OFFICIAL REPORT
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Social Justice and Social Security Committee

Thursday 4 September 2025

Session 6

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SOCIAL JUSTICE AND SOCIAL SECURITY COMMITTEE
21st Meeting 2025, Session 6

CONVENER

Collette Stevenson (East Kilbride) (SNP)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Jeremy Balfour (Lothian) (Ind)
*Michael Marra (North East Scotland) (Lab)
*Marie McNair (Clydebank and Milngavie) (SNP)
*Carol Mochan (South Scotland) (Lab)
*Alexander Stewart (Mid Scotland and Fife) (Con)
*Elena Whitham (Carrick, Cumnock and Doon Valley) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor David Bell (University of Stirling)
David Phillips (Institute for Fiscal Studies)
Professor Mairi Spowage (Fraser of Allander Institute)
Tom Wernham (Institute for Fiscal Studies)

CLERK TO THE COMMITTEE

Diane Barr

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Social Justice and Social Security Committee

Thursday 4 September 2025

[The Deputy Convener opened the meeting at 09:00]

Interests

The Deputy Convener (Bob Doris): Good morning, and welcome to the 21st meeting in 2025 of the Social Justice and Social Security Committee. Welcome back, everyone—those who are old and new to the committee. We have apologies today from our convener, Collette Stevenson, who cannot be with us this morning.

Agenda item 1 is a declaration of interests. I welcome Alexander Stewart, Michael Marra and Carol Mochan as new members of the committee—thank you for joining us. I invite those who have not previously attended a committee meeting in this parliamentary session to declare any interests that are relevant to the work of the Social Justice and Social Security Committee.

Alexander Stewart (Mid Scotland and Fife) (Con): I have no interests to declare that would be referenced in this committee. I look forward to being a member of it.

The Deputy Convener: Thank you, Alexander—it is good to have you on board.

Michael Marra (North East Scotland) (Lab): I have nothing to declare, deputy convener.

The Deputy Convener: It is always less than exciting when there is nothing to declare, but there we are.

I understand that, before we move on to the next agenda item, Jeremy Balfour wants to make a short declaration.

Jeremy Balfour (Lothian) (Ind): I remind members that I am on adult disability payment at the higher rate.

The Deputy Convener: I am sure that that will become a relevant aspect later on in our evidence session—thank you, Jeremy.

Decision on Taking Business in Private

09:01

The Deputy Convener: Agenda item 2 is a decision on taking business in private. Are we agreed to take item 4 in private?

Members *indicated agreement.*

Pre-Budget Scrutiny 2026-27

09:01

The Deputy Convener: Agenda item 3 is an evidence session on pre-budget scrutiny. In the room, I welcome to the meeting Mairi Spowage, director at the Fraser of Allander Institute, and David Bell, professor of economics at the University of Stirling. Welcome to you both. I also welcome our online witnesses, both from the Institute for Fiscal Studies: Tom Wernham, senior research economist; and David Phillips, the institute's associate director. Thank you both for joining us remotely to support our evidence session.

We will move straight to questions.

Jeremy Balfour: I cannot see the online witnesses—can they see and hear us? There we go—good morning, gentlemen.

I welcome you all and thank you for coming. From your perspectives, what are the main pressures on the Scottish Government in trying to balance next year's budget? What role does social security play in the great scheme of things?

Professor David Bell (University of Stirling): As my paper makes clear, my view is that the Scottish budget will be under severe pressure going forward into the next year. That has been highlighted by Audit Scotland and the Scottish Fiscal Commission. It relates to choices that are entirely within the Scottish Government's its powers to make, but the danger is that the various spending by the different departments is possibly on track to exceed the available budget and resource, which is available through taxes and the block grant from Westminster. That is partly driven by the social security budget and partly by the health and social care budget, both of which will grow in real terms.

It is also, in a complicated way, determined by the block grant that comes from the Westminster Government and the adjustments to that block grant that are made in relation to the various taxes that Scotland raises and its social security payments. In the block grant, there will effectively be a shortfall with regard to what Scotland receives for its contribution to social security spending and the actual amount that is predicted to be spent.

That is a significant component of the pressures that the Scottish Government will face in next year's budget, and if the present increases continue in the way that the Scottish Fiscal Commission forecasts, that will be a continuing pressure on the budget.

Professor Mairi Spowage (Fraser of Allander Institute): The Scottish Government set out many of the challenges in the medium-term financial strategy that was published just before Parliament finished for the summer. The social security spending challenge is one of those. As David Bell said, social security spending is predicted to outstrip the block grant adjustment that is provided by the United Kingdom Government in recognition of the fact that those benefits have been devolved. There are a number of reasons for that, which are to do with the eligibility criteria and the process that we have in Scotland, and with the fact that we have introduced new devolved benefits, for which there is no corresponding block grant adjustment. Those are the two main reasons that spending is outstripping the funding that is provided.

In the broader sense, it is not just social security spending that is posing challenges for the budget. The Government made a number of assumptions in setting out what it thought that its spending envelope would be, as compared with the funding that it was likely to receive. Some of those assumptions are about pay, which nests within departments such as health and social care and local government. Pay is a very large part of what the Scottish Government spends its resource funding on—it accounts for more than half of that spending. Some of the assumptions that were built into the medium-term financial strategy relate to pay deals that have already been decided, but many of those have outstripped the Government's stated public sector pay policy. The Government is assuming that the deals that have not already been settled will follow that. Given that most of the deals have already burst through that level, that seems like another risk in relation to pressure on the Government's budget.

The other thing that the Government has assumed is that, if health and care—spending on which it assumes will grow by around 4 per cent in real terms over the next few years—are taken out of the picture, along with pay and social security, spending in every other department will remain flat in real terms, so there will be no real-terms cuts. Obviously, within a fixed budget, if lots of areas are to receive real-terms increases, the Government will need to decide to make real-terms cuts in spending in some areas. That is part of the process.

To an extent, the medium-term financial strategies that have been published over the past few years have managed expectations. They have said, "There's not a lot of money to go round, and we'll need to make some tough decisions." There will be areas in which the Government will have to make real-terms cuts in spending if it wants to maintain health spending, social security spending and spending on pay at the level that it has already baked into its outlook.

The Deputy Convener: Shall we hear from the witnesses who are participating online, Jeremy?

Jeremy Balfour: David Phillips might want to comment.

The Deputy Convener: Before I bring in David Phillips, I point out that we will explore the block grant in more detail under theme 5—Marie McNair will ask some questions on that. There have been several mentions of the block grant, but there will be opportunities to discuss that further later on.

David Phillips (Institute for Fiscal Studies): I echo a lot of what Mairi Spowage and David Bell said. It is also worth bearing in mind the fact that although, in the past few years, there have been significant increases in Scottish Government funding through the block grant, that growth in the funding that the UK Government provides through the block grant is set to slow substantially over the next few years. That slowdown in funding growth is contributing to the pressures.

Of course, that is taking place in a context in which demands and costs for several key services, such as health and social care, are continuing to rise. In part, that reflects the pay deals that have been agreed. The Scottish Government has chosen to increase pay substantially above UK levels, potentially for legitimate reasons, but that adds to the pressure on the budget. In addition, we know that the health service, in particular, is struggling to regain pre-pandemic levels of productivity. The number of treatments and medicines that are delivered for a given amount of funding is still below where it was before the pandemic.

Other factors include the need to find additional funding for the employer national insurance contributions increase, on top of the funding provided by the UK Government—although we think that, actually, that is more of a short-term pressure and, in the longer term, more of that increase in employer NICs for public and private sector employers will be reflected in lower wages rather than higher costs.

As David Bell and Mairi Spowage said, a forecast increase in the net cost of social security spending, on top of those block grant adjustments, is also a factor in the pressure. That is driven by a bigger increase in numbers of people in receipt of disability benefits due to the different eligibility rules, and by the roll-out of the two-child limit mitigation, which, as I am sure we will discuss in a bit, is an effective policy for reducing child poverty but which adds to that budgetary pressure.

As of the MTFS back in the summer, it looked as though combining all those factors—the slowdown in funding growth and the increases in social security spending—meant that the actual amount for public services could fall in real terms. Even before thinking about what is spent on health, the total amount for public services could fall in real terms. It does not look quite so bad at this point: the tax revenue figures from a few years ago are getting better, so there will be a better reconciliation payment, which will top up the Scottish Government's budget next year to account for those past underforecasts. Revenue coming in is better than expected. Also, the planned cuts to personal independence payment in the rest of the UK are no longer going ahead, which means that Scotland will get a bit more through the block grant adjustments for social security. Therefore, a real-terms cut to public service spending may not be needed in the next year, but very modest real-terms increases in health spending could easily absorb all of that and more.

How tricky it is next year will depend—as it has in the past years—on whether the Scottish Government is able to carry forward funding from this year into next year through the Scottish reserve. It carried forward quite a substantial amount of money from 2024-25 into this year. Can it again carry some money forward into the next year? Carrying money forward is not a game that you can continue to play if the pressures continue to rise. At some point, you will need to spend that money, and it can only be spent once.

There are a range of pressures in the budget. Social security is one of them, but there are many others as well.

Jeremy Balfour: Thank you. I will focus a bit more on the social security budget. In broad terms, if you are looking to make savings, you could either change the rules for eligibility or you could reduce the amount of money that a person gets. Do you think that either of those is necessary in the next year in order to deliver the social security budget?

Professor Spowage: It is all about the Scottish Government's choices. Over the past few years, it has chosen to increase the payments made through the Scottish child payment. It has set up an assessment and reassessment process for ADP that is slightly different from the PIP process in the rest of the UK. It has chosen to introduce mitigations for UK-level decisions including, as David Phillips mentioned, the one that will be delivered next year in response to the two-child limit. Those decisions that the Scottish Government has made will, almost by design, mean that more is spent on social security than the funding provides for. They are all decisions that the Scottish Government could change, if it wished to, and perhaps a new Scottish Government in the future may choose to do that. It can meet the current forecasted social security

payments if it wishes to, but it will have to cut services in other areas in order to do that.

The budget is not fixed completely. The block grant—which we will go into in more detail later—is determined by what the UK Government is spending on devolved services, mostly in England but sometimes in England and Wales. That is what determines that. The Scottish Government has tax powers—it could raise more money through tax if it wished to. It has small amounts of borrowing powers, but they are mostly focused on capital and are not really large enough to move the dial on any of this, particularly if you are looking at the outlook for capital spending, which is also quite tricky to determine.

It can make those payments if it wishes to, but it has to acknowledge that there are trade-offs and that making those payments means that money will be cut from other services. Some of those other services will also support people in different areas of life—perhaps people in poverty, people with children and so on. So, there is a trade-off: in choosing to spend money on this, we are not going to spend money on other things.

09:15

Professor Bell: To pick up on Mairi Spowage's last point, we do not yet really understand why, in recent years, there have been such large increases in the number of claimants coming forward. Because we do not fully understand that, there is an argument as to whether we should boost certain services in a way that would result in reduced numbers of claimants while ensuring that there is no detriment to the people involved by offering them other opportunities and ways to access the labour market, for example.

Professor Spowage: That is an excellent point about our understanding of what is really going on—for example, in relation to the proportion of the people who are now coming forward for ADP who did not apply in the past. We do not know whether those people are in work or not, or what is really causing and driving the increase, and therefore we do not know what policy solutions would help to deal with some of the issues.

We do not really understand it, partly because current labour market data is very poor. Some of that relates to a lack of data that we should probably be collecting from claimants in order to understand their situation. That is a real challenge, because it makes the policy prescription quite difficult to identify.

Jeremy Balfour: I wonder if I can develop that point—I am conscious of time, so you should not feel that you have to answer every question that I or other members ask.

Interestingly, the MS Society Scotland, in its submission, said that universalism would

"risk spreading ... resources too thinly".

Nobody wants to talk about that aspect of universalism, because the thinking is that everybody wants everything. However, there is no means testing for ADP, for example, so someone like me, on a very good salary, and somebody who has no other money will both get it. Is that an aspect that we should be adding to the conversation? Should we be asking whether all these benefits should, in fact, be non-means tested, or does that go back to the 1980s?

Professor Spowage: I guess that it is about what the benefits are for. We would always make an important distinction between UC and the health elements of it and something like the personal independence payment or ADP, as it now is in Scotland. The latter is supposed to be for the additional costs of having a disability. It is always good for us to have a conversation about whether that is still the right approach and whether it really reflects the additional cost of disability, given the wide range of conditions that qualify and all those sorts of things.

ADP is not supposed to be about income support; it is supposed to reflect additional costs, such as the additional services that someone may require to enable them to work and that type of thing. If that is what it is for—as opposed to UC, which is about people on low incomes—we need to be very clear about that.

David Phillips: I—

Professor Bell: Sorry, David—I have just one quick point to make.

I think that that is a perfectly legitimate question to ask. I was involved with free personal care from its inception, and I wonder whether there is some kind of overlap between the two forms of what are, in effect, universal benefits for people who need care but are also receiving ADP. That is a point of interest that has never been explored further.

Sorry about that, David.

David Phillips: No worries. I was just going to say briefly that I agree with more or less everything that has been said already. I do not think that it is necessary to look at cuts to benefits, in terms of either benefit rates or eligibility. However, that is a choice, and it is one that the Scottish Government has clearly prioritised, with further increases in benefits above the block grant adjustment in the coming year.

It is worth pointing out that "The Scottish Government's Fiscal Sustainability Delivery Plan 2025" mentions a couple of areas in which it thinks that there could potentially be savings, or at least

the possibility of making changes that could result in savings. It talks about looking at increasing the efficiency of administration and tackling fraud and error, but also about looking at reassessments for ADP. It says that the initial evidence is that, at least so far, fewer people are losing their award or seeing a reduced award at reassessment than was initially expected.

The system is still bedding in. The Government is not sure why that is, but it will review it and, if changes are required to ensure that the system meets the principles, which include value for money and efficiency, changes can be made. It has, if you like, left the door open for assessing at least part of the system for ADP. We know that, across the UK, as well as there being more claimants, there have been more successful extensions of claims over the past few years, which is another of the factors that has led to higher case loads and higher expenditure.

I will make a brief comment about universalism. The arguments around it are well rehearsed and concern targeting versus avoiding stigma and boosting take up. It is interesting to note that, in not this year's MTFS but the previous one in, I think, 2023, the Scottish Government highlighted that, although we have traditionally adopted a universalist approach in Scotland, with budgets being tighter, we will need to examine that, so it has kept the door open to considering where universalism might no longer be the most cost-effective approach. However, it is less clear whether it is thinking about that in relation to disability benefits or other parts of the benefits system.

Jeremy Balfour: The fiscal sustainability delivery plan sets out cashable savings of around £1 billion in the first year. Is that achievable? Is it one of those figures that have just been dreamt up on a Friday afternoon or is it something that could be done with the right effort? What effect would that have on individuals and the budget?

Professor Spowage: The plan sets out a number of things, but, from reading the document, I am not clear about how they all hang together, exactly how much money is being targeted to be saved by when, how the Government will go about it and how it will know whether it has been achieved. Some of it is about headcount reduction and some of it is about efficiency savings in back-office functions. To be honest, I do not really understand what that term means.

I am sceptical about whether it is possible to cut that much from an operating budget without it impacting some of the services that you deliver, particularly if you are looking at a public service reform agenda, which is what the Government also wants to do. Otherwise, what are people doing at the moment?

It is not clear to me exactly how the actions in the fiscal sustainability delivery plan will contribute towards savings that need to be made and will be monitored and tracked so that we know whether the Government is being successful. I hope that more information will be published about that alongside the spending review, for example, but there is a long way to go for it to be clear how those things will add up to the savings that the Government needs to make. In the end, the Government must be within its budget, so it will be. That is the point: it will be because it must be. However, exactly how it will achieve that is not clear. It will ultimately mean a change in the services that are delivered for people.

Professor Bell: I echo all—

The Deputy Convener: I am sorry, David, but we will mix it up a little bit. There is a tendency to take the people in the room first rather than people online. That is my fault as convener. I am the one who has to manage that properly and I have not been doing it, so we will hear from David Phillips next.

David Phillips: I echo a lot of what Mairi Spowage said. However, it is first worth recognising that the Scottish Government has produced the plan. There is no similar document from the UK Government, although it has some similar information in the spending review. The plan refers to many on-going and planned measures and somewhat vague ambitions for improving efficiency and productivity, service reform, prevention and prioritisation. It also talks about deprioritising certain things, although it is obviously a lot quieter about the things that it deprioritises than about the ones that are prioritised.

We have mentioned the public sector workforce. Given likely increases in the national health service and social care workforce, the 0.5 per cent a year workforce reduction will mean much more than 0.5 per cent reductions in other areas of the public sector, which could be challenging operationally and for labour market relations.

The plan mentions 3 per cent savings in NHS boards, although it is not clear whether that means a 3 per cent saving per year, which is highly ambitious, or a 3 per cent saving in total over the five years, which is perhaps a low-ball figure for what the Government should be looking to achieve given the fact that we still have not recovered the productivity that we had before the pandemic.

The plan makes quite a big deal of what it calls the "once for Scotland approach", which it says could reduce duplication and enhance economies of scale. Basically, it is about designing systems and approaches once for all of Scotland instead of having different local approaches. That could

boost efficiency and economies of scale, but you could lose some local knowledge and differentiation of services if it were to be pushed through too forcefully.

That said, I kind of agree with Mairi Spowage. Although the plan is welcome, and although it is clear that this kind of thinking is going on—some of it has been put into the public domain—it is really difficult to assess from the information provided whether the targets for next year and the next five years are feasible. There is no breakdown by initiative or service, and there are no links to evidence of the effectiveness of different interventions or to experience elsewhere.

It is also worth noting that the largest component of the savings—efficiency reform and revenue raising, as it is called, which accounts for, I think, £0.6 billion or £600 million next year—includes additional revenue as a saving. That is not really a saving in terms of spending; it is additional revenue, and it is not quite clear where it is going to come from in the coming year given the commitment not to increase income tax further.

As researchers, we have noted that the Scottish Government charges quite a lot for data compared to the Governments in Wales and England. This will probably come across as a bit self-interested—though I do think that it is of broader public interest—but charging researchers to access data can sometimes lead to a reduction in the amount of research that you get, which can impact efficiency and learning going forward. I think that there are lessons to be learned from England and Wales, where more open data means more research, which can then inform policy and efficiency improvements.

The Deputy Convener: Before I bring you in, Professor Bell, I should say that the main recommendation that we get from researchers at this committee is that there should be more research done.

Professor Spowage: All researchers will say that they want more data.

The Deputy Convener: David Bell, do you want to come in?

Professor Bell: I will be very brief. What worries me about the adjustment plan is that many of the adjustments will have to be made in quite short order, and having to make decisions in haste might result in regret later. For example, if the staff count is to be reduced simply by not replacing people, the question is: who are the people you are not replacing? Are they key to the organisation? That kind of issue needs to be looked at. Going back to Mairi Spowage's initial remarks, I think that pay and pay settlements—at least the remaining ones—will have to play a key role in determining whether the Scottish budget can be managed in the next fiscal year.

The Deputy Convener: Thank you. I am conscious that Carol Mochan has to leave early today, so I would rather go to theme 3 instead of theme 2 just now. Carol, if you are ready with theme 3, you can jump in.

Carol Mochan (South Scotland) (Lab): Of course.

I am interested in the argument that social security should be seen as preventative spend, in how we talk about the matter and in the question whether treating social security as that kind of spend helps with our decision making on the Scottish budget and our seeking to ensure that that approach happens. I wonder whether we can hear from Mairi Spowage first, if she does not mind, because I know that her organisation has responded on that issue.

Professor Spowage: Yes. In its public service reform strategy, which was published before the summer, the Scottish Government is keen to talk about the transformative nature of preventative spend. If we can identify things that we can spend money on now in order to save money down the line, that will potentially take pressure off public services, particularly in acute settings, and will make our finances more sustainable.

09:30

The Scottish Government would put forward the idea that, in lifting people out of poverty—that is one of the figures in the public service reform strategy—it will hopefully spend less on crisis services later, particularly in children's lives. They will have better outcomes and, therefore, they are likely to contribute more and lead more fulfilling lives. These are difficult areas for the Government, however. Quite often, early years interventions will have pay-offs 15, 20, 25 or 30 years in the future, and it can be difficult for politicians to think in that long-term way.

Some of the figures in the public service reform strategy on the savings that are made by investing in poverty reduction measures are difficult to evidence. Some of that research is tricky, and good information is not available. This is us calling for more research again—sorry, convener. It is very difficult to understand, in economic terms, the return on investment of these things. It is not clear. We cannot say, "If we do this, that will definitely happen." It is a very difficult area.

There needs to be a meaningful shift to prevention, particularly in the area of health, but, in order to have that shift, we need to come out of siloed working and think about the things that determine poorer outcomes in health. Is it about

housing? It is not even about spending on the health area or other interventions that will make the difference. That is why there is discussion about reductions in headcount, which I think are needed in the public sector, given the growth in it, and the issue of back-office functions. How are we going to come out of silos and think about where we need to spend money if that is the Government's approach?

It is important to think about preventative measures to reduce other spending in the future and make our finances sustainable, but quantifying the return on investment is a difficult area.

Tom Wernham (Institute for Fiscal Studies): I echo the point that there is a lot of uncertainty, particularly around income redistribution and tackling income poverty. There is also uncertainty around how much that will be preventative in reducing longer-term problems in employment, health and education.

There is certainly no doubt that there are huge differences between richer and poorer families in how well children do at school, their health when they grow up and that sort of thing, but richer and poorer families do not differ only in how much money they have; they also differ in a range of other characteristics, such as parents' education, parents' health, household structure and how much time they spend with their children on average. All those things could be playing a role, which makes it difficult to disentangle precisely which factors will really shift the dial on those longer-term questions. It does not necessarily follow that giving those poor families more cash as opposed to other kinds of support will be particularly effective.

There is a growing academic literature that is trying to get rigorous causal answers to the question of how giving more income boosts children's longer-term outcomes. It is fair to say that the average paper suggests that there is some kind of positive effect on different outcomes in education, health and later employment, but there is a huge range in the available estimates, and some papers suggest no effect at all. Some of the papers that use big data and get really precise estimates find nothing going on, including a recent study from the US where they gave families randomly huge amounts of money proportionally to their income, and it made no difference to early education scores. Unfortunately, I think that the key message is that it has the potential to make a difference, but we do not know yet whether it will, and we do not know how big a difference it would be. If we want to boost things such as early educational attainment, there is evidence that other schemes such as the sure start centres that were introduced in the 2000s can produce positive effects.

It is definitely important to think about the longer-term effects of the social security system, but it is not very clear that income redistribution is the most efficient way to achieve those longer-term gains. It might be, but it might not be.

David Phillips: We have a paper coming out in about a month on the two-child limit in England, but it is not yet in the public domain, unfortunately.

I echo that point. This is about a different area, but colleagues have previously looked at how spending on social care potentially reduces demand for healthcare. They found an impact, but the financial effects on the NHS were really quite small. A £1 reduction in spending on social care for the over-65s led to about a 2p or 3p increase in spending on the NHS.

If all that you are thinking about is the return on investment for the Government, that looks like a bad investment, but things such as providing social care or cash benefits for households are not just about a longer-term return or saving for the Government down the line; you believe that those are the right things to do and that they have value in themselves.

Therefore, in thinking about social security spending as preventative spend, there is some evidence that it can help with other outcomes, although, as Tom Wernham and Mairi Spowage have said, the evidence is mixed and it is hard to get concrete answers. However, we should also reflect that, if the Government thinks that we should do something just because it is right, that is an important reason to spend that money as well. It is not just about tackling other problems.

Carol Mochan: I am interested in thinking about the issue in terms of the Scottish budget. Has the Government done enough work on the preventative approach? If we go down that route—we have argued that there are lots of reasons to do so—how will we make sure that it works in terms of the budget?

Professor Bell: Again, this is echoing what others have said, but the issue is pretty difficult to assess. Thinking back to the Christie commission, it has always been difficult to be definitive about the effects of preventative spend, because you are looking for enhancements or improvements down the line, some years hence.

I do not think that there is enough discussion around the issue. There are clearly information requirements if you are to do that, and here I commend the Scottish Government for establishing the growing up in Scotland study, which is a longitudinal study of young people that started around 2000. That study has followed the

young people, so you can see what is happening. I have not kept up to date with the research that has been done using the study, but that sort of thing, especially when changes take place that allow you to identify causal influences, can be extremely valuable in making a plausible case for redirecting spending towards what is deemed to be a preventative approach rather than a front-line approach.

I think that we all know that the preventative approach is where we should be going and what we should be discussing. There are resource requirements to be able to have that discussion intelligently, but I think—and I suspect that others would agree—that that is where we need to go.

Elena Whitham (Carrick, Cumnock and Doon Valley) (SNP): I have found this part of the conversation fascinating. The principle of early intervention and prevention is one of the key reasons why I am in this place—it is something that drives me. It is very interesting to hear what Tom Wernham has said, and I am interested to see the paper that is coming out on the two-child limit in England.

Is there space for researchers to come out of the siloed thinking as well? If we ask only certain questions, we will be looking only at one part of the issue. In terms of short-termism, how do you quantify that when you are looking at studies in the States that have thrown money at families but then not given a lengthy period to actually see the outcome? Alternatively, the services might not be the wraparound ones that we need, such as the sure start centres. I made good use of those when I was first a mum way back in the early 2000s.

I think that we need both. We cannot look at things in the short term with a cash-first approach without considering everything that comes out of the siloed approach. I am thinking off the cuff, but I feel as though you have introduced some interesting concepts this morning that we really need to explore a little bit more. I do not know whether anybody has anything further to say.

Professor Spowage: You are right. Some of the research that we referred to in our response looks quite mechanically at the immediate impact of different policies on poverty rates. Obviously, if you give direct cash transfers to particular households, it lifts them above the poverty line and that reduces the poverty rate, by definition. The question is about the impact that that would have as an investment or preventative spend. What would it mean for the outcomes of the children who are living in those households in the medium and long term? What impact will it have on them in the long term?

We have done some other work with the Joseph Rowntree Foundation and other bodies on what other things would reduce the poverty rate, such as what support the Government could put in place to raise the employment rate, particularly of women on low incomes, and each £1 that you spend does not have as much of a return in terms of poverty rate reduction. However, it is about what that reduction in poverty achieves—that is the point, is it not? It is not just about reducing the poverty rate; it is about what it means and what it says about the outcomes for children over the course of their lives. That wider look is much more important.

This simplifies things, but if, in order to pay for a direct cash transfer, a wraparound service that was previously there goes, what is the total impact on the family and their outcomes? In order to follow them and understand that, we need better data and research.

A lot of that could be achieved—and I hope that it will be achieved in the future—by linking data sets that tell us something about the outcomes that people are seeing, whether it is through their tax data or other social security data with the Department for Work and Pensions. It is complex, because we now have two bodies delivering benefits in Scotland, but it is not beyond the wit of man to link those data sets so that we can follow those people through and see the impacts of the totality of the services that are provided to the household, and not just the cash transfer.

Elena Whitham: Do our local authorities provide a lot of that information in the returns that they submit? Do we know what is happening in the area through the national performance framework? How can we gather that data better, although not in a way that is more onerous, and take account of the data that we already have?

Professor Spowage: Government bodies already have a huge amount of data, but the trouble is that it is siloed. There is a view that legal gateways mean that there is no ability to link data.

Progress has been made. I started working in the Government 20 years ago, and it is much better now than it was then, although the landscape has also become much more complex. However, progress is way too slow and it takes far too long. Politicians at all levels should insist that data is made available and linked as much as possible to give us those insights, because if we do not get those insights, we cannot design policies that will have the biggest impacts in these tight fiscal environments.

Professor Bell: I just add that is more difficult to follow children through school and subsequently in Scotland than is the case in England, because there is no unique number that follows a child through their journey. That is really disappointing.

The Deputy Convener: I do not know whether you want to come back in, Elena, but Tom Wernham has been sitting there quite patiently. As part of your question, you mentioned his research that is about to be published.

Tom Wernham: A lot of what I wanted to say about how we really need more administrative data to become available has been said. The research that we have coming out soon uses linked health and education data from England that is only newly available. That kind of thing is really valuable. We have not had it before.

I do not disagree with the premise of the question. A lot of the research is very solid and it looks at specific outcomes. Unfortunately, that is because, in order to answer a question rigorously about the effect of a particular policy on later outcomes, we need either an experiment, which is very rare, or policies that are designed in a particular way that is amenable to good research. That is also quite rare.

Unfortunately, we sometimes answer only the easy questions, because we can do so convincingly and know that the answers that we are giving are right. Those longer-term questions are much more difficult to answer well, but the more big data and high-quality data that we have, the easier it will be to find opportunities to answer such questions rigorously in the longer term.

09:45

We also need to think about how the data is formatted. Even in some of the early evaluations of sure start centres, which were known to have done well, it was not always known why they had done well, because data on what was going on at them was unavailable. It was a very localised scheme. That might have been part of its success, but there was no centralised data collection, so we did not know what the local areas were doing that was efficient and what was not. Therefore, collecting more data, thinking about how it is formatted, really pushing to make it available to researchers and even sharing it between Governments and Government departments will help a lot.

David Phillips: On that point, when it comes to tracking the benefits system, the UK Government has put together a new data set called the registration and population interaction database, which will link together taxes and benefits data. We hope to start working on it soon. However, I understand that it will not include current Scottish Government benefits, so collaboration between Scotland and the UK Government, and also between the Scottish and Welsh Governments, will be really important to ensure that we get the holistic picture that we have emphasised is so important.

Alexander Stewart: We have all identified, and you have already indicated, that social security spending is forecast to increase faster than spending on any other part of the Scottish budget. We are looking at considerable sums of money: at the moment, spending is about £6.7 billion, and a potential increase of 30 per cent is forecast by the end of the decade, which would take it up to £8.8 billion. That is a huge sum of funding. My question is: how problematic or sustainable is such an increase in that timescale? If it is problematic, why? If it is not problematic, why?

Professor Bell: I will make one brief point. The social security spending increase is partly a consequence of our ageing society. In a way, the demographics are kicking in, because older age is strongly associated with greater disability, which we cannot do very much about. The consequence for the working-age population is that we need to increase productivity if we are to generate the increase in tax revenues that will at least partially offset the increases in social security assistance.

Professor Spowage: It is worth saying that, although some of the reasons for the social security spend outstripping the block grant adjustment that is provided by the UK Government are about policy choices—the mitigations, the different approach and the new benefits are the three elements of that—Scotland's demographics compared with the UK's will be a part of it. If our demographics did not depart on anything and if everything was exactly the same, there would still be a pressure, because we spend more per head in Scotland in some areas. Some of those considerations are baked into the initial addition on the block grant adjustment, but our demographics are also different. We will potentially face more pressure, given our ageing population and the fact that we are generally sicker than the UK as a whole. Whether the increase is problematic will depend on the trends and whether they diverge more than they have in the past.

To underline that, I note that social security will increase from around 13 per cent to 14 per cent of resource spend, so it will increase as a share of the overall budget. There is a question about whether that can continue to happen as we go forward. The Scottish Government can make choices to spend more money on social security, but it means that it has to spend less money on other things.

One thing that we have all, no doubt, said in our submissions to the committee is that social security is a bit different from other forms of spending because it is demand led. That is fine. The Government can make choices about a payment, but it creates additional risk because,

once the legislation is in place and the criteria are set, if people meet the criteria, they will be entitled to the payment. The spend can therefore be less predictable and more volatile than other forms of spend. Managing that type of expenditure represents an additional risk, I suppose, as opposed to, for example, an employability programme, where you can if you wish—we have seen this in recent years—cut back on spending halfway through the year because you are worried about your overall budget. Social security is a less flexible form of spending.

David Phillips: There are two things that could be driving increases in spending. One is active policy choices, where it is a case of prioritisation. Different Governments and parties will have different views on the prioritisation of different types of social security spend versus other types of spending and levels of taxation. It is not necessarily a problem if a Government wants to prioritise one area of spending over another provided that the necessary choices are made elsewhere in the budget.

What is a problem, not just for Scotland but for the UK as a whole, is the big and unexpected increase in disability benefit claimants over the past few years. We will perhaps come on to talk about the reasons behind that later. However, if that was driven by an increase in disability, that would be unparalleled anywhere else in the Western world. Colleagues at the IFS have looked at the trends in claims for those benefits and nowhere else in the world has seen anywhere near that increase. If it genuinely reflected an increase in disability in the UK, and in Scotland, compared with the rest of the world, that would be an issue not just for the public finances but for society as a whole.

Is there a problem here? Potentially yes, but I think that it is more about understanding what is driving that increase in disability. As Mairi Spowage said, the labour market statistics are a bit ropey at the moment, but there is what looks like a fall in employment in the UK relative to other high-income countries. That has a fiscal implication, but it has a much bigger societal implication as well.

Alexander Stewart: The Scottish Government has set out its fiscal sustainability delivery plan, and we talked earlier about the short-term savings that will potentially come from that. Let us consider the longer term. It would be good to get your views on what you think is achievable and whether we can achieve some of the five-year savings that have been proposed.

As you have explained, there is a real dilemma about what choices we make. The Government can do things differently if it wishes to, but that will have consequences for what it can do elsewhere. It will need to consider what other savings can be achieved to ensure that it can maintain and sustain the social security budget at the level that it wants to see it at. It would be good to get your views on that as well.

Professor Spowage: I think that it was David Phillips who mentioned some of the commitments in the delivery plan, and he flagged the 3 per cent figure for health board spending. Perhaps I missed it—a lot of documentation was published on that day—but it is not clear to me whether that will be reinvested in health or whether it is a saving from the health budget that will go somewhere else. If it will go somewhere else in health, how does that fit in with the overall envelope and growth in health spending? Does the saving mean that it will not grow that much? None of those things are clear to me. A head count reduction target has been set, but there is no plan for how that will be delivered. As David Phillips said, if it is just salami slicing, how will it be delivered across public bodies? That will be an inefficient way to do it, and it is certainly not going to mean that the Government is making sure that resources are directed towards its priorities. How do we do this in the era of no compulsory redundancies? What is the actual workforce plan to achieve the target?

If the Government is saying that it will take £1 billion out of operating expenditure, it needs to be up front about what that will mean and what its consequences will be, because that cannot happen with no impact on anything. If it could, we would all be asking how that would be the case.

Professor Bell: I completely agree with what Mairi Spowage just said; it is about putting the flesh on the bones of the plan. At present, it does not read as if it sets out exactly what we will do to achieve the savings that we need.

Of course, the much less painful approach is to get the economy growing more rapidly, increase tax revenues and reduce social spending, in a sense, because people are back in employment. However, we are where we are on that, and the UK and Scottish Governments are focused on enhancing productivity, although we have not seen much in terms of gains recently.

David Phillips: I echo the point about the lack of information on the long-term, as well as on the more short-term, plans. I also emphasise that the Government in Scotland specifically, and Governments around the world, are facing genuine uncertainty with regard to how much, and how quickly, new technology such as artificial intelligence will translate into productivity improvements, and how effective the public sector will be in harnessing those developments, given the types of services that it provides, which are often labour-intensive services in quite unionised markets.

My advice would be that the Scottish Government needs to be ambitious on innovation, and it needs to plan carefully for the impacts on workforce and industrial relations and on service delivery models. However, when it comes to planning the public finances, the Government needs to be much more cautious. It is much harder for the Government to adjust its plans later on if it has built in assumptions of big efficiency savings from innovation than it is to release money if it discovers that it can in fact go further and faster on efficiency than it had initially built into its plans.

The Deputy Convener: I have a wee supplementary on that. Every time that we undertake budget scrutiny, groups in the third sector, and across the board, say that we must invest more, usually in direct cash payments, to meet the statutory duties on child poverty targets that we have in place.

We have already heard today that, if there is money to be spent, putting money in people's pockets is desirable, but there are desirable ways to spend that money other than taking a cash-first approach, such as running sure start schemes, getting people back to work and supporting families. I think that Elena Whitham talked about that, too.

Given Scotland's budget and the level of social security spend, how realistic is it for us to go much further on growing the cash spend that goes directly to families and individuals in order to meet our statutory child poverty targets? Is there scope in the budget for us to do much more?

Professor Spowage: Again, the Government has choices there, and it could choose to spend more money on that. The overall challenges that the resource budget is facing, including pay, are big.

As David Phillips mentioned earlier, choices that the Government has made on pay for public sector workers have meant that the median public sector pay in Scotland is higher than the UK average. The trend has been quite different in Scotland from the trend in other parts of the UK.

The Government made that choice—I have heard Ivan McKee, for example, say, "We made this choice: we want to pay public sector workers more"—but it means that every percentage point of further increase costs more than it did before, and that is all compounded into a larger challenge. In addition, the public sector workforce in Scotland is significantly larger as a proportion of overall employment.

There are a lot of challenges in the current outlook for the budget. The Government could make the choice to do what you describe, but it would have to cut that spending from somewhere else. From a policy appraisal point of view, if we are looking holistically at the outcomes for families and citizens in Scotland, we would generally want to look at all the evidence for different interventions and think about where money might best be spent in order to achieve the outcomes that we want. That requires the Government to be clear about what outcomes it wants to achieve, and the options that are in front of it in order to achieve those outcomes, and to look at all that holistically. Spending money on something will, of course, have an impact, but is it the best way to spend that money in order to achieve the outcome in the most efficient way so that we get best value for money?

10:00

The Deputy Convener: I will come to Tom Wernham in a wee second, but first I want to check something with you, Mairi.

What does the research show? If money became available, how do you believe that it should be directed?

You spoke about policy appraisals. They would come to researchers and analysts, and you sit within that space—well, not you personally, but your organisation does. Do you think that it is desirable, should money be available, to direct more money into the pockets of those who are living in poverty or to invest in wraparound services and support?

Professor Spowage: The evidence on that is difficult. It is really about the Government being clear about the outcomes that it is trying to achieve.

As we said in our written response to the committee, if your focus is strictly on the percentage of people in poverty, it is likely that direct cash payments will be a cheaper way to achieve a percentage point reduction in poverty, in comparison with childcare provision and other interventions. However, we are potentially not seeing the holistic picture when it comes to services, and different families or households might have different views on what they would prioritise among the services that are provided to them.

It is a difficult question to answer, and it is more of a policy question with regard to what outcomes the Government is trying to achieve.

The Deputy Convener: I will bring in David Bell, but I promised to take Tom Wernham first.

Tom Wernham: If we think narrowly about wanting to achieve our income or child poverty targets, it is about not just how much money we spend but how efficiently it is spent and whether it is targeting the right places.

I will give a simple example, which I think that the Scottish Government has taken account of. Children in large families are much more likely to be in child poverty. Does that mean, therefore, that mitigating the two-child limit for the purpose of reducing income poverty will be particularly efficient? The mechanisms that the Government is using to boost incomes for poorer children are becoming a little blunt and starting to introduce quite steep cliff edges. That might be because of administrative difficulties, but there are other issues to consider.

Someone who receives universal credit can now get the Scottish child payment and, going forward, they might have the two child-limit mitigated. If someone has £1 of eligibility for universal credit, they might get those things, but someone who has no eligibility for UC will not get any of them. That means that families who increase their earnings by just a little bit might lose £7,000 or £8,000 a year. That will not only be increasingly inconvenient for those families, especially if they are navigating volatile incomes and so on; it also means that the system is clearly not being super-efficient in who it allocates money to. If two families have fairly similar earnings and one of them is getting £8,000 a year more from the state than the other, that is not the most efficient way to spend money.

If you are going to spend more money—given that a lot more money has already been spent—you need to think carefully about how the system is designed and whether we can improve the targeting and means-testing system that is in place.

The Deputy Convener: Thank you—I appreciate you mentioning those cliff-edge dangers, which is an issue that I have been raising for quite a long time. I know that that is not what we are exploring today, but I think that it is important that you put it on the record.

I come to David Bell.

Professor Bell: The cuts that might have to be made will potentially extend beyond those that are concerned with poverty reduction—they could include things that affect the transition to net zero, for example. They could affect the police service or the prison service—-we know that many services are stretched at the minute. Essentially, it becomes a political choice: it is about saying, “Yes, we have priorities, but we also have to have levels of priority in order to make decisions.”

Lastly, I note that all these decisions are being made against a background in which the UK’s overall fiscal position is as parlous as it has been for decades. I suspect that I am the only one in the room who will remember some of the difficult times that we went through in the 1970s, but people are comparing the situation now to what was experienced then.

The Deputy Convener: I will not ask colleagues which of them remember that, Mr Bell, but I am certainly aware of it.

I bring in Michael Marra, who has a supplementary. We were coming to his questions anyway.

Michael Marra: I will just move on to my own questions, convener. In response to its call for views, the committee, you will not be surprised to hear, received calls for changes to taxation to fund further growth in social security spending. What scope do we have in devolved taxes to fund that future growth?

Professor Spowage: The largest tax that the Scottish Government could look to change to raise more revenue, if it wished to do so, would be income tax. Given the sorts of sums that we are talking about, whether it be for the gaps that the Government presented in the MTFS or the gap with regard to social security spending, that is really the only game in town, if you are talking about making significant changes.

The Scottish Government has said that it feels that the divergence between Scottish and UK income tax has probably gone as far as it would like it to go right now, with higher earners in Scotland paying significantly more in tax than they would south of the border—albeit that those on lower incomes pay a little bit less. It does not sound like the Government is looking at that, but the fact is that if you want to raise significant amounts of money—and if you want to do so through income tax—you cannot continually target those at the very top, because, basically, there are not enough people in Scotland who earn that much money to be able to target them any more, and they are already on particularly high tax rates. Moreover, the increase in tax from 47p to 48p for the very top earners did not really raise any revenue, according to the Scottish Fiscal Commission, so one could ask why it was done.

Therefore, if you want to raise significant amounts of money through income tax, you will have to come down the income distribution and hit the chunk of people who earn more average wages. There is scope to do that, but there might be other consequences. The larger the divergence between Scotland and the UK, the more you might have different behavioural impacts emerging; such impacts are much less pronounced the further down the income distribution you go, because people who tend to earn income through pay as you earn will just pay the tax that they need to pay, but there are potential labour market effects in terms of incentives to work and so on that need to be considered.

Some bodies are perhaps calling for other forms of taxation—wealth taxes, for example—which might be what you are getting at in your question. However, that sort of thing is very difficult to implement; there is not really any international example of somewhere that has raised significant amounts of revenue by doing it. There are examples to look at, but quite often they are very narrow and do not raise very much revenue in the end. There are possible solutions, but they are not going to yield any revenue any time soon, even if they are possible to implement.

Michael Marra: What do you mean by "any time soon"? What sort of time frame would we be talking about for implementing that kind of approach?

Professor Spowage: As someone who has been analysing the tax system for many years, I find it quite irritating to hear talk of quite blue-sky taxation when we have not even been able to reform council tax in Scotland, or, indeed, in the UK as a whole. We still have the 1991 valuations. Could we not even revalue the property system so that we could have a fair tax? After all, half of households are probably in the wrong band. Moreover, capital gains tax at the UK level has all sorts of issues that probably should be fixed, and that is before we get into things such as stamp duty, which gives rise to strange incentives in the property system and is generally thought of as a bad tax.

There are all sorts of issues with the UK tax system, and we are talking about putting on top of that a very untested and risky new form of taxation. I am not sure how we would measure the tax base or how it would be implemented, and there is no certainty about the revenue it would raise. Lots of clever people have spent lots of time thinking about this in various research reports, and it is very difficult. I do not know whether it would raise any money at all, but it would certainly take years to implement, certainly beyond the time of this Parliament—by which I mean, the UK Parliament.

Michael Marra: Do you want to comment, David Phillips?

David Phillips: I think that Mairi Spowage has made many of the points that I would have made, but I just want to highlight a few small ones. On income tax, it is worth bearing in mind that, because SFC forecasts are used for Scottish revenues and OBR forecasts are used for the block grant adjustment, the net tax revenue position has probably been overstated in the forecasts, and there are risks to the downside. I just mention that, because it means that the position of Scotland's revenues that has been built into the current MTFS, and probably the forthcoming spending review, is perhaps slightly overoptimistic. Therefore, even to reach the level of funding built into the current medium-term forecasts, you might need to look at tax rises in Scotland.

My second point, which echoes one of Mairi Spowage's earlier points, is that, when progressivity has been thought about in Scotland, the focus has traditionally been almost entirely on income tax. The Scottish Government has done quite a lot to increase the progressivity of income tax and, indeed, has perhaps pushed the limits a little bit at the very top, given the scale of behavioural responses. However, it has vacillated on council tax for years and years now. Apparently, engagement on the issue is planned for later this year into next, and I hope that that might unblock things in that respect.

One could follow the approach in Wales, where the Welsh Government has said that revaluing and reforming council tax is not about raising revenues but about making the system more efficient and fairer by making it a more progressive tax. In the short term, it would not raise more money to pay for services, but if council tax were made more progressive, it might make the concerns about raising it that we have at the moment—it has quite a high impact on lower and middle-income households—less significant, and it could be made more usable in the longer term.

As Mairi Spowage has said, it is possible to introduce new taxes through local tax powers; indeed, people have often suggested that a wealth tax could be introduced through such powers. However, again as Mairi has said, wealth taxation is, in general, tricky to get right. More countries have been moving away from it than have been moving towards it, given the behavioural effects that it has. Indeed, in countries such as Spain where there has been subnational variation in wealth tax, we have seen a number of regions reduce their tax rates down to zero in an effort to attract rich individuals, and the evidence suggests that rich individuals move to those areas with zero wealth taxes. I think, therefore, that it could be a difficult route to go down. How usable would it be for Scottish councils if they were concerned that having such a tax meant that many of their wealthier residents would move just over the border into suburbs in council areas where they would not be charged?

There is scope to think about taxation and how you can raise more through tax, but there is no low-hanging fruit here. Scotland needs to think about the tax system as a whole, and really get a grip on property taxes, which are where the Scottish Government has the most powers but has done the least to make them fairer and more efficient, as well as potentially making them more suitable revenue raisers.

Michael Marra: Professor Bell, the questions that we have been discussing this morning have been—at least, in part—about how we plug the gap that the SFC has identified between the current plans and the revenue. The requests that the committee has seen have related, in part, to further growth on top of that and additional spend on benefits. Do you think that that is realistic?

Professor Bell: I think that it is difficult in the current situation, because it will require some very tough political choices to be made about where to restrict growth in order to effect that increase in social security spend. I think that some of those political choices will become quite acute.

Michael Marra: But what about the tax question?

Professor Bell: On the tax question, I think that changing the form of existing taxes or introducing new taxes is fraught with difficulty, some of which has not been fully anticipated.

10:15

I agree completely with regard to council tax. We have talked about land value taxes for a long time, but we have not moved anywhere near them. In a sense, they are a form of wealth tax, but the advantage is that the land cannot be moved. Over the years, Scottish Governments of different political complexions have failed to do anything significant on council tax. It appears that the political barriers are such that making a significant move that would massively increase revenues to compensate for the increase in social security spending that we are envisaging would be very difficult.

Michael Marra: Professor Spowage said previously that changes to the very top rate of tax have produced negligible amounts of money—they have made no real contribution. Really, the contribution comes from people who earn between £40,000 and £50,000, through fiscal drag. Is that where the weight of any projected tax increases to meet future demand would fall? You also mentioned the need to get growth in the economy. What would the impact on growth be of such additional taxation on that kind of band?

Professor Bell: Yes—to make significant increases in revenue, you would need to focus more on the medium and lower income tax bands. Migration—people leaving the country as a result of the taxation on higher bands—would probably be less of a problem. However, as Mairi Spowage said, you would get behavioural responses in the form of people dropping out or working fewer hours, which might reduce revenue. I am concerned, not only that it is difficult to measure the behavioural impacts on people who are already in Scotland, but that having a reputation as a high-tax area militates against people moving into Scotland who might help to grow the economy in all kinds of different ways.

Professor Spowage: That point about behavioural impacts is a really important one. Often, people imagine folk fleeing Scotland with bags of money under their arms, but the issue is not about that. It is about looking at whether, for example, slightly fewer people come to Scotland than would otherwise have been the case over a period of time. It is about those sorts of behavioural impacts at the margins: do people simply work a little bit less or decide not to take a promotion or overtime because of the tax? Those are the important things to consider. Fiscal drag is a huge issue in that regard, because, over the years, even if the tax rates stay exactly the same, if the threshold does not move with inflation, more and more people will come into the higher rates and, in effect, get a tax increase, even though that is less visible than the rates changing.

David Phillips: If you want to raise more revenue, it is even more important that your tax system is raising revenue and redistributing it as efficiently as possible. There are opportunities in that regard in Scotland, because, as I said, Scotland has a regressive council tax, a more progressive income tax than the rest of the UK, and a very high property transactions tax, which discourages moving and mobility. Thinking about the tax system as a whole, if you had a revalued, more progressive council tax and a lower level of land and buildings transaction tax—LBTT could perhaps even be abolished—and you made some changes to income tax, that would potentially allow you to raise more, redistribute more and do it more efficiently. Thinking about those things as individual levers that you pull rather than about the system as a whole holds Scotland back.

The Deputy Convener: I am conscious that we are the Social Justice and Social Security Committee and not the Finance and Public Administration Committee—or, indeed, any other of the theme committees that would have to deal with reform of the services that they scrutinise. We need to ensure that these matters are taken forward competently and appropriately, so that the money is here for the demand-led budget that we, as the Social Justice and Social Security Committee, want to protect. As interesting as that discussion was, I can feel us drifting towards a Kenny Gibson-esque finance committee debate, and we are the Social Justice and Social Security Committee. Elena Whitham, can you get us back on track?

Elena Whitham: I will, but, first, as someone who used to be a member of a valuation joint board, I would say that, if there was going to be a full-scale revaluation right across the country, the

resources to carry out that work would need to be made available.

David Phillips touched on the growth in disability benefit case load and spending, and several others have mentioned it. I want to revisit that issue to get more evidence from you all. David Phillips, will you expand on your earlier contribution with regard to what progress has been made in understanding the reason for the increase across the whole of the UK in the number of people who are on disability benefits? You said that you looked comparatively at other countries and that you did not see the same significant growth. Can you or Tom Wernham talk about that?

Tom Wernham: There is still a lot that we do not know about the precise drivers. There is a lot of talk about the fact that increased mental health problems are playing a role, and that is often a cited part of new claims. The evidence for that is patchy, unfortunately, given all the problems that we have with surveys at the moment, and there is a lot of disagreement about that. There are some signs that mental health problems are increasing, but probably not enough to explain everything.

At the very severe end of the scale, we have also seen increases in the rates of working-age deaths as a result of suicide and drugs and alcohol, which are signs of very severe mental health problems. That is a sign that there is something real going on, but, again, unfortunately, we simply do not yet know whether that is just a small part of the story or a big part of the story of wider mental health problems.

It is true that, compared with other countries, we have seen much faster rises in the number of people on disability benefits. To some extent, that has taken us to a level that is more comparable to that of other developed countries in terms of the rates of people who are on disability benefits, so there has been a bit of catching up. However, that is not necessarily informative, because we all have different systems with different rules. The increase could be due to a number of factors, such as rising health problems, increased diagnosis or increased self-reporting by people who have always needed support coming forward when they did not previously, or system design could be playing a role.

The Scottish ADP has a somewhat more accessible application system. The PIP application system has also become a bit more accessible due to the move in places to telephone rather than in-person assessments. It is difficult to disentangle the effects that all those things are having. There are lots of candidates, but I am afraid that, as yet, we have no firm answers.

David Phillips: There are no firm answers on the breakdown of those three factors. It is likely that there is a combination of factors involved—genuine increases in ill health, particularly mental ill health; changes in self-reporting and medical diagnosis; and changes in application and reassessment processes—and that those have come together at a particular time to drive the increase. As Tom Wernham said, it is a much faster increase than is the case in any other country in the western world, but it takes us from below-average levels of disability and health benefits to levels that are more like the average, so a problem that many other countries had is now emerging in the UK.

Professor Bell: I have written a paper with David Blanchflower and Alex Bryson. In essence, it is about not mental ill health but ill-being—in other words, people who are not severely mentally ill. The typical assumption was that people's wellbeing was at a higher level when they were in their 20s, declined during their 30s and 40s, and then rose again after the age of 50, so the pattern was sort of U-shaped, but we have found that, in the past few years, the trend has become that wellbeing just increases steadily with age. In other words, the young are those who feel the most mental ill health pressures. I am not saying that they are mentally ill, but they feel mental ill health pressures. That change has taken place quite quickly—we have only observed it; we cannot provide an explanation as to why it is the case—but it is quite a dramatic change, particularly for young women.

David Phillips: That change has happened across the western world. There is a paper by colleagues at University College London and the IFS that shows that that has happened in the UK, the US and quite a few other countries as well. It has been a huge change across the world.

Elena Whitham: That was going to be my follow-up question. Where was that paper looking at? Did your paper on ill health look across the UK?

Professor Bell: It used quite a lot of Scottish evidence. It used the Scottish health survey, as well as a lot of UK evidence, so it was UK based, and it included a disproportionately high share of Scottish evidence.

Elena Whitham: Perhaps the rapid onset of that change has caught everybody on the hop a bit with regard to the need for adequate resourcing to deal with the rise across the board in mental ill health, as opposed to being mentally unwell.

Professor Bell: We are not sure, and we might need to do a little more work on that. David Blanchflower is of the view that the change started with the 2008 financial problems, but there is also a view that it has been exacerbated since the pandemic.

Elena Whitham: That feels a little intergenerational, if it relates to young people who were perhaps just born or were not yet born at that point.

Mairi, you spoke about not understanding the data sets associated with that. How many of those people who are now on ADP are in work, as opposed to not in work or claiming other benefits? How do we ensure that we have the fullest picture, so that we can fully understand the trends?

Professor Spowage: Some of the difficulties have been caused by the well-documented issues with the labour force survey and the annual population survey, particularly during the years of 2022 and 2023, when we were emerging from the pandemic. We would normally use the LFS and the annual population survey to look at things such as reasons for inactivity and whether people who were inactive wanted to work, but there are also questions that David Bell analysed in his submission, to do with the type of condition that people have if they are ill or have a disability, so that we can see how that has changed. We are a little blind in our understanding of the underlying prevalence in the population, although self-reporting through a survey is not the same as being assessed as eligible for a payment—those are not the same things.

In some of the data sets that are collected for PIP and ADP, we do not necessarily know whether someone is working. On UC, there is a question that can indicate whether someone is in the readiness to work area. Interestingly, for UC in Scotland, the data suggests that the level of people who are claiming who are not working is lower than before. It has become a bit U-shaped, so the level has come up a little in recent years, but it is lower than it was before the pandemic, which is interesting.

We do not really know how all the things that Tom Wernham has mentioned are contributing, or to what extent financial pressures on households have meant that people who had a condition are now more likely to claim when they did not before. Even if someone is eligible for benefits, they do not necessarily claim them, so perhaps the financial pressures have pushed that level up.

We also do not know to what greater extent people have recognised conditions that they already had or that have been exacerbated through the pandemic. It is likely that all those things are contributing, but we do not really know which ones are the main drivers.

As I said before, that makes it difficult to find the policy solutions. If the issue is to do with increasing mental ill health, the policy solutions to that are very different from the solutions to people being inactive because they do not have the right sorts of jobs or whatever. They are very different policy prescriptions, so we need to understand the data.

It would be good if more data was collected from claimants about their current status. I think that improvements will happen in the data that we have on the labour market, but there needs to be more linkage of administrative data, as we said earlier, so that we can follow people through and understand what is going on. That will have to happen across the DWP and Social Security Scotland, because folk are getting different sorts of benefits, and we need to understand the full picture of what is happening with folk in Scotland.

Elena Whitham: The spend on ADP in 2024-25 was £96 million lower than anticipated, but it is not looking as though that will be projected in the long term. The spend is set to rise, so the reduction was just a little blip.

Are there devolved policy decisions that will lead to that increase in spend? You spoke previously about the review process not giving the results that were perhaps anticipated and that that is being looked at again. Are there any other drivers in the devolved space that might lead to that increase in case load and spend?

10:30

Professor Spowage: Those elements of demand-driven expenditure are forecast by the Scottish Fiscal Commission. I am sure that the commission would tell you that it is not an exact science and that it can be difficult to forecast such things. As well as having to forecast the theoretical eligible population and how that might change—as we have mentioned, that has changed in ways that no one expected, and it might continue to do that—the commission also needs to predict how take-up might change. Because we do not always know what the total eligible population is relative to the number of people who are claiming, it is difficult to understand how and in what ways take-up might change. I think that there was an expectation that take-up in Scotland of ADP would be higher than take-up of its equivalent because of the different application process. Although that has been true to a certain extent, it has not been the case to the extent that we expected. The assessment processes are coming out differently.

Although we have the forecasts, we must recognise that they are quite uncertain. That is why this area of spend is a bit riskier, in the sense that it will take up what it takes up in the budget, and the rest of the budget will need to flex to allow for that, because it is demand driven.

Tom Wernham: It is still unclear exactly what the long-term consequences will be. Since the introduction of ADP, there has been a consistently

higher level of applications. That is what the most recent data that we looked at shows, although that only goes up to the middle of last year. There was an initial rapid increase in recipients, but that subsided, perhaps because people delayed their claims so that they could get ADP rather than go through the previous system.

With regard to changes in the application process and how those are playing out, there have been a few papers that have suggested that reducing the costs of—and barriers to—applications for such benefits can, perhaps unsurprisingly, increase the rate at which people make successful claims. Those levers might be playing a role.

Working out precisely what is going on there will involve a longer effort, but we must ensure that we get lots of information from the UK Government and the Scottish Government about how the eligibility rules are being enforced and how the application process is proceeding. That will help people to understand what is happening. Sometimes, it is not even clear that there has been a change in how assessments are conducted. On the PIP side, for example, it is not always clear externally that there has been such a change. We need to get lots of information to help our understanding.

David Phillips: There is a difficult trade-off for Governments to make in designing disability benefits, because although they want to make it as easy as possible for those who are genuinely disabled to apply for and receive the benefits that they need, it can be useful to have some barriers or tests to ensure that people who do not need the benefits and who are not eligible for them do not receive them. It is difficult to design eligibility systems so that people who should not get the benefits are screened out, but those who should get the benefits are screened in and allowed to get them.

That is an area where the Scottish Government has an opportunity to learn by innovating and trying different approaches. It can be challenging to put some people through one system and some people through another, but it is useful to do small experiments to see how that affects issues such as take-up, fraud and problematic claimants. By taking such an approach, it is possible to learn lessons for the long term about how systems should be designed to ensure that people who need support get it and those who do not need that support do not get it.

The Deputy Convener: Marie McNair will take us on to our final theme.

Marie McNair (Clydebank and Milngavie) (SNP): Recent changes to UK social security policy highlighted the fact that social security block grant adjustments can change unexpectedly and at very little notice. You touched on this earlier, but could you expand on in what ways and to what extent that affects the Scottish Government's ability to plan devolved social security policy? Is there anything else that you would like to highlight to the committee on that issue?

Professor Spowage: Absolutely. The announcements on the PIP changes in the spring statement and in the week before in the paper—there were slight tweaks between the two announcements—highlight the very close interactions between the UK Government's announcements on devolved issues in England and the Scottish spending envelope.

The PIP reductions that were planned over the next few years were not going to be immediate. When they were first announced, they were going to come in in November 2026. A planned reduction in spending on PIP would mean that the block grant adjustment to the Scottish Government would be reduced over the period. There were other announcements in the spring statement that also meant—

Marie McNair: There was one about single parents.

Professor Spowage: Yes. There were many other announcements, but that one could be isolated to show the impact that it was likely to have on the Scottish Government's spending power.

For the Scottish Government at that point, and I suppose for the budget that was to come in December, it had a choice. Looking at the impact that that could have on its budget for 2026-27 and beyond, it could somewhat follow suit with similar restrictions, keep the system the same as it is now and have the funding coming through the block grant adjustment, or fund the shortfall, which would be larger, through other parts of its budget.

That is how the fiscal framework was designed. There was always a need, given the way that it was designed—I am sure that the two Davids can talk about that much more than I can—for there to be a comparable payment or tax in England, or in England and Wales, or in England and Northern Ireland, or whatever the comparator was, to allow an appropriate reduction or addition to be made to the block grant. Most people involved wanted to keep the Barnett term in the block grant and adjust it to reflect these points of devolution, but this is the consequence of that. An announcement could be made at the spring statement that would materially affect the funding available to the Scottish Government in the next budget year, and the Scottish Government would have to make decisions as a result. It shows the close interaction between the two.

These are devolved powers. Indeed, income tax is a devolved tax, mostly, but decisions on PIP or on income tax for England materially affect the amount of resources that are available to the Scottish Government, and may require a response. That shows that interaction, and the very complicated system that might require a response from a devolved Government even if it has not changed its devolved policy.

Marie McNair: Thanks. That was helpful. I will go to David Phillips online and then come back to David Bell in the room.

David Phillips: Following on from what Professor Spowage said about the design of the fiscal framework and the BGAs, I want to first defend them as a principle and how they operate. It is important to realise that the UK Government raises the revenues to pay for social security spending in England and those BGAs. If less is spent on social security benefits in the rest of the UK, that allows lower taxes or lower borrowing in general for things that benefit the UK as a whole. If England, Wales and Northern Ireland are seeing lower benefits spending to pay for those lower taxes or lower borrowing, it would be unfair if Scotland managed to maintain its higher level of funding for benefits through that block grant adjustment.

You need to have a block grant adjustment that responds to what is happening, whether that is benefits spending in the rest of the UK for the benefits block grant adjustments or taxes in the rest of the UK for the tax BGAs. That is a key part of making sure that Scotland does not, if you like, avoid contributing to UK-wide fiscal tightenings but also does not lose out from UK-wide fiscal loosenings. It is a key part of that.

Having said that, the fact that the Scottish Government has constrained revenue-raising powers and very limited borrowing powers, even in the short term, means that it has less flexibility to respond to those sorts of changes in the UK fiscal stance than the UK Government does.

If the UK Government cuts benefits spending in the rest of the UK, that means that there is less of a block grant adjustment. The Scottish Government only has fairly limited options in the short term. It can perhaps do a bit on income tax, but it cannot really borrow, and a lot of the pressure comes from public service spending. That means that, although the system is working as intended, there is still scope to give the Scottish Government more fiscal flexibility to respond to issues such as changes to tax, public service spending or social security spending. There is still a case to devolve a wider basket of taxes—even though that exposes the Scottish Government to more fiscal risks—and at least some modest additional borrowing powers in order to give the Scottish Government a bit more time to respond to changes. As Mairi Spowage said, PIP changes were designed to be phased in over several years, but they could, in principle, come in immediately.

The BGAs, which are an important part of the system, are designed to work as they do, but they create challenges for the Scottish Government. There is scope to address some of those challenges by changing other parts of the fiscal framework, by providing a bit more flexibility on other taxes and a bit more borrowing power to give the Scottish Government more time to adapt.

Marie McNair: That was really helpful.

Professor Bell: I do not have much more to add, but David Phillips was right to say that cuts to some UK programmes, even though they affect Scotland's BGA, could actually benefit Scotland's economy. For example, it benefits the economy if you cut some money out of social security, put it into defence and increase defence spending in Scotland by more than the BGA has decreased.

However, the Scottish Government is flying blind on all those issues, because it does not have the information until very late in the day. In essence, it is another risk. When we were thinking about the fiscal framework, we perhaps did not fully think through the fact that one obvious response should be to make the borrowing powers somewhat greater than they currently are in order to mitigate the risk of sudden UK Government policy changes that affect the BGA. Currently, when such changes are made with very short notice in order to make whatever adjustments are deemed necessary, the Scottish budget is unexpectedly and materially affected.

Professor Spowage: Just to add, I completely agree with David Bell on the fairness issues that he talked about. The system was designed to fulfil the Smith commission's principles—that policy decisions that are made by one Government should have "no detriment" on the resources that are available in another and so on—which are sometimes seen as conflicting.

However, we are many years down the line, and the status quo that we have at the moment is that, for example, Scotland and England have different income tax rates. This has not been set out in Labour's manifesto, but if the UK Government decided to increase income tax in England in order to deal with its current issues, that would significantly affect the envelope that is available to the Scottish Government, because it would increase the deduction from the block grant and therefore restrict the Scottish Government's spending power. That is the way that the system is designed, and it is possible that that could happen.

The issue is whether the Scottish Government gets enough notice and has the ability to respond

to such changes. Folk who are not close to the fiscal framework—even the four of us—might not realise that such outcomes are a consequence of, for example, significant changes to income tax in England.

Marie McNair: Thank you. Earlier, you mentioned tax increases and folk not going to England as a result, but, at the same time, people are coming to Scotland because of incentives such as free tuition. Are you looking at any findings on that trend?

Professor Spowage: In conjunction with the Scottish Government, His Majesty's Revenue and Customs has produced a few different research reports, which we have been involved in peer reviewing and so on. Organisations such as those of the two Davids also do research on some of those issues in order to get down into the behavioural impacts, particularly as a result of income tax, in order to see what the differences might be.

The evidence has not quite caught up with the latest income tax changes and the biggest differentials that now exist, so more evidence will be required, and more research is being done in that respect. There is some evidence to suggest that the situation might be affecting the very highest earners, but we need more evidence to see whether it is impacting on people's decisions about coming to Scotland.

10:45

When you talk to people in businesses or at different levels of the income distribution or different stages of their lives, you will see that some of those policies are going to impact them more at different stages than at others. Younger people, in particular, are not always thinking about these things, because they might feel very far away from, say, owning a house or having children. A lot of research is being done in this area to try to understand what is happening, because a lot of the best evidence that we have about the behavioural responses of different people in the income distribution is not specifically about Scotland as part of the UK in the current situation. Therefore, there needs to be more research if we are to really understand the impacts.

Marie McNair: Thanks. We will look out for that.

David Phillips: Briefly, I would just add that you are right that one needs to think about the overall package of Scottish Government policies and take into account not just higher taxes but the other aspects of Scottish policy, whether it be free tuition, free personal care and so on. I would point out, though, that free tuition has been a long-standing policy that has been sort of in the background; with the increase in taxes at the top, and if we take the tuition fee policy as some kind of constant, one would have expected, based on evidence from elsewhere—and to some extent emerging evidence in Scotland—some behavioural response, particularly at the very top of the distribution. However, as Mairi Spowage has said, the biggest changes had not been made when that analysis was carried out, so it is really important that what happened in 2023 and 2024 is taken into account, and it is good that the Scottish Government has committed to carrying out that evaluation. It needs to be followed through, and whoever forms the Government after the next election will need to ensure that that analysis is done, otherwise they will be flying not quite blind but with one eye behind an eye patch when it comes to setting tax policy.

Marie McNair: Thank you.

The Deputy Convener: Jeremy, I am absolutely going to take you next, but I should say that time is almost upon us, so I ask that you make your question brief, if possible.

Jeremy Balfour: Absolutely. I think that my question is brief; whether the answer is brief might be another issue.

One issue that we have not touched on is the three additional benefits that the Government plans to introduce next fiscal year regarding the two-child limit, the pension-age winter heating payment and the carer's additional person payment. Those involve political choices that we as a Parliament will make, and there are moral decisions and so on to take into account, but purely from a fiscal point of view, is this the right time to be introducing new benefits? After all, as we have been hearing for getting on for the past hour and 50 minutes—almost—there is a great deal of uncertainty around the social security budget. I am not asking for a political or moral view, but, on a purely fiscal basis, is this the time to be doing this? What are the dangers of doing it? I appreciate that the committee wants a quick answer, if that would be possible.

Professor Bell: Overall, the cost is not huge, but I suspect that we are perhaps close to the wire, so the question of whether these things are affordable gains greater traction. You can see the political case, and the case in justice terms, for doing what is proposed, but it is a difficult time to be introducing new benefits or replacing existing ones.

Professor Spowage: The more of the budget that is dedicated to social security demand payments, the more that other areas are going to have to be cut, and the areas that are left over when you account for health and social care, social security and all of those other things are the

budgets that have been under a lot of pressure for many years—that is, local government outside of social care, the police, prisons and so on. I should also mention the higher education sector, which has been under pressure, too, for many years. I think that we can all see the strains in those areas of public service delivery, and it looks like a difficult time to cut them further in order to make those other choices.

That said, a lot of evidence suggests that, say, mitigation payments regarding the two-child benefit cap will have quite an impact on poverty rates, and that is a choice that the Government is making. As I have said, though, the other areas of service delivery that are going to have to be cut are already under a lot of pressure.

David Phillips: I would not want to say that we should not be thinking about increasing benefit payments at this time—as has been said, there are trade-offs that Governments need to make with regard to their priorities—but, echoing what has already been said, I think that the next few years are perhaps going to be the most difficult for the Scottish Government when it comes to budgeting. Not only does it need to be hard-nosed when thinking about the areas of social security spending that it should be investing in, but it should also be taking the same approach across the whole budget. When it comes to decisions on higher spending, whether it be on higher education, public sector pay, free personal care or social security benefits, I think that, given the tight fiscal situation, the Scottish Government will in its spending review need not just to identify its priorities but to be quite hard-nosed about what it is deprioritising, too. I am not saying at all that that should include social security spending—there are choices to be made—but something needs to be deprioritised, and that hard decision is looming.

Jeremy Balfour: Thank you.

The Deputy Convener: The question was indeed brief, and we had brief yet very important, answers, too.

As I conclude our evidence-taking session, I thank the witnesses both in the room and online for their support of our pre-budget scrutiny. If you have other reflections, please drop an email to the clerks—we will be keen to consider them in our on-going budget scrutiny.

That concludes our public business for this morning. We will now move to agenda item 4, which will be taken in private session.

10:52

Meeting continued in private until 11:06.

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