



OFFICIAL REPORT
AITHISG OIFIGEIL

Social Security Committee

Thursday 1 October 2020

Session 3



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Pàrlamaid na h-Alba

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SOCIAL SECURITY COMMITTEE

18th Meeting 2020, Session 3

CONVENER

Bob Doris (Glasgow Maryhill and Springburn) (SNP)

DEPUTY CONVENER

*Pauline McNeill (Glasgow) (Lab)

COMMITTEE MEMBERS

*Tom Arthur (Renfrewshire South) (SNP)

*Jeremy Balfour (Lothian) (Con)

*Keith Brown (Clackmannanshire and Dunblane) (SNP)

*Mark Griffin (Central Scotland) (Lab)

*Rachael Hamilton (Etrick, Roxburgh and Berwickshire) (Con)

*Alison Johnstone (Lothian) (Green)

*Shona Robison (Dundee City East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Claire Murdoch (Scottish Fiscal Commission)

Professor Alasdair Smith (Scottish Fiscal Commission)

Professor David Ulph (Scottish Fiscal Commission)

CLERK TO THE COMMITTEE

Ann Peat

LOCATION

Virtual Meeting

Scottish Parliament

Social Security Committee

Thursday 1 October 2020

[The Deputy Convener opened the meeting at 09:32]

Decision on Taking Business in Private

The Deputy Convener (Pauline McNeill): Good morning and welcome to the 18th meeting of the Social Security Committee in 2020. We have apologies from Bob Doris.

Our first item is a decision on taking business in private. Do members agree to take item 3 in private?

No-one has indicated otherwise in the chat box, so I will take it that the committee agrees to take item 3 in private.

Pre-Budget Scrutiny 2021-22

09:32

The Deputy Convener: Our second agenda item is pre-budget scrutiny. The committee will take evidence from the Scottish Fiscal Commission. I welcome to the committee Professor David Ulph and Professor Alasdair Smith, who are commissioners, and Claire Murdoch, who is head of devolved taxes and social security.

I invite Professor Ulph to make an opening statement. I understand that Professor Smith will be taking most of the questions.

Professor David Ulph (Scottish Fiscal Commission): Good morning and thank you for inviting the Scottish Fiscal Commission to give evidence. Over the past month, the Fiscal Commission has published five documents. I will say a little about each in turn, but I will not keep you too long, so that we have the maximum time for questions.

Before I begin, it is worth clarifying what we will not be able to cover today, which is the update to our social security forecasts. When it comes to the Scottish budget, which we still expect to be in December, we will produce updated forecasts on social security spending in Scotland. We should also have updated information on funding and on the block grant adjustments from the United Kingdom Government.

The first of the five documents that we published recently was our second fiscal update. Among other things, it set out our expectations of what we think may happen to the economy and to social security payments. We expect unemployment to rise, particularly after the initial UK Government employment support schemes come to an end, and incomes to be lower for many people. Those effects are likely to be felt for many years to come. Translating that into social security spending, we expect spending on low-income benefits to increase, reflecting the increase in universal credit claims that we have seen over the past six months. Although disability and carer benefits are administered by the Department for Work and Pensions, there have been a number of changes, including the suspension of face-to-face assessments, and we expect that to increase spending.

Two other documents that we published recently are our costings to accompany the secondary legislation for the two new payments that are due to start later this financial year: the Scottish child payment and child winter heating assistance.

The Scottish child payment costing takes account of our expectations for the economy. Although the delayed launch of the payment means that spending in this financial year is expected to be £10 million lower than we forecast in February, spending in the following five years is expected to be higher. We are assuming that more children will be living in households receiving qualifying benefits; we are also assuming that take-up will increase as awareness of financial support may have improved during the crisis.

The second costing is for child winter heating assistance. We expect £2.9 million to be spent this year, making payments to 14,000 children who receive the highest care rate of child disability living allowance.

Having said a bit about the future, I will now turn to the past in relation to our final two recent publications. As you know, we are required to re-evaluate our forecasts every year. Our forecast evaluation report for 2019-20 mainly covers the period before the impact of Covid-19. Taken collectively, spending on devolved social security was within 2 per cent of the forecast that we produced in December 2018 to inform the 2019-20 budget. Our forecasts were very close to actual spending for the more established benefits, such as carers allowance. The relative errors were larger for the newer payments introduced by Social Security Scotland. Our more recent forecasts already incorporate some of the lessons that we have learned, such as higher take-up assumptions. In light of the effects of Covid-19, we anticipate reporting relatively large errors when we evaluate our 2020-21 forecast next year.

The final publication is our statement of data needs, which sets out the areas where we believe improved information would support our work. Most relevant to the Social Security Committee is our requirement to access information from the UK Government. That request relates to benefits that the DWP administers on behalf of the Scottish Government, which are largely based on UK Government rules. If the UK Government makes changes to those rules, as it has done in response to Covid-19 with the suspension of face-to-face assessments and award reviews, that has a direct effect on Scottish spending. At the moment, we have no direct access to information about such proposed changes. However, we have had constructive discussions with the Treasury and hope to reach an agreement to ensure that we have access to that information ahead of the autumn budget.

I hand back to you, convener, for the question-and-answer session.

The Deputy Convener: Thank you very much. I call Shona Robison to ask the first question.

Shona Robison (Dundee City East) (SNP): My apologies if you referred to this, but it was difficult to hear the start of your opening statement, Professor Ulph. Given the cancellation of the UK Government's autumn budget, at what stage will any in-year reconciliations to the social security budget be made? Did you say that that would happen at the end of the year?

Professor Ulph: We expect the reconciliations to be made in-year. Although the UK budget has been postponed, we expect that we will still get a forecast in the autumn and that we will still get block grant adjustments for the coming financial year, so we will still be able to produce a forecast in December.

Shona Robison: Okay—that is most helpful. You mentioned the implications of the increased level of uncertainty on social security budgetary adjustments. Will you say a bit more about what those implications may be?

Professor Ulph: In our fiscal update, we said that there would be challenging times ahead for the Scottish Government. It was given a minimum £6.5 billion guarantee of follow-on payments by the UK Government. Our understanding is that about £5.3 billion of that has already been committed to announced programmes, so there is perhaps some flexibility to use additional money or to make any upcoming adjustments that may be needed.

We know that there will be an income tax reconciliation, and the Scottish Government has already borrowed £207 million out of the £300 million that it has available, so there is only about £93 million left within the borrowing powers.

As I said, it will be a challenging time ahead, but it is possible that, following on from the Treasury's guarantee of £6.5 billion, additional flexibilities could be agreed later in the year, if the situation becomes really challenging for the Scottish Government. We know that it has requested additional flexibilities. The Treasury has not said yes to that; equally, it has not said no.

Shona Robison: What you are saying is that there is a huge disparity between the figures on reconciliation and the remaining amount that can be borrowed—they are eye-wateringly different. How optimistic are you that there may be movement by the Treasury?

Professor Ulph: That is not for us to say, I am afraid. All that I can say is that the Treasury has already given some flexibility by guaranteeing the £6.5 billion, so it is possible that there could be more flexibility.

The Deputy Convener: Do you want to add anything to that, Professor Smith?

Professor Alasdair Smith (Scottish Fiscal Commission): Yes, I will add one point in response to Ms Robison's comment about the size of the reconciliations of mismatches that might occur in this year's budget.

The key point to emphasise is that, at this stage, there is a lot of uncertainty. So far, it looks as if additional expenditure by the Scottish Government on social security and in other ways is tracking fairly closely to increased expenditure at the UK level, which means that consequentials flow into the Scottish budget.

We do not know that there will be big mismatches that will put a lot of strain on the Scottish Government's very limited borrowing powers. However, we do know that there is a huge degree of uncertainty about that, and we could indeed end up with very big mismatches and limited borrowing powers towards the end of the year. We do not yet know whether that will be the case.

09:45

Rachael Hamilton (Ettrick, Roxburgh and Berwickshire) (Con): Thank you for giving us evidence this morning. I will pick up on Shona Robison's question, and I would like to get a bit more granular detail on the borrowing situation.

Your fiscal update said:

"the reconciliation from 2017-18 ... leaves £93 million which the Scottish Government could borrow for forecast error."

Can you explain what conditions would be required for the "Scotland-specific economic shock" borrowing powers to come in, which would increase borrowing to £600 million? Is there any possibility of that happening? When would that kick in? Should it or would it kick in?

The Deputy Convener: Does Professor Smith want to answer that?

Professor Ulph: Let me answer that, please. First, the £207 million is not a reconciliation; that is borrowing that the Scottish Government has already made.

On the question of a Scotland-specific shock, there are two conditions for that. One is that growth in gross domestic product should be less than 1 per cent. That condition has already been met, I think. The other is that GDP growth has to be 1 per cent less than UK growth over the year. At the moment, that still does not look like it will be the case. It is a little bit lower, but it is not of the order of 1 per cent lower.

Going back to what Alasdair Smith said, there are huge uncertainties, although it is still conceivable that, by the end of the year, we will

have the conditions for a Scotland-specific shock. At the moment, however, we are recommending that the Scottish Government does not count on there being a Scotland-specific shock.

The Deputy Convener: Do you want to add anything, Professor Smith, or would you like Claire Murdoch to add anything?

Professor Smith: No—I do not want to add anything to what David Ulph has said.

Rachael Hamilton: I will pick up on a point about the increase in universal credit applications and the shortfall in tax revenue. That is obviously indexed per capita, as it is in England and Wales. How do you work out the parallel increase, or the mirror of that increase? How do you factor that in? How do you get that information, and how soon should it be available, given that it might influence the Scottish budget?

Professor Ulph: I will ask Claire Murdoch to answer that, as she will have more detail.

Claire Murdoch (Scottish Fiscal Commission): The block grant adjustment calculations are based on what is happening in England and Wales. We have some information about what is happening to benefit spend in the rest of the UK, and we also have some information about what is happening in Scotland.

The Office for Budget Responsibility publishes its forecasts in the autumn. It will look at the rest of the UK and it will produce its forecasts, and they will be used to calculate the block grant adjustments. We will be doing the same thing in Scotland.

For the largest benefits, which are related to carers—carers allowance—and the disability benefits, the policies are broadly similar in the two countries, and we would expect the spend to broadly track in both countries. That means that we would expect any increase in spending in the rest of the UK also to occur in Scotland. That will not necessarily be the case for the smaller benefits, but they account for a smaller amount of money in relation to the total level of spending on social security.

As both Alasdair Smith and David Ulph have said, those are the things that we will be looking at when we publish our forecasts at the time of the Scottish budget, and the questions that you are asking are the questions that you should ask us then, too. They are the right questions to ask. However, until the OBR publishes its next forecast, we will not know quite what it thinks will happen to spending in the rest of the UK.

It is a bit of a case of wait and see, but we broadly know that the policies continue to be aligned for the larger spending; therefore, we think that they should largely offset, but that does not

mean that they will offset perfectly, so the Government might have to manage the difference in spend.

Rachael Hamilton: Thank you. That was very helpful.

The Deputy Convener: I will ask a supplementary question, as I want to make sure that I have understood the position.

Professor Ulph, you said earlier that the changes that the DWP has made because it can no longer do face-to-face interviews have a direct effect on Scottish spending. If the changes have resulted in an increase in the UK budget, can we presume that, accordingly, there will be an increase in Scottish spending?

Professor Ulph: Yes, there will be corresponding effects on Scottish spending. We need to understand exactly what is happening with face-to-face interviews and assessments. That is something that we should be looking at already in thinking ahead to our forecasts for the coming year. Until now, we were not told in advance about such things. We are trying to get to a position in which, if the UK Government is thinking about changes, we are informed of them a lot earlier, so that we can start factoring them into our thinking at a much earlier stage.

The Deputy Convener: In this case, if there is an increase in the UK budget as a result of the policy decision, will there be an increase in the Scottish budget?

Professor Ulph: I will ask Claire Murdoch to answer that question. I am not sure whether the decision has an immediate effect in terms of the block grant adjustment.

Claire Murdoch: Since the start of the Covid crisis, DWP has suspended face-to-face assessments and it has made a number of operational changes so that it can handle the large increase in universal credit claims. We think that that will increase spending on disability living allowance and personal independence payment in the rest of the UK and in Scotland. Therefore, we expect that to feed through to the block grant adjustments, which will increase the funding for Scotland. We also think that the Scottish spending will increase. As we get more information, we will need to consider whether those two things perfectly match, but that increase should be largely offset.

The Deputy Convener: Thank you. That is helpful.

We move on to the second theme, which is the impact of the coronavirus pandemic on the 2020-21 budget.

Tom Arthur (Renfrewshire South) (SNP): Good morning, panel. My first question is quite general, and it is open to any panel member to answer. I would like to get a sense of the challenges, which I presume are unprecedented, in trying to produce forecasts during a pandemic. What are the panel's reflections to date? What conversations are taking place in the wider forecasting community about how to come to terms with the situation that we face and how to produce accurate forecasts?

Professor Smith: I will happily address that question. Forecasting is an enormous challenge in the current circumstances, and we have not revised our formal forecast. We will be producing a fresh set of forecasts in December to accompany the Scottish budget and, during the year, we have produced two fiscal updates that indicate how the Scottish Government's budget is changing in these unprecedented times. The things that we have already discussed in this session have been reflected in those fiscal updates. For the reasons that we have discussed, the fiscal updates have been done in conditions of great uncertainty, and we have already touched on the issues that go into them, such as the fact that a very large part of social security expenditure, such as universal credit, is not devolved. That expenditure is therefore a UK Government responsibility that does not affect the Scottish budget.

There is another large part of Scottish Government expenditure on social security that is administered by the DWP and matches UK Government spending. There is a lot of uncertainty about that expenditure, as Claire Murdoch has said, but we broadly expect the additional funding that comes from the UK Government to match the Scottish Government's additional commitments, with quite a bit of variation. Then there are Scotland-specific budgets on things such as the best start grant, for which universal credit eligibility creates an eligibility.

The Scottish budget is both more uncertain and more exposed than that of the UK but, as Claire has said, those grants are relatively small components of the overall Scottish social security budget. We do our best to track this position of great uncertainty and, as David Ulph has said, we will be clearer as we get nearer the end of the year about which stresses in the Scottish Government budget will make a strong case for HM Treasury intervention. We will face large challenges in forecasting next year's budget for all the reasons that we have talked about.

Tom Arthur: Are there any early indications of how the impact of Covid has been distributed across the UK and, specifically, between Scotland and the rest of the UK? Is the impact uniform, or does Scotland face a less severe impact? Have

difficulties and challenges been felt more acutely in Scotland around the labour market, for example? What does the early data tell us?

Professor Smith: The broad picture from the early data is that small differences exist in the medical indicators of the effects of Covid. I am sure that you know that there are several different ways to measure, for example, the number of Covid-related deaths. Some of those measures show that the death rate in Scotland is just slightly below that of the UK. The main measure in the statistics, the excess mortality rate, is exactly the same in Scotland and the UK overall. Scotland's share of UK deaths is 8 per cent, which exactly matches its share of the UK population. There is no guarantee of course that that trend will continue—the distribution of the pandemic effects could change. So far, Scotland does not seem to have been either more or less medically impacted than the rest of the UK.

With regard to economic effects, some parts of the Scottish economy—tourism and hospitality—are obviously more exposed to the lockdown effects than the UK economy as a whole. Those differences are not great, because parts of the UK economy—London and the south-east—are just as exposed to the lockdown effects on tourism and hospitality as Scotland is. At the moment, so far—I stress those qualifiers—differences between Scotland and the rest of the UK are relatively small. However, that could change quickly and we have to be aware of the risk that it could do so.

Professor Ulph: I want to add one point to what Alasdair Smith has said. Some of the economic effects of Covid come not only through lockdown but through the behaviour of customers, such as their willingness to fly and travel abroad. Some of those uncertainties that consumers face could affect the economy for quite a period of time, even if no official lockdown takes place. Covid exercises its effect on the economy through a number of different channels.

10:00

Tom Arthur: My final question is for Professor Smith. There is uncertainty about the virus, but there is also uncertainty as to what economic packages may or may not become available throughout the winter. I am trying to phrase my question in a way that is not leading or in any way political.

When it comes to uncertainty in forecasting, what would be the significance of the impact of a decision to change—or not to change—the policy on the job support scheme, which is going to replace the furlough scheme? For instance, the Scottish Government has estimates of the number of jobs that could be saved if the furlough scheme

was extended for a further six to eight months. How significant would the impact on forecasting be of policy interventions by both the Scottish and the UK Governments? We do not necessarily know what is going to emerge from either, in the coming months.

Professor Smith: I am grateful to Mr Arthur for asking the question in a way that is not too politically leading, as the Scottish Fiscal Commission does not take political positions.

A large part of the economic response to the pandemic is run by the UK Government. The main programmes are not devolved, and the job furlough scheme is one of the main examples. The successor to the furlough scheme, which was announced by the UK chancellor last week, is, again, a UK programme. Such things are the UK Government's responsibility. They will, of course, have effects in Scotland as in the rest of the UK.

It is clear that the successor programme to the furlough scheme is going to put much less money into protecting jobs than the furlough scheme has. In the coming months, therefore, we would expect substantial increases in unemployment across the UK, including in Scotland. That will then impact on the Scottish Government's responsibilities, even though the Scottish Government does not have responsibility for the job protection programmes.

The Deputy Convener: Our third theme is the impact of the coronavirus on social security expenditure on devolved and new benefits.

Mark Griffin (Central Scotland) (Lab): Good morning. I had a number of questions on how changes to the economy and the impact of coronavirus might affect spending in Scotland, through changes to the block grant adjustment and changes in behaviour. They have largely been covered, but it would be good to get more detailed information on your forecasts and on whether there is likely to be a positive or a negative impact on the Scottish budget. My question involves social security entitlements that are not dependent on the block grant, such as the Scottish child payment, the carers allowance supplement and the best start grant. What are the Scottish Fiscal Commission's forecasts on whether demand for those entitlements is likely to increase as a result of the pandemic and the economic situation, on the extent to which it may increase and on the impact that that would have on the Scottish budget?

Professor Smith: I will ask Claire Murdoch to respond in detail, but the broad answer is that, in forecasting those Scottish benefits that fall directly to the Scottish budget, such as the new Scottish child payment, we look very closely at what the economic effects of the pandemic might be and specifically, as I think I have mentioned, at the way

in which increased eligibility for universal credit will make a larger group of families eligible for the Scottish child payment. It is perhaps not as big an effect as you might think at first sight. I ask Claire Murdoch to elaborate on the way in which we take those effects into account in looking at the Scotland-specific benefits.

Claire Murdoch: We have published an updated forecast for the Scottish child payment. We did that because the legislation for it has been introduced in Parliament but our previous forecast was published in February and, obviously, the world has changed quite a lot since then. We have seen the large increase in universal credit claims that we have talked about. However, the nature of the economy is also changing and people's awareness of the different kinds of support that are available has changed. For that reason, we increased our forecast of spending on the Scottish child payment. There are two effects acting on our forecast. The first is that we think that more people are eligible, as more families are in receipt of universal credit. Their incomes might have fallen—they might still be in work but have a lower level of income—or they might have lost their jobs and are therefore in receipt of universal credit. Therefore, we have an increased eligible population—and increased number of children who could qualify for support. Secondly, we have slightly increased our take-up rate assumption. There is more discussion of the support available, so more people might be aware of it. The stigma might also be slightly reduced, because it is seen more as a form of support. Therefore, that is what we have published for the Scottish child payment.

We have not published updated forecasts for the other benefits, but it is reasonable to assume that we might make similar judgments for other benefits. The best start grant would be affected in a similar way, as would best start foods. The population is similar: children under the age of six in low-income households. Spending might also increase on funeral support payments. More people are receiving universal credit and, therefore, might qualify. We have also, sadly, seen a higher level of deaths over the past six months.

There are other areas where the Government has announced policies to increase funding directly, such as discretionary housing payments and the Scottish welfare fund. Both have seen an increase in spending relative to what we forecast in February.

Those are the areas that you will be looking for when we publish our forecasts alongside the Scottish budget. We will say more at that time about what we have forecast, but those are the areas that we will take into account.

Professor Ulph: In addition to the effects that Claire Murdoch has been talking about, we have

seen a fall in applications for some benefits because people are not getting access to advice from other family members, citizens advice bureaux or other people. Therefore, there is a missing tranche of applications. We expect that that will bounce back and that, over time, the people who would have applied but have not will still apply for benefits. We are actively trying to work out what the rate of recovery will be in those claims. Therefore, there are several complex channels through which Covid is going to affect social security spending.

The Deputy Convener: That is a very helpful comment. Mark Griffin is next.

Mark Griffin: Professor Ulph pre-empted my question. I was just about to ask what the impact of the pandemic might be on uptake as a result of reduced access to advice services. On the uptake of entitlements, if there is a big variation from your forecasts, would you expect the Scottish Government to look at advice services and how those are delivered to bridge that gap?

Professor Ulph: There are some quite complex effects. I was thinking more about benefits that are administered by the DWP. Our understanding is that it is not a capacity issue in the DWP; it is more that people have not been able to access the advice that they need to initiate a claim for benefits. The DWP is doing some quite complex things and shifting around its business, because it knows that there is a wave of catch-up claims coming down the road. Therefore, it may bring forward the dates by which it processes some other claims to allow it to manage the backlog of claims.

The DWP may try to respond to this by rearranging its workload. Of course, that means that we have complex issues in modelling the exact timing and incidence of all the benefit claims. We are actively trying to think about that and model those at the moment.

Claire Murdoch: David Ulph has largely been talking about the benefits that are administered by the DWP. For example, we have seen a reduction in payments of the personal independence payment but, meanwhile, we are expecting an increase in claims relating to universal credit, because we saw those claims increase. David is right to say that there are various balances and different benefits are affected in different ways.

You talked about the need for the Government to provide support services. The Scottish Government has been looking at that in its uptake strategy. We take into account the policies that the Government plans to introduce to push up take-up. We will be asking the Government those questions as we produce our next forecast and, if it is planning to introduce any policies to increase

take-up of the benefits administered by Social Security Scotland or those that are currently administered by the DWP, we will take that into account.

Alison Johnstone (Lothian) (Green): My questions are on the Scottish child payment. The take-up for under-sixes is estimated by the commission to be 80 per cent in the first year. Although I appreciate that there has been an upwards revision, an 80 per cent take-up would still involve 20 per cent of people missing out. Can the commission explain a bit more about how it arrived at that estimate and why it is estimating that only 80 per cent will claim? Are there clear reasons why the take-up is estimated to be much lower than the take-up of child benefit, which is usually more than 90 per cent?

Professor Smith: I will ask Claire Murdoch to respond in detail on that. However, by way of introduction, let me say that we have raised our estimate of the take-up rate. We recognise that it is an ambitious programme and that an 80 per cent take-up rate is actually pretty high—it is only slightly less than the Scottish Government's estimate for what it, too, recognises as a very ambitious programme. No programme will have a 100 per cent take-up rate, for all sorts of complex reasons. Claire Murdoch can address those issues in more detail.

Claire Murdoch: We already had some information on the take-up rate for the best start grant and best start foods. People first have to apply for universal credit or one of the legacy benefits and then make an application to Social Security Scotland for the best start grant or the Scottish child payment. For those reasons, we expect the take-up to be slightly lower—it will definitely be less than 100 per cent. We are assuming that take-up of the Scottish child payment will be higher, and there is already quite an ambitious take-up assumption by the Government. As the benefit launches and we see what happens, we will revise our assumption. It may be that the take-up is higher, but it may be lower. We are trying to produce a central forecast. We are not setting a target for the Government; we are stating what we think the Government will achieve on the basis of its current policy.

I should add a caveat on how we estimate take-up. Although we calculate it by saying that this many children are eligible for the payment and this many will receive it, which leads to what Ms Johnstone is saying about 20 per cent of children missing out, at the moment, we also have to estimate the number of eligible children. The number of eligible children could be higher or lower, and any variation in the number of children who are eligible for the benefit affects the number of people who take up the benefit. The Scottish

Government plans to write to all households that are eligible. If it does that, we expect that to tell us how many people are applying for the benefit. It should also give the Scottish Government a better way of targeting households to increase the take-up rate.

10:15

Alison Johnstone: Your estimate is very slightly lower than the Scottish Government's estimate, and I would be interested to learn more about that little difference. The commission estimates that, by 2024 or 2025, the take-up rate will be 80 per cent for under-sixes and 70 per cent for the other age group, averaging out at 73 per cent. Can you explain why you think the take-up rate will be lower for older children?

Professor Smith: Perhaps Claire Murdoch can continue on that point.

Claire Murdoch: On the question about the different take-up rates by different ages, we are assuming a fairly high take-up rate for under-sixes partly because there is a lot of communication to parents of children in that age group, as well as the presence of the best start grant and the best start foods payments, which will also raise awareness. However, we think that the take-up rate will be lower for older children. Some children will have received the Scottish child payment or the best start grant when they were under six and then will still receive it when they are over six, and we have factored that greater awareness into our assumption. At the same time, the group of children aged between six and 16 is large and not all the parents of children in that age group will be as aware of the benefits. Therefore, we think that it will be harder to keep that group informed and for them to apply.

You asked about our assumption and the assumption of the Scottish Government. Originally, our assumption was lower than the Scottish Government's, and then we raised it. The initial Scottish Government assumption was made in June 2019—it is now more than a year later, and the world looks quite different. We have raised our take-up assumption given everything that is happening at the moment, but I would not like to say that there is any real difference or to suggest that we have the ability to forecast the take-up rate exactly as being between 80 and 83 per cent. We cannot be that accurate about it, and our estimate is broadly in the same ballpark as the Scottish Government's.

Alison Johnstone: Thank you. That is very helpful.

Keith Brown (Clackmannanshire and Dunblane) (SNP): The SFC report says:

“We now estimate that take-up rates were higher than forecast for both Best Start Grant and Best Start Foods, adding around a further £5 million. For both benefits, our assumptions were informed by the take-up rates estimated to have been achieved for the predecessor Sure Start Maternity Grants and Healthy Start Vouchers run by DWP and DHSC respectively.”

You have also said that the increase in take-up is not related to Covid, because that happened later. Can you attribute any reasons to the increased take-up of the two grants?

Professor Smith: Perhaps Claire Murdoch will pick up that question.

Claire Murdoch: Our first forecast of the best start grant and best start foods was produced in December 2018—the best start grant was launched in December 2018 but, obviously, we produced our forecast just before that. The only information that we had at that point was about what was happening in relation to the previous benefits, which were administered by the DWP and the Department of Health and Social Care. We assumed that the take-up would be higher under the Scottish benefits system, but the take-up has been even higher than we initially assumed. In December 2018, our forecasts were too low and we revised up our forecasts for the best start grant and best start foods as we got the information about the first payments and could see that the take-up was higher. We have factored that into our forecasts since then.

There are several reasons why we think the take-up is higher. One reason is that the Scottish benefits are more generous—they are paid to a wider range of people and have a higher cash value. Another reason is that the Scottish Government has made the application processes smoother and there have been advertising campaigns, so there is a greater awareness—there have been links to things such as the Parent Club in Scotland to tell people about the benefits. That has been successful in increasing take-up, and we have factored that into our forecast.

Initially, we underestimated the take-up—the benefits did not yet exist, so we did not know what was going to happen—and we are now factoring that into all our assumptions on new benefits. For example, we took that into account when we were producing our Scottish child payment forecast. Therefore, we are not systematically underestimating take-up; we did initially, but we rectified that in our subsequent forecasts.

Keith Brown: Thank you. That is a good account of how, if we view it as a social investment, it is possible to increase the take-up of benefits.

Going back to Shona Robison’s earlier points, the absence of the UK budget does not seem to have fazed the commission too much, although I

had always thought of it as being fundamental to how you make your forecasts. Is it correct to say that it is not a huge issue for you? If so, is that because your forecasting tends to be linked to the demand-led nature of budgets rather than the supply of money to meet them? I was taken aback by how sanguine you appeared about the absence of a UK budget.

Professor Smith: We do not want to give the impression that the absence of a UK budget is completely unproblematic, as it creates a significant problem for the Scottish Government’s budget process, as the cabinet secretary has said. However, we need to distinguish between two things: the UK budget and the OBR forecast, which normally accompanies the UK budget. This year, because there had been no UK budget, there were no OBR forecasts, so it was very difficult for us to produce forecasts to accompany the Scottish budget in January. We did not have good forecasts of the block grant adjustment, so the in-year reconciliations for social security in last year’s budget had to be carried forward to this year, because, in December, we did not get the accurate information from the OBR that would have given us and the Scottish Government the information to feed into the budgetary process.

The chancellor has now said that the OBR will go ahead and produce forecasts in November, even though there will not be a UK budget. That makes it possible for us to proceed with our forecasts and for the Scottish Government to proceed with a December budget. However, that is not problem free, because one of the big elements of the Scottish budget, especially at a time when the UK budget is moving around a lot, is the consequential changes to the block grant that arise from changes in UK expenditure in devolved areas. The 14 per cent in-year increase in this year’s Scottish budget was driven largely by increased UK expenditure on business support, health and other areas.

When the Scottish Government is putting together its budget, it needs a good estimate of what the block grant is going to be next year. Without a UK budget, those estimates are much harder to make and are much less reliable. We can go ahead and make forecasts, but the forecasts will not be as good as they would have been if we had had a UK budget; nevertheless, they are still useful for the Government to work with in developing its budget. The bigger difficulty of not having a UK budget first is for the Scottish Government in putting its budget together. However, we can go ahead and make our forecasts, and our understanding is that the Government can go ahead and produce its budget. It is not ideal, but everybody is going to try to make it work—at least, everybody in Scotland is going to try to make it work.

Keith Brown: The commission's forecasts are not academic, as many other economic forecasts are; they are a fundamental part of the budget process. If the UK changes help to form the basis of the block grant, that will affect whether Scotland has greater, lesser or the same changes. Does all the uncertainty that surrounds that not make the process opaque to a member of the public who might be looking at it? I am not saying that the public will want to understand every nuance of how the process works, but they will want to know that it is fairly straightforward. Yet, there seems to be so much guesswork. Even the block grant is based on what happens elsewhere. That might be mirrored in Scotland, but it is not inevitable that that will be the case. Overall, it seems to be a very opaque and odd process for providing services in Scotland. That is my point of view, and I would be interested in your comments.

Professor Ulph: One of the reasons why we decided to produce our fiscal update earlier in the year was precisely to address that issue. We realised that, because of the potential lag between forecasts made by us and those made by the OBR, people might be wondering what was happening to the Scottish budget. As an organisation, we thought that it would be helpful to produce our fiscal update in order to bring some clarity to what was happening to the Scottish budget. That is why we also produced an update in September. A lot of things happened over the summer, and the public and Parliament were trying to understand their implications for the Scottish budget, so we felt that it would be helpful to produce our second fiscal update at the start of September. We did those things precisely to plug the gap that Mr Brown is talking about.

The Deputy Convener: That is very helpful.

Professor Smith: One way of looking at what will happen next year is to say that next year will be more like this year than it would have been if we had had a UK budget, in the sense that the Scottish Government will put its budget together with the help of our forecast before there is a UK budget. At some point—we hope that it will be in early 2021—the UK Government will produce a budget, and then revisions to the Scottish budget will be made. I expect that we will produce fiscal updates alongside that.

In the worst-case scenario, in which the UK Government budget is postponed for a long time and the UK simply rolls forward with additional ad hoc expenditure changes in response to the pandemic, the Scottish Government will face the kind of revisions that it has faced this year, and we will do our best to produce fiscal updates to keep the Government and the Scottish public informed on the budget situation as it develops during the year.

We would all prefer to get as much certainty as possible in December, but we will not get as much as we would ideally like. We have to face the fact that we are living through a time of great economic and, therefore, fiscal uncertainty.

The Deputy Convener: I have a supplementary question on forecast evaluation. The Scottish Government can borrow up to £300 million, but we know from the Scottish Parliament information centre briefing that it already plans to spend £207 million of that on managing income tax reconciliation from 2017-18. That leaves £93 million to borrow for forecast error. How tight is that in relation to the social security budget?

10:30

Professor Smith: The figures speak for themselves. The Scottish Government's borrowing powers for forecast error are constrained, and there is great scope for forecast error in the current circumstances—it is a very tight situation. As David Ulph said, the UK Treasury has not said no to the Scottish Government's requests for flexibility. As the rest of this budget year progresses, we will see whether the pressures on Scottish borrowing powers become so great that the Treasury feels that it must respond.

Looking further ahead, when we are through this process and we review the fiscal framework within which we are operating now, people will ask what we have learned during the pandemic about the adequacy of the Scottish Government's borrowing powers at a time of economic and social emergency. That question is probably best addressed in the future, when the fiscal framework is being reviewed and we can look back at this year's experience and learn the appropriate lessons from it.

The Deputy Convener: Jeremy Balfour will ask about the best start grant and demand-led benefits.

Jeremy Balfour (Lothian) (Con): Keith Brown covered the best start grant quite well, so I will not touch on that. It is interesting to note that Keith Brown was a member of the Cabinet that signed the agreement with the UK Government on how the fiscal system should work. Perhaps he should reflect on what he signed up to.

I wonder whether you could expand a wee bit on devolved benefits. Are there any reasons to expect that expenditure in Scotland might be different to that in England and Wales? You touched on that a wee bit, but could you—*[Inaudible.]*—regarding devolved benefits?

Professor Smith: I am not sure that I have anything further to add. There is scope for divergence between Scotland and the rest of the

UK. This is an uncertain time, and those uncertainties could affect Scotland quite differently from the rest of the UK. We have seen no evidence of that so far, but that contingency could arise.

Claire Murdoch: We expect that the largest benefits, which involve block grant adjustments, will broadly, if not exactly, keep on track with the rest of the UK.

It is with the benefits that do not involve block grant adjustments that there could be a difference in Scotland, because the Scottish Government has made a policy choice and has introduced different policies. The best start grant is generous and is paid to a great number of people, and the Scottish child payment is a new benefit that does not exist in the rest of the UK. Where those benefits are linked to the entitlement to universal credit and we see universal credit entitlement increase in Scotland, spending in Scotland will increase. That will be different from what is happening in the rest of the UK, which has a different benefits system.

Jeremy Balfour: That is helpful.

I was interested to read that there is a decline in the proportion of children who are receiving the highest rate of the child disability living allowance. I wonder why that is the case? Is there a trend there, or is it just connected to the number of children who are being born with disabilities? Do you know of any reason behind that?

Professor Smith: I will say something about that and Claire Murdoch might want to add to it. There is, indeed, a trend. A reduced proportion of children are eligible for the highest rate of disability living allowance, which has a knock-on effect on the heating allowance forecast. However, it is important to emphasise that that trend is not a reduction in the number of children who are eligible for the highest rate of disability allowance; it reflects a growth in the number of children who are eligible for the lower rate.

We think that that is not because children who would formerly have received the higher rate now get the lower rate, but because the overall population of children who are eligible for disability allowance is increasing and that increase is happening more at the lower level of disability. We think that that is probably because a higher number of children have a form of learning disability than have a physical one, which makes them eligible for the lower rate of allowance.

That is our best guess at what has happened. I really want to emphasise that it is not the case that fewer children are getting the higher rate; it is rather that more children are getting the lower rate, so the proportion who are in that group is going up. We keep a close eye on the matter, but that is our best guess as to why the numbers are

changing in the way that they are. As always, Claire Murdoch might have more detail to add.

Claire Murdoch: Alasdair Smith has said everything that I could say on the issue.

The Deputy Convener: Are you content with those answers, Jeremy?

Jeremy Balfour: I am content, deputy convener.

The Deputy Convener: All members have had a chance to question the Scottish Fiscal Commission. On behalf of the committee, I thank all three witnesses for joining us this morning and for providing excellent answers that will really help to advise us as we draw up our report.

10:37

Meeting continued in private until 11:04.

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Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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