often in funding formulas for local government. The SIMD is a powerful tool for getting money to where it has to go, but I am conscious that some local authorities are underspending, whereas some are spending their allocation and then some more. The issue is how that situation is reconciled, but I welcome the cabinet secretary's comments.

You mentioned the number of households that had benefited from the Scottish welfare fund each year. Have you estimated how many additional households or individuals might benefit from the uplift? Will the same number of individuals get a little more cash to help them in tough times, or will more grants be awarded? Do you have an idea of what the picture might look like? Is it all down to local discretion?

Shirley-Anne Somerville: The Scottish Government sets the overall budget, and the formula and how the money is distributed are agreed with COSLA, but it is then up to the local authority to administer its budget in order to meet its local needs. I do not think that it would be right or proper for the Scottish Government to dictate or suggest the direction of travel, because needs will very much vary in different parts of the country, depending on local circumstances.

The Convener: However, you will follow the money in order to work out how effectively it is being spent in different parts of the country.

Shirley-Anne Somerville: Absolutely.

The Convener: Is this approach unique to Scotland, or are other parts of the UK trying to use similar tools and devices to help with what I would describe as the mitigation of UK austerity and the social and human consequences of benefits caps, freezes and sanctions and the like across the UK? Are there examples of that approach being taken elsewhere in the UK, and are there any comparisons with that of the Scottish Government?

Shirley-Anne Somerville: Nothing quite like the Scottish welfare fund is available to the same extent. The example that I would give in this case is in England, where, following the devolution of the Scottish welfare fund to Scotland, recent research was undertaken on what was happening there. There are certainly examples of some local authorities moving to make much less assistance available than there was under the arrangements for what was called the national crisis loans and community care grant. We can provide the committee with more information on those aspects. It certainly seems to be an area in which there are concerns—particularly in England—around some of the restrictions that local authorities have put in place because of restrictions in their overall budgets.

The Convener: In my previous question, I said that I would sit this approach within the idea of austerity mitigation by the Scottish Government. I am sorry if I have got this wrong, but I think that the Scottish Government has used a figure for mitigation, which, when discretionary housing payments and other aspects of the social security budget are included, is about £110 million. Do you have to find that money from elsewhere? Does that take spend away from other things that you have to do? How do you decide that £110 million is an appropriate spend on mitigation of what are essentially UK Government policies? I would not be supportive of those policies, but I am grateful that the Scottish Government is spending £110 million plugging the gap that they create. How do you arrive at that £110 million, and what are the consequences for the Scottish budget?

Shirley-Anne Somerville: There are consequences for the Scottish budget because we work within a fixed budget. In 2018-19, when the child poverty delivery plan was developed, it suggested that the Scottish Government was investing £1.4 billion to support low-income households, and £527 million was targeted directly at children in low-income families.

You referred to the mitigation measures in particular. We estimated that in 2019-20 we would invest £110 million for mitigation and we anticipate that in this coming financial year, we will invest approximately the same amount of £110 million on welfare mitigation.

The Convener: We have to make recommendations as a committee. If we identify additional expenditure that we would like to see on social security, we have to say where it would come from. If you had more cash—I suspect that you do not—is there more that you would like to mitigate? What would your priorities be if you had more cash to spend? That is £110 million that could be spent in other places.

Shirley-Anne Somerville: I give the example of the bedroom tax. If the UK Government ended the bedroom tax, £60 million could be spent on other measures within the Scottish block grant. We could do a lot with another £60 million in social security. I am sure that I and committee members would have views on how we could do that, but there is simply no more additional funding this year. The budget is fully spent, and therefore every pound that we spend in mitigation against UK Government austerity is money that we cannot spend proactively on aspects such as tackling child poverty.

The Convener: I am sure that the committee could spend £60 million quite easily.

Shirley-Anne Somerville: In a heartbeat, I am sure.

The Convener: I appreciate the constraints that you are under.

Does anyone want to come in with other questions on this theme?

10:00

Alison Johnstone (Lothian) (Green): The cabinet secretary mentioned COSLA's input to the discussion about the Scottish welfare fund and the increase that has occurred. The convener has pointed out that some local authorities have spent the lot and would like more, so that they could mitigate circumstances for people who are really struggling. However, we have heard from other local authorities that they have struggled to meet demand and have not advertised their funds for fear of more people asking for help than they could help. What discussion have you had with the local authorities?

Shirley-Anne Somerville: As I said to the convener, that is exactly why my officials are working with COSLA, and gathering evidence on what is happening with the Scottish welfare fund. Discussions are on-going about how that will work and which local authorities will take part. I am

keen for the work to be done in partnership between my officials and COSLA.

Some local authorities have decided to spend more on the fund, in addition to what has been allocated through the national formula, as they are perfectly entitled to do. However, I am aware of variations among local authorities in the percentages that they spend and the time of year when the fund is spent, which is why the review will look at the fund's effectiveness, and why we are gathering evidence on matters such as Alison Johnstone has raised.

Keith Brown (Clackmannanshire and Dunblane) (SNP): I plead that the cabinet secretary will stick with the approach of not interfering with what local authorities do with the welfare fund, which is exactly the right approach. I encourage that, because the danger of allocating funds according to Scottish index of multiple deprivation or poverty figures is that the larger authorities would benefit at the expense of smaller authorities in a free-for-all.

Authorities underspend for many reasons; they might be spending more on anti-poverty measures elsewhere. If some authorities underspend and others overspend, and there is real pressure, surely the remedy should come from COSLA. It could easily top slice the unspent funds as an insurance policy, so that authorities that require more get more. I think that I mentioned that idea at a previous committee meeting. It cannot be the case that the Government must always put in more. I do not deny that there is more demand, but there has to be recognition of how underspends could address that, rather than it just being about additional money. Have you given thought to that idea?

Shirley-Anne Somerville: As I said to the convener, the Government is not proactively looking for change, but if stakeholders, the committee or COSLA have proposals or suggestions on how the formula could work in a different and better way, it is up to them to come forward. We are not saying, "This is it—this is the formula" or that we are not interested in looking at the issue. The fund has only recently been looked at and has just been bedded in with the formula.

Pauline McNeill (Glasgow) (Lab): The general area that I will question you on is my concern about the block grant adjustment and reconciliation of the benefits' full transfer and its impact on the rest of the Scottish budget. I am aware that

"The UK block grant to the Scottish Government is increased to reflect the devolution of disability and carer benefits."

It is worth pointing out that the

“Smaller benefits are calculated using the normal Barnett formula.”

The figures that we have show forecasts for attendance allowance, DLA and personal independence payments. We can see that there are some differences. I am also aware that the final reconciliation of disability spending will come in in 2020-21.

There will come a point when all the forecasting and reconciliation will end and we will be on our own. Social security is a demand-led budget, so we have to spend the money through the new agency, whatever comes through the block grant adjustment. Do you have any concerns about actual spend being more than has been forecast, which would have implications for the rest of the Scottish budget?

Shirley-Anne Somerville: The Government and Parliament will have to be particularly cognisant of that. This will happen every year; our budgets will always be based on forecasts by the Scottish Fiscal Commission, but block grant adjustments will always be made if they are required. What is particularly interesting and challenging is that that does not happen in one financial year, but can happen over a number of financial years. It is not a concern, but it is something that we have to be exceptionally alive to.

I mentioned in my opening statement what can happen if in-year forecasting is incorrect. That would be managed in-year, in the usual manner, but we are talking about a much larger demand-led budget than the Scottish Government has had in the past, which presents challenges. I am content that there is an exceptionally close working relationship between officials in social security finance officials and Government finance officials, and that any variance during the year will be flagged up quickly to finance colleagues and the Cabinet Secretary for Finance. We will deliver that in-year, because we have to manage our budget.

The block grant adjustment does not happen only in one year. The outturn figures will come and we will have to deal with those in future financial years. The adjustment might be up or it might be down. Inevitably, at some point it will, in effect, take money from the overall budget, if we are having to deal with it in that manner.

I will bring Kevin Stevens in to explain some of the issues, because it is fair to say that block grant adjustments are among the most complex areas of the budget. They are also among the most serious areas of the budget, given how large the numbers might be, as we move forward.

Kevin Stevens (Scottish Government): This is, indeed, a complex area. There are various

strands to Pauline McNeill’s question. First, I will answer the question by adding more colour on the risks around the block grant adjustment process. The overall level of the Scottish budget is influenced by the interaction between Scottish Fiscal Commission forecasts and forecasts that are provided by the Office for Budget Responsibility. This year, because of the timing of the UK budget, the SFC forecasts are using much more recent data than are used in the OBR forecasts. The forecasts that underpin the block grant adjustments come from the OBR and are about a year old. The SFC forecasts, which inform our budget in Scotland, are much more recent. The OBR will update its block grant adjustment forecasts at the time of the UK budget on 11 March, and those figures will be available to the Scottish Government then. The updated BGAs can be incorporated into the Scottish Government’s budget if it so chooses.

The second part of the question was about the risks of demand-led spending. Clearly, it is very important for the Scottish Fiscal Commission to understand what the Scottish Government is doing around service design for benefits, uptake and what have you, so that that information can be incorporated in its forecasts to ensure that they are as accurate as possible. Combined with that, officials in the agency work very closely with colleagues in the central finance directorate of the Scottish Government to ensure that there is robust understanding of what the in-year position will be.

In annexe A, around page 245 of the Scottish Government’s budget document, use of the SG’s limited resource borrowing powers and how an element of resource borrowing is used to support the difference that is created by the outturn reconciliation process is discussed.

Pauline McNeill: Thank you. I am impressed that you know the page number, because the subject is very complex. I am not clear in my mind about the reconciliation process, so I will ask about it. As I understand it, the Scottish Government’s block grant

“is increased to reflect the devolution of disability and carer benefits. Smaller benefits are calculated using the normal Barnett formula.”

Is there an end point for the reconciliation process, or is that on-going?

Shirley-Anne Somerville: It is ongoing, because we will continually have forecasting and estimates from the OBR, so we will always have that reconciliation.

Pauline McNeill: Will that be with the UK Government?

Shirley-Anne Somerville: Yes. That is now part of our budget process. It is fair to say that that leads to a great deal of complexity, because we

deal with the outturn figures in the next financial year, rather than in that financial year.

Pauline McNeill: That explanation is helpful, because I did not fully understand the situation. To me, that means that there is a bit less risk because you can adjust more quickly. It would be deeply concerning if the Scottish Government had to use borrowing powers that are meant to be used against the whole budget, rather than just the social security budget. That is best avoided.

From what you are saying, it seems that the forecasting is absolutely critical and that if we get that right, there is less risk. If we get it wrong, there can be adjustment the following year, I suppose. That could happen fairly quickly. If we had to use borrowing powers, would that borrowing be short-term?

Shirley-Anne Somerville: We might have to use borrowing or reserves at any point to deal with reconciliations. It will depend on how large the reconciliations are. I repeat that social security is a demand-led budget and that because some of the benefits are new it is exceptionally difficult to forecast behavioural change and the impact that it will have. That applies also to the benefits that we are transferring over. That is one of the areas in which there is a great deal of risk.

Pauline McNeill: That is one thing that I totally understand; you have spoken about it many times. The forecast difference for personal independence payments is not wildly out; it is about £18 million, which I do not think is that much. However, that £18 million might have to be found if the forecast is out by that amount.

Shirley-Anne Somerville: That could happen when we move on to PIP. That will affect next year's budget, rather than this one, because with the replacement to PIP coming in early 2021, only a portion of this budget is affected. In future years, we might see the numbers increasing and being exceptionally difficult for the SFC to forecast. Again, I use the example of behaviour change, because it is one of the most difficult areas to forecast. That is an on-going challenge and something that we will have to look at very seriously every year.

Borrowing and reserves are available to manage that, although I will say that one of the reasons why the review of the fiscal framework is exceptionally important is that, when we are looking at how to deal with social security reconciliations, the question that the Government will be looking at and the Parliament might be interested in is whether the fiscal framework will work satisfactorily to deal with the level of reconciliations that might happen in the future.

Pauline McNeill: Exactly. That is an area that the committee might want to look at further.

I would like Kevin Stevens to explain one more thing to me, so that I am clear. Our briefing says that the final reconciliation of disability spending will be in 2020/21. What does that mean? When I read that, I thought that it meant that after that the disability budget would be red circled going forward, but are you saying that that is adjusted by the block grant every year?

Kevin Stevens: I am not sure that I understand the specific figure that you are referring to.

Pauline McNeill: It is more about the principle. The briefing paper mentions

“the final reconciliation of disability spending in 2020/21”.

10:15

Kevin Stevens: In effect, there is a three-year cycle. The Scottish Government's 2020-21 budget reflects the 2018-19 adjustment for carers allowance, because the outturn figures become available in September of each year. Because of the timing of the Scottish Government budget and the year-end outturn of the benefit figures, there is a catch-up process. There is a timing difference. Depending on the new OBR forecasts, which will be released at the time of the UK budget, the gap could be smaller or larger, but there is a continuous cycle.

Pauline McNeill: That is helpful. Has the cabinet secretary had an opportunity to discuss the possible risks with the finance secretary and other cabinet secretary colleagues?

Shirley-Anne Somerville: The Cabinet has discussed, in general, the differences in the overall Scottish budget that have been caused by devolution of the social security budget. The whole Cabinet is very alive to the demand-led feature. If there is a change in the in-year demand figures—I am not talking about the block grant adjustments—that will have to be reconciled in the Scottish budget. My Cabinet colleagues and I need to be alive to that issue, because the money will need to be found in the budget or through borrowing and reserves.

The Convener: In relation to demand-led budgets, our committee is carrying out a benefits entitlement and uptake inquiry. Demand is one aspect of overall financial exposure in a budget, but uptake is also relevant; the Government has to estimate uptake when it makes its financial assumptions. I will not pick a specific benefit or entitlement, because my colleagues will want to look at those in a bit more detail, but the Scottish Government has to estimate uptake for a range of devolved benefits.

When you set budget lines, do you go for a mid-point position? If you think that uptake might be 70 per cent, will you forecast for 75 per cent, so that

you have a bit of flexibility in relation to the overall budget allocation? Do you give headroom in budgets to allow for what we hope would be anticipated additional uptake? Our inquiry is about incentivising and encouraging vulnerable people to apply for the benefits to which they are entitled. Did considerations about uptake feed into the numbers that we are looking at?

Shirley-Anne Somerville: The budget is based on the Scottish Fiscal Commission's forecasting. My officials have an exceptionally close working relationship with the commission, so that it understands the Government's modelling and any policy changes that we make to the system that we have inherited from the Department for Work and Pensions. The SFC's forecasting is then used and inserted in the Scottish Government's budget.

The Convener: Nothing in forecasting is an exact science. However, if it was shown that there had been a 4 per cent increase in uptake across the board over the commission's forecast, which the Government has to use—that would be a nice problem to have—what contingencies would be used to ensure that, in a demand-led budget, all payments were made and honoured?

Shirley-Anne Somerville: That increase would need to be met in-year. As Kevin Stevens and I have said, there are exceptionally close working relationships between my officials and central finance officials. Month by month during the year, we flag up to central finance changes that might suggest fluctuation up or down. Such fluctuation will simply need to be managed in-year; there are no other options for the Scottish Government.

It is the case that we have limited borrowing and reserve powers, but that is why the management of the budget in-year is exceptionally important. In the relationship with central finance, it is exceptionally important to flag up fluctuations, because they will have an impact on the overall Scottish budget.

The Convener: I understand the challenges that will be faced. That is a headache that the committee would like, because we want to maximise benefit uptake, which was my reason for asking the question. Thank you for the reassurances.

Dr Alasdair Allan (Na h-Eileanan an Iar) (SNP): A feature of close to everything that you do, cabinet secretary, is your interaction with the DWP. Can you say more about the agency agreements and why costs have changed?

Shirley-Anne Somerville: The agency agreements are a way of working to ensure that we deliver a safe and secure transition. It is exceptionally important that we do that; otherwise, we would be taking a big bang approach to devolution, in effect, rather than the safe and

secure transition that Audit Scotland and this Parliament think is correct.

The agreements will be developed case by case with the DWP. Some are in place and some will be signed off in due course—they are signed off as and when required. The numbers in an agency agreement are agreed through discussions between the Scottish Government and the DWP. It is probably important to stress that they are at cost—that is, they show how much it costs the DWP to deliver a system on the Scottish Government's behalf, which will be developed case by case. The agreements will obviously decrease over time as we move forward with case transfer, so once the agency is at steady state, we will get to a point when the number of agency agreements will come down because delivery will be done by Social Security Scotland.

Some agreements will continue, such as those that deal with the interaction of data between the DWP and the Scottish Government. An example is the agreement on the best start grant, which allows us to access data from the DWP. Such agreements will have to continue because we have joint clients and a responsibility to be able to access information so that we can move forward.

I hope that that explains where we are on the agency agreements that are in place and those that will be agreed case by case, and why they will decrease in number as case transfers move forward. That will end in 2024-25, with limited agency agreements after that date.

Dr Allan: You said that you see a declining role for most agency agreements. Have you identified any challenges around managing the relationship with the DWP over the agreements?

Shirley-Anne Somerville: One way in which an agency agreement can prevent us from doing something is that the agreements are based on the fact that no policy changes can be made while one is in place. That is why, when we moved to an agency agreement for carers allowance, we had a separate carers allowance supplement. That allowed us to have the agency agreement, but it also allowed us to move exceptionally quickly. Indeed, the carers allowance supplement was the first thing that we did.

There is another aspect that we have looked at very seriously. I have reached agreement with the DWP that there will be a halt in the transfer of people from DLA to PIP under the DWP when we have our agency agreement. The Government has had a concern about PIP over a long time, and we have asked for years for a halt to the transfer from DLA to PIP. I would have been exceptionally uncomfortable if, when we had an agency agreement, people were still being moved from DLA to PIP. One of the aspects that has been

agreed with the DWP—I am grateful for its work on this—is that halt in the transfer of people on to PIP during that process.

The Convener: Mr Balfour, I know that you have a number of questions that you want to ask, but you can ask one of them now, so that other members can come in.

Jeremy Balfour (Lothian) (Con): Good morning, cabinet secretary. I want to ask about disability assistance for working-age people. You have said this morning that you hoped to have the benefit up and running by early 2021. I only got a C for maths O level—for me, everything has to be put in rows with round figures—but my understanding is that there is nothing about that benefit in this year's budget. When you say "early 2021", does that mean that we will be into the 2021-22 budget before we see disability assistance up and running?

Shirley-Anne Somerville: No. There was a discussion with the Scottish Fiscal Commission about its estimate for our replacement for PIP. We are still very much at the policy development stage around aspects of our replacement for PIP. When the Fiscal Commission considered its forecasting, it looked at what would be happening under PIP. I am fully in agreement with that approach. As we move forward with further policy development, we will tell the Fiscal Commission about the changes that we want to make to our replacement for PIP, and the Fiscal Commission has the opportunity to revise its forecasts if it feels that those changes would change the figure in the budget. That is why there is no differential between what would be happening under the DWP's PIP and our disability assistance for working-age people. We will work with the Fiscal Commission during this financial year to develop the policies further and allow it to make that forecasting decision.

Jeremy Balfour: That is very helpful.

I go back to the deputy convener's point—we may come back this to a lot in the next two or three years. If, at some point in 2021, the benefit is being fully administered by the agency and there are new rules for the Scottish PIP, I presume that there will be a two or three-month period in which there may well be a differential. Your colleague Kate Forbes has said that there is no more money down the back of the settee. If the differential goes up, how will you pay for that benefit during that two or three-month period?

Shirley-Anne Somerville: That is very much a comment that Kate Forbes makes in Cabinet, and not just to Opposition spokespeople. I go back to the fact that that money absolutely has to be found in year. Obviously, the first port of call is to ask whether the situation can be managed in year within our portfolio budget. We would then look at

the wider Scottish budget, then at our limited reserves and borrowing. Kate Forbes is correct. There is no contingency sitting there, either for my demand-led budget or for Opposition spokespeople's ideas. There will be exactly the same challenges in year. We will look at my portfolio budget, and then at the entire Scottish budget; if the money still cannot be found, it will simply have to be found through reserves or borrowing.

Jeremy Balfour: The sooner that the committee knows the timescale and what the regulations are, the better we can scrutinise that benefit, particularly on the financial side. It is certainly a plea from me—and, I am sure, from others on the committee—to the Scottish Government that, as soon as it has that information, it lets us know.

Shirley-Anne Somerville: Absolutely. I can fully appreciate that, because although something might, on the face of it, look like a minor change, when we consider the size of disability assistance for working-age people, we are into the tens and usually hundreds of millions of pounds. It would be fair to say that that is focusing my mind as we move through the process.

One of the challenges—this is not a criticism of the DWP—is that, because this is a joint-led programme, we will be careful to work with the DWP, to tell it our proposals and to see whether there are any implications for it.

We have spoken to the committee at length about spillover, so I will not labour the point, but if we suggest a change, we need to ask what the spillover effect is for passported benefits and so on.

I recognise that the committee needs to have that information as soon as possible. We are working on the issue at pace, particularly with the DWP, so that we can ensure that it is aware of what we would like to do. It then needs to tell us whether the proposals have implications for it, and if there are implications, I will need to have a hard think about how we fund them. I will be as transparent as possible about that, but only once those discussions have happened—that is not only fair to the Scottish Government but fair to the DWP. I appreciate its time as it moves through the discussion process with us.

The Convener: I will bring Jeremy Balfour back in later for his next question. Mark Griffin has a question.

10:30

Mark Griffin (Central Scotland) (Lab): Thank you, convener, and good morning, cabinet secretary.

It is fair to say that we have had robust debates in the past about uprating and I want to talk about the lack of uprating for the best start grant. Although we have had those debates, I did not think for a second that we would be looking at no uprating at all for social security benefits, so I was shocked to see a Tory-style benefit freeze applied to the best start grant, which is the Government's flagship social security policy. Why has it not been uprated, and who took that decision?

Shirley-Anne Somerville: I took that decision—as the cabinet secretary, I am fully responsible for that. I read with interest this morning's *Daily Record* piece, with Mark Griffin's extensive comments, wishing that the best start grant would go up through uprating, which would take it up £10. I point out to the committee that a child who is eligible for the best start grant will obviously be eligible for the Scottish child payment—rather than going up by £10, the money will go up by £520 per annum. A child who would be eligible for the best start grant will get that additional money this year, thanks to the Scottish Government.

Mark Griffin: I will come back to that point. You said that you signed off on that decision. Before doing so, did you make representations to the Cabinet Secretary for Finance, to ask for funds to uprate the best start grant?

Shirley-Anne Somerville: The Cabinet always discusses all those aspects. The finance secretary is hugely supportive of the work that Aileen Campbell and I have been doing on the Scottish child payment, which will increase the funding that is available per child by £520 this year.

Mark Griffin: That increase will not come about until after a child is born, when the family qualifies for the payment. The point of the best start grant is to provide funds in advance to pay for, or contribute towards, a buggy, a cot, a car seat, baby clothes, nappies and all the things that families desperately need to be ready before a baby is born.

A family who had a baby and applied for the grant in December 2018 will, in real terms, have received the best start grant at a higher level than a family who applies now for the grant for their first baby—for support for those crucial big purchases before the baby arrives—who will not be eligible for Scottish child payment until the baby is born. There is no increase—in fact, there is a decrease—in the money that those families have available to buy a cot, a buggy or a car seat. Does the cabinet secretary not think that the best start grant should have been uprated, given the fact that the Scottish child payment does not come into place until later this year and families are not eligible for it until after a baby is born?

Shirley-Anne Somerville: I point to the fact that the best start grant is one aspect of the measures that this Government has undertaken to support children and young people. It can be applied for during pregnancy; many people apply after pregnancy. That is the decision that the Government has taken. Let me give an example. If someone were eligible for the best start pregnancy and baby first child payment, the Scottish child payment and the best start foods payment, they would be eligible for a total payment of £1,572. If Mr Griffin does not think that that is—

Mark Griffin: But that is after the child is born, not before.

Shirley-Anne Somerville: If Mr Griffin does not think that that is appropriate, I will look forward to the Labour Party bringing forward a concrete proposal to the budget negotiations on where the money will come from, because it will have to come from somewhere. If committee members or the committee as an entity do not agree with the decisions that I have made, they should bring forward a concrete proposal on where that money will come from and that will be discussed with the finance secretary during the budget negotiations.

Mark Griffin: Yes—that is absolutely right. However, thinking about how I would plan for a budget, given the commitments and the principles that apply to social security and the arguments about adequacy, what I cannot believe is that families that get a best start payment this year will get a lower payment than families got last year. You talked about my comments in the *Daily Record* this morning, but I was not the only person quoted in the *Daily Record*; Citizens Advice Scotland was quoted, saying that it was disappointed by the decision not to uprate the best start grant and calling on the Government to reverse that decision as soon as possible. Will you reverse that decision?

Shirley-Anne Somerville: The budget is fully allocated. There is no additional funding. If Mr Griffin were ever planning a budget as a Scottish Government minister, he would have to ask the finance secretary, and probably the First Minister, how he would get that money when the budget is fully allocated. I go back to the point that, if members or the committee are not happy with what has been proposed, they must put forward concrete proposals for where that money would come from. I again give the example that, from 2021, a family with two children born up to a year apart could receive up to £10,000 by the time that the second child is six, thanks to the work that the Scottish Government is undertaking. I also point out that, when the Social Security (Scotland) Bill was going through the Parliament, there could have been a decision at that point to obligate the Scottish Government to uprate the best start grant.

However, that was not added to the bill, and the bill was passed unanimously by Parliament. If there are discussions about this budget, it is simply a matter of members telling me where the money would come from.

Mark Griffin: I think that it is a mistake in the Government's planning for this budget not to include funds to uprate all social security expenditure, and that is a mistake that I would like to be corrected.

Shirley-Anne Somerville: I simply ask Mr Griffin to tell us how we correct that and to say where the money would come from. That is the other part of being a serious Opposition party: rather than just saying that you are disappointed, you need to say what, practically, you would do about it.

The Convener: We can continue the conversation with other members of the committee, who also want to come in on that point. I wish to clarify two points, which I know other members want to come in on. During the discussion between the cabinet secretary and Mr Griffin, it was suggested that all best start payments are made once the child is born. My understanding is that the best start foods payment is £4.25 per week during pregnancy. Is that financial support paid in advance of a child being born? Can people get those payments during pregnancy? My notes say that that is the case.

Shirley-Anne Somerville: That is my understanding as well, convener. I cannot find the annex, but, from memory, yes.

The Convener: Therefore, irrespective of whether the amount of the best start foods payment has gone up or down from £4.25 per week, there is financial support available before birth. The second point relates to the fast tracking of the Scottish child payment. What is the financial obligation in the coming financial year in relation to accelerating the Scottish child payment?

Shirley-Anne Somerville: There are two aspects to that: the implementation costs within the programme and the expenditure on benefits. The expenditure on benefits is £21 million, which is in Ms Campbell's portfolio return rather than mine. However, the implementation costs are in my portfolio.

The Convener: What are the implementation costs?

Shirley-Anne Somerville: Please bear with me a second while I look for the figure. The implementation costs are £30 million this year.

The Convener: I am not trying to catch you out, cabinet secretary; I am trying to look at the political choices that we all, including members of the committee, have to make. When the Cabinet

made decisions on whether to uprate, were there competing priorities, such as the acceleration of the early payment of the Scottish child payment to the under-sixes? Was that a factor in deciding not to uprate best start or, irrespective of that, was it a general policy position? I think that that is a reasonable question to ask.

Shirley-Anne Somerville: The challenge that we are all given as cabinet secretaries is to consider what we are doing to alleviate child poverty. With the Scottish child payment, the Scottish Government plans benefit expenditure of £21 million this year, although it will not be for a full financial year and the Scottish child payment will not be fully rolled out.

Our challenge is to create the largest effect through the work that we do, and the Scottish child payment is the area of the Scottish budget that particularly alleviates child poverty as an aspect of our work. The policy will cost around £70 million in the first full financial year—not the 2020-21 financial year but the year after—and once we move to full roll-out for under-16s, the cost will go up to £180 million a year.

The Convener: That is helpful. As a committee, we discuss our budget scrutiny priorities, but I was trying to get to the bottom of whether it was an overt policy choice to not uprate or whether it was about prioritising where the Government thought the best spend was given the available moneys. I might take the view that the best spend would be on early delivery of the Scottish child payment, but I would want reassurance that not uprating the other benefits is not an on-going Scottish Government policy for the medium term. As I said, I think that that is a reasonable question to ask as the committee's convener.

Shirley-Anne Somerville: Decisions on uprating will be taken year by year in the future. It is absolutely not set in stone that there will be no change to other benefits. I reassure the committee on that. It is particularly pertinent this year because of the introduction of the Scottish child payment but, once the payment has been introduced for the under-sixes, we will be in a completely different ball park and, in the next financial year, we will need to look at what can be done.

On the Government's challenge to eradicate child poverty and the best ways in which to do that, the Scottish child payment will be an on-going payment, whereas the best start grant and similar payments are one-off support mechanisms. I hope that the reassurance of the on-going payment that will be provided through the Scottish child payment will allow us to deliver a big impact on child poverty, which is why the payment is being expedited.

Shona Robison (Dundee City East) (SNP): On the issue of eradicating child poverty, you will be aware that, last December, the Institute for Fiscal Studies published analysis on the impact of tax and welfare reforms in the UK across the income distribution. The analysis, which covers the period from 2010 to 2019, found that households in the lowest income decile have, on average, lost 11 per cent of their income, which is about £1,200 a year. With households that include children, the average loss rises to 20 per cent of their income, which is about £4,000.

What action has the Scottish Government taken in relation to the benefits that it is establishing as a consequence of that? What will its benefits provide for a family? It would be very helpful to hear again the example that you gave about a family with two children under six. We can contrast that with the £4,000 that families with children have lost. I presume that, elsewhere in the UK, families with children will continue to lose that money. What will the decisions that the Scottish Government has made mean for such families?

10:45

Shirley-Anne Somerville: The IFS's report is particularly sobering and sets out in great detail the implications of changes to tax and benefits. Shona Robison has given some of the details, so I will not go through them again. The report highlights why it is so important that we introduce the Scottish child payment. If changes were made at UK level, we would be able to have a much greater impact on tackling child poverty. Child poverty rates are increasing because of changes that are being made at a UK level, and we could do so much more with our £180 million investment if we were not having to prevent low-income families falling further into poverty.

I apologise if Shona Robison has already mentioned this, but households in the lowest income decile have lost about 11 per cent of their income. That is a particularly pertinent part of the IFS's report. The average loss among households with children was £4,000, as Shona Robison said. That is why the Scottish child payment and the expedited timeline for it are so important. We are significantly ahead of what we set out in the tackling child poverty delivery plan.

Earlier, I talked about the impact that the Scottish child payment will have on a family. From 2021, a family with two children who are born up to a year apart could receive up to £10,000 by the time that the second child is six. The Scottish Government is determined to make a direct impact through its investment in families across Scotland at a difficult time, particularly when changes at a UK level might be pushing them into poverty.

Alison Johnstone: I appreciate that Scottish parents are much better off with the best start grant than they are with the sure start maternity grant, but that does not change the fact that the value of the three best start grants will decline each year unless they are uprated. The Scottish Government opposes the benefits freeze, so why does it not uprate all the benefits that it pays? Notwithstanding the cabinet secretary's comments regarding Opposition input to the budget process, has the Government considered whether uprating should be a general principle across the devolved system?

Shirley-Anne Somerville: Each year, I give serious consideration to uprating. This year, the best start grant was introduced. As Alison Johnstone said, that provides parents with a greater package than was ever available through the sure start maternity grant. We are now moving to the introduction of the Scottish child payment, which will mean an extra £10 a week for every eligible child each year, which is a difference of £520 for the first full year in which the Scottish child payment is in place. That will have an exceptionally important impact on alleviating child poverty.

Families will see, through the impact of the money that is available to them this year, how the Scottish Government is investing in them. There will not be a £10 increase, which might have happened if we had uprated the best start grant; there will be an increase of £10 a week through the Scottish child payment.

I will look seriously at uprating every year. I am not saying that what we have done is what we will do on a mid-term basis, never mind on a long-term basis.

This year, we will invest £21 million—that amount simply reflects the fact that the investment does not cover a full financial year—and £70 million in the first full-year roll-out of the Scottish child payment.

The Scottish Government is doing a great deal to move forward, as expeditiously as possible, with the targets that are set in the tackling child poverty delivery plan. We will come back to the issue every year, in every budget.

Alison Johnstone: We are all aware of how devalued child benefit payments were over the period when they were not uprated. The Scottish Commission on Social Security has recommended that the uprating of the Scottish child payment be based on the higher of the consumer prices index inflation or the increase in earnings. The rationale is that the payment is meant to reduce relative poverty and that poverty is linked to earnings. In its report, the commission said:

“This would be the most effective way of ensuring”

that the Scottish child payment

“remains an effective”

way

“of reducing child poverty.”

Has the Scottish Government reached a view on whether to double lock the Scottish child payment?

Shirley-Anne Somerville: We have had quite a few debates on uprating in the committee and in Parliament. Committee members will be aware of the Scottish Government’s report ahead of the coming financial year—we have discussed it. In it, we looked at the different options for uprating. We presented that to SCOSS, further debates took place and recommendations were made. I am content with the way that we are moving forward on that.

I have not completed my decision making on SCOSS’s specific recommendations, so I will get back to the committee in due course on the Scottish child payment recommendation in particular. At this point, I simply refer you to our previous discussions. I will, of course, inform the committee, once we are looking at the Scottish child payment, how the Government will respond to that particular recommendation.

Alison Johnstone: Convener, I have another question on the Scottish child payment, but it does not relate to uprating. Do you want me to push on?

The Convener: I think that Keith Brown has a supplementary question on the Scottish child payment. Is your question about uprating?

Keith Brown: It is hard to say. It is about the political choices that are being made. I am happy to wait.

Alison Johnstone: Thank you.

The number of families who take up the Scottish child payment will have significant consequences for this budget and future ones. The Scottish Parliament information centre’s paper for today’s meeting notes that there is a big difference between the estimates from the Scottish Government and the Scottish Fiscal Commission. The Government estimates that 83 per cent of people will take up the payment, which would be equivalent to a caseload of 340,000 children at cost of £180 million. The SFC estimates take-up of 72 per cent by 2023-24, which would be 284,000 children at a cost of £157 million. Can you explain those two different estimates?

Shirley-Anne Somerville: It comes down to how the forecasts are produced. That is something that we will look at over time, as will the Scottish Fiscal Commission.

When the Scottish Government undertook its analysis of the modelling options for the Scottish child payment, the main aspect that we looked at on which to base the potential take-up rates was the historic rates of child tax credit take-up. The Scottish Fiscal Commission has used slightly different assumptions.

It is challenging, because it is a brand new benefit and there is no established baseline with an historic take-up rate to look at. The SFC will, of course, review its assumptions in the light of the latest evidence. It has assumed a lower take-up than we have.

We were still sharing information on our communications and take-up strategy with the SFC at the time that the forecast was produced. The strategy to maximise benefit take-up is still in development, and we will continue to share further information about it with the Fiscal Commission.

It really comes down to forecasting assumptions. Of course, I would like up-take to be higher than the Fiscal Commission has laid out, and that is exactly why the Scottish Government’s modelling assumptions were based on something different. We will work with the Fiscal Commission during the year to look at what we are putting in place to improve benefit take-up.

We have had some of these challenges before. The Fiscal Commission’s initial forecasts for the best start grant were lower than what was in our modelling and what happened in terms of take-up. That meant that the forecasting was changed, and it might change again in-year as we move forward. The Fiscal Commission’s forecasting for the best start grant changed as it recognised the level of our work on, for example, communications and the take-up strategy. That may be something that will change from the Fiscal Commission’s point of view, but it is entirely up to it to look at that.

Alison Johnstone: At the very heart of the issue is the desire that everyone has to reduce child poverty. Are you satisfied that the child payment will reach enough eligible families to meet the target to reduce relative child poverty by 3 per cent if we were meeting the lower estimate from the Scottish Fiscal Commission? We have to bear in mind that there will still be families who miss out because they do not claim the qualifying benefits in the first place. I have a concern about the take-up and the estimate.

Shirley-Anne Somerville: Qualifying benefits touches on spillover, which we have previously discussed at length, so I will not elaborate on that.

I would not be satisfied if we were sitting at the lower uptake rate that has been forecast—of course I would not. That is why our modelling looks at something different and at achieving a greater uptake. The Scottish Government will

always challenge itself to ensure that the benefit take-up rate is as high as it possibly can be. Our modelling sets out the areas on which the Scottish Government is focusing, as do the targets that have been set in the tackling child poverty delivery plan.

We need to shift the dial towards what is in the delivery plan. Therefore, the take-up for the Scottish child payment has to be at the highest rate that we can possibly get it. I will never be satisfied with a low forecast that suggests that more families might miss out on something for which they are eligible. We will work with the Fiscal Commission this year to tell them about our benefit take-up and our communications programme. Of course, it is entirely up to it to decide independently whether its forecasts need to be changed from what it has described in the budget so far.

Keith Brown: We are at that stage in the budget process of talking about the impact that political choice has on people. You have mentioned, as has Shona Robison, the £10,000 that is available to families with two children of a certain age. Is that a direct comparison with the rest of the UK? Is the £10,000, or part of it, more than would be paid elsewhere because of political choices that have been made in Scotland?

Shirley-Anne Somerville: That is because of political choices that have been made in Scotland to ensure that we are providing support for low-income families. The Scottish child payment is the most obvious example. Those are the political choices that we have made that will allow that determination to happen. The amount will include the Scottish child payment, the best start grant and best start foods. All those have been increased from what is available down south. Some of those benefits are available down south—obviously, the Scottish child payment is not—but, at a Scottish Government level, we are seeing that there is a higher rate available for even the benefits that are comparative to what is available down south.

Keith Brown: You talked about the budget process and how all the budget is committed. If anyone wants to change that, it would have to be accounted for by a change elsewhere. I know that we are at an early stage, but have you had any indication of the likelihood of a genuine amendment to the budget to change what has been proposed? Do you think that someone will follow through with some of the suggestions, or is that just about getting a headline in a newspaper? Will we hear no more about it, as has been the case in previous years?

Shirley-Anne Somerville: At this point, I am not aware of any suggestion having turned into a serious consideration that is being developed with

the finance secretary. The budget process still has weeks to go, during which we will see whether that happens. If it does, people will be able to tell whether it is a serious proposition.

11:00

Keith Brown: Obviously, political parties will make different choices. I understand that the main Opposition party has said that, if it were to come to power, it would review all the areas that we have been discussing. You are setting up systems and you have a programme business case. If, in the next couple of years, a change were to be made to eliminate some of the benefits that have been brought in, what would happen? What would be the likely impact as regards costs and the staff that you are taking on? Have you considered that in making your proposals?

Shirley-Anne Somerville: We have certainly never considered doing away with any of the benefits that we have, so I cannot estimate what might happen in that case.

Clearly, the implementation costs have already been spent: the system has been set up and we have people in place to deliver those budgets. Of course, it would be quite easy to work out what could be cut from particular investments—you simply have to look at the budget headings that we have in the chapter on social security and older people in the draft budget to see what the Scottish Government is currently paying out, for example, on the best start grant or on best start foods. If any changes were to be made to review or to end those benefits, there are figures in the budget about what those cuts could be. That would then have implications for how much was being invested in low-income families.

The Convener: The discussion has gone slightly adrift from the agenda, Mr Brown. We should bring it back to the specific subject of budget scrutiny, as all of us have decisions to make—including the committee, which will have to decide on its recommendations to the Government. However, thank you for that exchange.

Before I bring in Michelle Ballantyne, which I will do in a second, we will hear from our deputy convener, who has a brief supplementary.

Pauline McNeill: Following on from your exchange with Keith Brown, I presume that you would be happy for it to be put on the record that, during the budget process, the committee could choose to take a different view on the uprating of any benefit. That is the point of the process. It should not be just a question of political parties being challenged; the committee itself could consider that possibility if it were so minded.

Shirley-Anne Somerville: Yes. During the earlier discussions I think that I said that, if suggestions were to come from either individual committee members or political parties, they could be explored. However, I simply point out that everyone who makes a suggestion about how to spend money then seriously needs to consider where that money would come from.

Pauline McNeill: To be fair, cabinet secretary, most of us have worked through a few budgets. We know that if we come to an agreement in our private sessions we have to tell you where the relevant money should come from.

Shirley-Anne Somerville: I look forward to reading any suggestions.

The Convener: I will indulge that exchange. While we are on the subject of the Parliament's budget process, I should point out that political parties in minority Governments tend to have to negotiate on whether their budgets will be passed. I apologise if, in saying that, I appear to be stating the obvious on the record, but I am aware that not everyone who is watching our session will necessarily know that.

In this Parliament, there has been less of a culture in which committees are able to shape the budget process and secure gains within it. We members leave the committees and go back to our individual parties, where such negotiations can be of a different nature altogether. Perhaps the culture of the budget process here could be looked at in the future. It could be committee led just as the amendment process is led by political parties. I hope that that earlier exchange will have been useful in illustrating how we do business here.

I want to bring in Michelle Ballantyne, who, as always, has been very patient. Given recent changes in the Parliament's Conservative group, I am not sure whether this might be the last time that she attends a meeting of this committee. If turns out that it is then, on behalf of the committee, I thank her for her time, efforts and patience. Thank you for your work, Michelle.

Michelle Ballantyne (South Scotland) (Con): Thank you, convener.

Good morning, cabinet secretary. I would like to turn to scrutiny of the level of operating costs of the social security system in the budget. I hope that it will not be a tetchy exchange, and that we will actually explore the issue. There has been a significant rise in the development costs, from £308 million to around £651 million, which is more than double the estimate in the financial memorandum to the Social Security (Scotland) Bill.

We have been discussing bits of money here and there during this meeting, but we are looking

at a significant increase in costs. I would like to explore in more detail what has led to that increase and how you are going to manage that in order to make sure that costs do not continue to increase. Perhaps you could say a bit about what impact that has had on decisions across the Scottish budget. Obviously, that money has had to be found somewhere, because it was not catered for in the fiscal framework. I think that £200 million was originally allocated for implementation, so we are looking at a big drift from that, which must have had some impact somewhere.

Shirley-Anne Somerville: It was said at the time that the £200 million through the fiscal framework would pay a proportion of the costs—it was never supposed to cover the entirety of the costs. That was agreed and fully accepted by both Governments.

We have moved forward a great deal with the proposals and with the development of the programme. There were estimates in the financial memorandum for the Social Security (Scotland) Bill, and it was made clear that those were only initial estimates and that the figures would change over time, as policy decisions were taken. One of the very early examples of that was that changes were made to the financial memorandum between the early stages of the bill and the later stages. Obvious examples of changes related to short-term assistance, terminal illness and advocacy. The estimate for those changes—changes that were just made during the passage of the bill—was £0.5 billion. That demonstrates the impact of policy changes that were, quite rightly, made and agreed to by Parliament during the bill process.

Michelle Ballantyne: But would they not have been part of the original financial memorandum?

Shirley-Anne Somerville: No, because they resulted from amendments at stages 2 and 3. A supplementary financial memorandum was produced because of significant changes that were made during the bill process. I was not directly involved in that, but some members of the committee were. That is one example of how policy changes, whether they are made by the Government or by Parliament, can make a difference.

The other aspect that we will have to take into account is how the programme has grown. Again, the most obvious example of that is the Scottish child payment, which was not envisaged as moving forward when the bill was going through, and could certainly not have been envisaged in the financial memorandum. That is quite a substantial example of a change that would affect the implementation costs and the length of the programme.

There are other aspects that we were very clear in the financial memorandum could not be estimated at that point. One example that was outwith our control and therefore outwith our ability to estimate was how much it would cost for the DWP to make the changes to its system that we are required to pay for to allow the two systems to be linked. It was clear at the time that that was not going to be in the financial memorandum, and therefore it is an additional cost.

On the size of the programme, it involves not only the 11 benefits that have been devolved; we are looking at Social Security Scotland delivering 16 benefits. The entire scope of the programme has changed because of the policy decisions on the types of payments.

The business case is informed by the good practice that was set down by HM Treasury for considering the life-cycle costs of the implementation. When we look at the life cycle of the programme, which will be around 30 years, we see that there will be an estimated £150 billion of benefit expenditure and that the implementation costs will be 0.5 per cent of that figure.

Michelle Ballantyne: Taking on board all your points, the major increase is in staffing. Some of the things that you refer to are information technology costs and things to do with the DWP. I do not know whether you can quantify those, but the figures I have say that, compared with the original estimate, there is an increase in costs for IT of £22 million, a decrease in costs for estates and an increase in costs for staffing of £246 million, which is a 237 per cent increase. Is that your understanding of where you have got to? If so, why is there such a huge increase in staffing? You must have anticipated roughly how many staff you would need to deliver, or did you not really understand the complexity of the situation when the original estimates were done?

Shirley-Anne Somerville: It goes back to the scope of the programme. As I pointed out, the scope has changed. As I said earlier, when we produced the financial memorandum, there was no way we could have scoped in the staff that are now required to implement the Scottish child payment, because we did not know that we were going to be doing it.

Michelle Ballantyne: But we are not doing it yet.

Shirley-Anne Somerville: We are building it now—it is getting paid for now, because we are building it now. The implementation costs have begun because we are opening it by December. Again, I point out that when we look at the whole of the business case, it takes account of the entirety of the Scottish child payment build, all the way up to the under-16s.

The fact that staffing levels will change is one aspect that was mentioned earlier. The programme will last longer than was initially estimated, and that is because of the safe and secure transition method, which the Parliament has endorsed. As I said in my opening statement, Audit Scotland has said that it is difficult to see how the programme could be delivered quicker if safe and secure transition is the priority—that is a paraphrase, but the direct quotation will be in my introductory statement. Those are the reasons for the staffing costs.

The IT costs are particularly interesting. It is certainly an area in which the committee and I take a keen interest, given some of the challenges that previous public sector IT projects have had with cost rises. The important aspect to note is that our IT costs have changed—and increased—because of the Scottish child payment. If you take out the part of the IT costs that are required for that, the cost figure is pretty much bang on what was suggested in the financial memorandum. That is a testament to how well the IT delivery has been managed. That public sector delivery has, in effect, allowed that to be delivered as was proposed in the financial memorandum.

Michelle Ballantyne: So it costs £22 million to implement the IT for the Scottish child payment.

Shirley-Anne Somerville: Over time, yes. The implementation this year is not the only implementation cost that we will see. In the totality of what is happening over the actual business case, the difference will be what the Scottish child payment costs to deliver.

Michelle Ballantyne: In terms of moving to a steady state, you suggest in the business case that, in effect, you will benefit from economies of scale that will bring down the cost to around 5 per cent of outgoing payments. Can you talk about where those economies of scale will come in? At the moment, the DWP operates the system under an agency agreement which—if I look at the business case graph—appears to be cost-effective. You suggest that that is significantly cheaper than the DWP's running costs, which you say are 6.3 per cent of the amount that is paid out. I had a figure of 3 per cent for that—I will review that to satisfy my own curiosity and drop you a line in order to see how that pans out.

11:15

My first question was about the implications of the rising costs across the Scottish budget. How have those costs impacted the budget and what choices has the Government had to make as a result? The cabinet secretary said to Mr Griffin earlier that uprating the best start grant would mean political choices would have to be made.

The massive difference in costs around the implementation of the programme and the steady running state compared with the original financial memorandum has presumably had an impact. Where has that impact been felt?

The Convener: Before the cabinet secretary answers, would you like to add anything, Michelle? It might be your last opportunity to do so as Mr Balfour and Shona Robison also want in.

Michelle Ballantyne: The other thing that I asked about at the beginning was risk and whether the cabinet secretary feels that she now has things under control and that we will not see any further increases.

Shirley-Anne Somerville: On that last point, many of the major decisions have now been made: the business case was adapted at this time for that reason. Wave 1 has been completed and the major policy decisions around wave 2 are in a high state of readiness, so a lot of the large-scale decisions on those aspects have been made.

On the steady state aspect of the agency, I respectfully disagree that costs have escalated in comparison with those in the financial memorandum. If Ms Ballantyne will bear with me, I will give a couple of examples of why that is. The financial memorandum looked at the costs on a 2016-17 price basis and the business case looks at it in a different price framework—from memory, 2024-25. Inflation, inflationary pressures and the additional expenditure that the agency will deliver upon because of having to implement the Scottish child payment all account for the differences between the financial memorandum and the business case.

The changes are because of inflationary pressures and the Scottish child payment, which is a big change from what the agency was anticipated to deliver. However, if we look at the agency's cost as a proportion of the benefit expenditure it delivers, the percentage is about the same as that shown in the financial memorandum. The costs for the agency in steady state have not increased dramatically when taking into account inflationary pressures and the change in scope of the programme, the most obvious example thereof being the investment in the Scottish child payment.

Michelle Ballantyne: Inflationary uprating takes the figure up to £190 million for 2024, so the increase for the child payment is roughly £63 million—is that what you are saying?

Shirley-Anne Somerville: We have to look at pension contributions as well, for example. The changes are because of all the inflationary pressures and the Scottish child payment. We are happy to provide more information—

Michelle Ballantyne: Yes. The actual breakdown would be good.

Shirley-Anne Somerville: In summary, that is the breakdown of the reasons why those figures would change. Ms Ballantyne will forgive me—I think that I have missed out a part of her question.

Michelle Ballantyne: It was a question about the risk—where the money has come from and what suffered as a result of the increases.

Shirley-Anne Somerville: It comes down to our political choices as a Government. We have been determined all the way through to ensure that we invest in a different system. It is not a lift and shift, so we are investing in a great deal of user research around, for example, the application process to test that and to ensure that it is much better; we will then test every single part of that user journey.

We have chosen to invest in those areas to ensure that we get a system that is not just fit for purpose but delivers for the people of Scotland. That is a political choice that we have decided to invest in and I believe that it is the right political choice. If we had not invested in changing the application process, user involvement, how decisions are made and the assessment process, we would have been, in essence, lifting and shifting the same application form that people are inherently uncomfortable with and the same decision-making and assessment processes.

Michelle Ballantyne: It is about the risk of escalating costs going forward from this position.

Shirley-Anne Somerville: Keeping things the same might have made it cheaper for us to deliver the programme, but it would not have been a good programme for the people of Scotland. It now comes down to what happens in the future. As I said earlier, we have made the major decisions around policy changes, and I will make further public announcements in due course around disability assistance. However, we know, in essence, the type of system that we are trying to achieve and we have made major decisions. We have had much better discussions with the DWP around case transfer, for example, simply because of the time period.

Those big decisions would cause costs to change, but we are at a degree of maturity in the programme now whereby we have already looked at those. Obviously, if there was a material change in circumstance in what we are doing in social security, that would change things. However, as I said, that would be materially different and would be obvious not just to the Government but to Parliament, as I would have to tell Parliament about any policy changes that could have an impact. That is the type of area where we would see a change from what is already in the business

case. It would change if there was a dramatic change in a policy decision or if we looked to do something differently from what we had already considered in the current maturity of the programme. I would be happy to provide some breakdown of all that.

Michelle Ballantyne: Obviously, there is not really time to explore that today, but if you give me a breakdown of those figures and where the inflation uplift comes from, I will share that with the committee once I get it.

The Convener: That will be really helpful. We are going to roll two questions together now because we have to close this evidence session pretty quickly. I ask both Jeremy Balfour and Shona Robison to ask their questions and we will then have a final response from the cabinet secretary. The committee needs to fit in a brief private session before the plenary session of Parliament starts.

Jeremy Balfour: One of the reasons given in the business case for the difference in costs is that “There will be a different operating model adopted for the assessment service”.

That seems to be one of the reasons given for the increase in the capital spend. However, you have made it very clear, cabinet secretary, that there will be fewer assessments under the new system. I just wonder how those two aspects sit together.

Shirley-Anne Somerville: We are absolutely—

The Convener: Sorry, cabinet secretary, you have only one bite at the cherry. We will take the question from Shona Robison and then you can answer both those questions.

Shona Robison: My question is related to the previous two questions. Cabinet secretary, you have talked a fair bit during the evidence session about the building of a system and how the contrast to that would have been what you described as a lift and shift. Can you say a bit more about what the opportunity cost of doing that would have been? What would the impact on service recipients have been of not having a change in the application process and the forms and having no advocacy and no Scottish child payment? What would the impact have been had you just done a lift and shift?

Shirley-Anne Somerville: On the assessment aspect first, we are absolutely determined—indeed obligated—to decrease significantly the level of face-to-face assessments. That is why we are spending a great deal of time and effort ensuring that the decision-making process and the entire client journey is very different from what happens at the moment. That ties in handily to Shona Robison’s question, as we would not have been able to do any of that had we just done a lift and

shift; we would have just taken the system as it is. I am sure that every MSP will have constituency mailbags full of letters from people who disagree with the current system, but that is all that would have been possible if a lift and shift had taken place.

One of the benefits of ensuring that we have a safe and secure method over the programme’s life is being able to look at the assessment process in particular. I hope that when the committee hears about the details of the process, it will be pleased and satisfied that what is coming forward will make a difference to people.

The fact that we are not doing a lift and shift also means that we can future proof our system for whatever might come along. We are not delivering a system that will just deliver current benefits; we are also delivering all the aspects that sit around that, whether it is back-end finance, redeterminations on appeal and so on. We are delivering one platform that other aspects can then be fitted into. Scottish child payment could be fitted in because we have one platform, but that would not have been possible had we done a lift and shift or if we had what the DWP has, which is myriad systems that need to talk to each other.

I am getting the hint from the convener that I should probably end there.

The Convener: I apologise, cabinet secretary. I have tried to be as expansive as possible with the scrutiny in what is a condensed period of time more generally for budget scrutiny in the Parliament. However, that concludes agenda item 2. I thank you, cabinet secretary, and your officials for being here this morning.

We now move to agenda item 3, which is also on the budget, but we agreed to take this item in private. I apologise for rushing members of the public out of the room, but we must dispose of our business before the plenary session of Parliament starts.

11:26

Meeting continued in private until 11:38.

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