OFFICIAL REPORT
AITHISG OIFIGEIL

Finance and Public Administration Committee

Tuesday 16 September 2025

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 16 September 2025

CONTENTS

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FINANCE AND PUBLIC ADMINISTRATION COMMITTEE
25th Meeting 2025, Session 6

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*Michael Marra (North East Scotland) (Lab)

COMMITTEE MEMBERS

*Ross Greer (West Scotland) (Green)
*Craig Hoy (South Scotland) (Con)
*John Mason (Glasgow Shettleston) (Ind)
*Liz Smith (Mid Scotland and Fife) (Con)
*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Ian Davidson (Scottish Government)
Stacey Dingwall (Federation of Small Businesses)
Lesley Jackson (Universities Scotland)
Elaine Morrison (Scottish Enterprise)
Tom Ockendon (Scottish Federation of Housing Associations)
Shirley-Anne Somerville (Cabinet Secretary for Social Justice)
David Wallace (Social Security Scotland)
Andy Witty (Colleges Scotland)

CLERK TO THE COMMITTEE

Joanne McNaughton

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Finance and Public Administration Committee

Tuesday 16 September 2025

[The Convener opened the meeting at 09:30]

Pre-budget Scrutiny 2026-27

The Convener (Kenneth Gibson): Good morning and welcome to the 25th meeting of the Finance and Public Administration Committee in 2025. The first item on our agenda is evidence from two panels of witnesses on responding to long-term fiscal pressures as part of our pre-budget scrutiny for 2026-27. Our first evidence-taking session is a round-table discussion.

I welcome Andy Witty, director of strategic policy and corporate governance at Colleges Scotland; Stacey Dingwall, head of policy and external affairs for Scotland at the Federation of Small Businesses; Elaine Morrison, director of boosting capital investment at Scottish Enterprise; Tom Ockendon, external affairs co-ordinator at the Scottish Federation of Housing Associations; and Lesley Jackson, deputy director of Universities Scotland. Thank you all for your written submissions.

We have around 90 minutes for this evidence session. I will kick off by putting a question to Andy Witty. If anyone wants to come in on the back of that, let me know: put your hand up or nod as if you are at an auction—you will not end up buying any candlesticks or obscure paintings, so do not worry. Let me know if you want to come in, and we will have as free flowing a discussion as possible.

If we get stuck at any point, I have questions arising from each of your papers, which I might come in on—and I might come in on those anyway to move things forward. Please feel free to say whatever you wish, when you wish, and to make as many contributions as possible. It is the same for members.

Andy Witty, at the very start of the Colleges Scotland submission, on the subject of specific fiscal sustainability challenges, you wrote:

> "it is vital that Scotland maximises the participation and contribution of its population … Gaining the participation in the labour market of those who are currently not in work, education or training, and with support for people who face barriers to work such as neurodiversity or disability".

You went on to say that it is important to

> "Ensure access to appropriate training, qualifications and upskilling which are aligned to Scotland's economic needs."

Could you expand on that for us, please? Where does Colleges Scotland fit in with that objective?

Andy Witty (Colleges Scotland): The context is important. A couple of weeks ago I was at a meeting called by the Under-Secretary of State for Scotland, and the deputy chair of the Industrial Strategy Advisory Council, Professor Dame Nancy Rothwell, was there gaining evidence. The council is a non-partisan advisory group. After the introductions, literally the first word that Professor Rothwell said was "skills". When the council had been around the country—Professor Rothwell has done lots of forums—the issue that kept getting raised was that of skills.

In dealing with the long-term fiscal pressures, and in particular with what the Scottish Fiscal Commission raised regarding Scottish-specific fiscal challenges, maximising participation in the labour market is crucial. Skilling up that maximum participation is equally crucial.

We need to maximise the participation of those who are not currently in work or even in education, who are often younger people. The capacity of the college sector, which is the skills engine of Scotland across the piece, needs to be maximised. The challenge has been that, according to Audit Scotland figures, 17 per cent or almost £1 in £5 has been removed from the college sector's budget over the past three years. A new report is due out at the beginning of October, and I suspect that the figure will have increased. That has a devastating impact on the ability to deliver skills at a time when the capacity needs to increase.

For long-term sustainability, we need to consider helping those who are furthest from the workforce—those who might need a bit of extra support or wraparound care, such as disabled people—to get them back into work and maximise the labour market. More resource is needed in order to do that for those people. The reality is, given that £1 in £5 has gone, colleges have to make really hard decisions, so those support services are often no longer in place. We need to ensure that the right amount of resource is in place.

Finally, in order to reskill and upskill people who are returning to the labour market, or whose job has changed or have been made redundant, colleges must be there as a community anchor and as a place where such skills can be gained. For the long-term sustainability of Scotland and the economy, we must ensure that the skills capacity is there. It is under severe strain at the moment because of the cuts that have happened over the past few years.

The Convener: On the same subject area, you have also said that it is important to "align economic growth spending to gaps in skill and labour market needs."

Andy Witty: Skills alignment is crucial. James Withers produced a report just over two years ago, and one of his recommendations was to bring the responsibility for skills alignment back to the Scottish Government, which is slowly happening. That is a key piece of getting to the right point to identify how we can align skills. Up to this point, the approach has been to identify what needs to be done, and we now need to identify how skills alignment works and how it will happen. That sits in line with the public service reform strategy and the alignment agenda.

Equally, there needs to be finance behind that, because there is no point having a strategy and an approach without the funding to carry it out. For the long-term benefit of Scotland, we need to maximise all the investment. There is inward investment by companies, which is good, but some of those companies need to bring in skilled workers from outwith the country. Just recently, about 2,000 welders from the Philippines had to be brought in for work, yet we have colleges with welding kits that sit unused some of the week because the colleges do not have the funding or the credit. I do not want to go into the technicalities, but the colleges do not have the funding that they need to use the kits as much as they could.

The important point is that skills alignment is critical. How we do that and work it through the system will be a crucial next step.

The Convener: Lesley Jackson, in your paper, you have expressed concern that

"The Flexible Workforce Development Fund (of which the Open University and colleges were providers) - valued at £10.5 million per year - was discontinued in 2023/24",

and you have said that

"the Open University alone had to turn away over 1,000 learners".

You go on to say:

"The Scottish Funding Council's Upskilling Fund, previously valued at £7million per year, was also discontinued in 2024/25."

You add that what is required is

"More flexibility within graduate apprenticeships to respond to employer needs."

Can you touch on some of those issues?

Lesley Jackson (Universities Scotland): I echo everything that Andy Witty said. We completely recognise the fiscal constraints and pressures that the Scottish Government faces. However, the point about long-term planning is really important. A number of the funds that Andy Witty referenced were short term—they covered a single year and they were either removed at the year's end or removed or reduced in-year. That approach makes it really difficult for universities to plan and to recruit on to courses effectively.

As referenced in our submission, more than 85 per cent of new jobs in Scotland will be at graduate level, but we also know that the population of 18-year-olds will start to decline beyond 2030. We will all be working longer into what used to be known as the retirement period. We want to have the opportunity to upskill and reskill jobs with high-level skills. For example, when it comes to the transition in the energy sector away from oil and gas towards renewables, a lot of the jobs will be at graduate level. Universities stand ready and are working with local partners regionally to think about what that means for the skills needs of the workforce. However, we need flexibility to adapt the current model.

We need an injection of funding to stabilise the current funding settlement. As is set out in our submission, the university sector is really struggling with funding and core teaching and research provision, and the dependence on cross-subsidy has been pushed beyond sustainable levels. We therefore need to increase core funding, but we also need to think about how we can be more flexible with provision going forward.

We want to move beyond full-time undergraduate places, but we are constrained within the current capped funding model. We are constrained by limited flexibility in graduate apprenticeships. It takes an awful lot of time and effort to get a new graduate apprenticeship course introduced, so institutions are creating the provision that is needed locally outside the graduate apprenticeship model because they cannot get provision in place quickly enough. We have seen that happen with planning degrees and podiatry degrees, but universities take a hit from that; they do not receive the fee element from the Student Awards Agency for Scotland, because their courses are not designed as graduate apprenticeships.

Universities are trying to be innovative and are working with their local and regional partners to say, "What are the future skills that we want to put in place here? What sits at college level? What sits at university level? What might sit with employers themselves? How do we contribute to that mix?" However, at the moment, we are constrained by both the design of the funding and the amount of funding that is in the system.

John Mason (Glasgow Shettleston) (Ind): You have covered some of the things that I was going to ask about with that line of questioning about aligning economic growth spending with skills gaps. Andy Witty has given the example of welders, which also came up when we visited the advanced manufacturing district. Are we clear where the skills gaps are and are young people clear about that? It is all very well for us—or for universities and colleges to know—but young people need to know in order to go for the right places for the jobs.

That takes me on to universities. Scottish Enterprise talked about graduates who are in non-graduate jobs, which says to me that we are sending too many young people to university—we should be sending some of them to train as welders instead of to do degrees. I will ask Andy Witty to respond.

The Convener: Lesley Jackson, you can come in on that as well if you want.

Andy Witty: We need skills to be at the forefront of planning from the start when new policies are introduced. For example, one policy that is relevant to this morning's meeting relates to housing. The Scottish Government declared a housing emergency in May 2024. It came up with a number of different elements in relation to that, including £4.9 billion of investment to increase all types of housing. However, no thought was included on the skilled workforce that is needed to deliver that. The Construction Industry Training Board is now saying that 4,000 extra workers will be needed each year over the next three to four years in order to deal with that. Other skills bodies, such as those for electricians, plumbers and gas fitters, are reporting the same thing. We know where the gaps are in those industries and in some of the green industries.

John Mason: Do the schools know where the gaps are?

Andy Witty: You touched on careers, which is an important element. There have been a number of career reviews, initiatives and collaborations over the last few years. We need to continue to strengthen careers advice so that everything lines up, the skills needs of the economy are identified and made clear, and planning is done up front around the need to fund those skills in order to meet the capacity.

That is where I touched on cross-portfolio elements in the evidence I submitted. When there is a housing emergency, there needs to be recognition in the Government response that, in order to provide the housing, we need the skilled workforce to build it. That needs to be planned from the beginning, and some of the funding could then come across and support that to ensure that we are not in this position. I also think that strengthening careers advice is part of that circle, too.

09:45

The Convener: Lesley, you will have heard what John Mason said, but I note that your submission says that

"86% of new jobs in Scotland by 2035 will be at graduate level",

which I found really astonishing, given that, as we have just heard, we need welders, plumbers, bricklayers and people to work in retail and hospitality and God knows where else. Surely that 86 per cent figure cannae be right.

Lesley Jackson: I am sure that Scottish Enterprise will want to say something about this, too, but when we think about the development of the Scottish Government's approach, the fact is that the focus on high-growth sectors is what we want for the Scottish economy. We want the Scottish economy to be growing, and we want people to be earning good salaries and having career progression and so on—and the same will apply to every job and every role, be it something high end that requires a graduate degree or one of the crucial supporting roles that Andy Witty just talked about.

As for the number of people who go to university, that is a demand-led model. I am sure that none of us would want to restrict our young people's aspirations when it comes to what they want to study and what they want to go on and do in life. I completely agree with Andy Witty's point about careers advice, because it is so important that young people understand where the opportunities will be—be they local, national or international. We do not want to hold back our Scottish young people when they are thinking about what they want to do and the choices that they want to make.

John Mason: Do you accept that some young people choose a university subject that they quite like the idea of, although they have no idea whether there will be a job at the end of it?

Lesley Jackson: We have a four-year degree system. I do think that we need to think about the transferability of skills. For example, in the renewable energy industry, one of the most popular or—how should I phrase it?—highly represented degrees is social sciences. People might go into a social sciences degree with no thought of working in that sector, but they might then get careers advice at university as well as opportunities to go out and engage with businesses, particularly in the regional space, and they might start to think, "Where will the opportunities be for us in the future?"

It is all about the range of provision, too, and looking at what is at college level as well as at university level. As you will be aware, we have really well-established articulation routes between college and university; somebody might start on one path and then, in the course of their studies, think about taking another path, or they might graduate from college with a higher national diploma and go on to do the thing that they wanted to do.

We have an extra element of flexibility in Scotland through the four-year degree structure, which gives young people the opportunity to move around, if they so choose. However, what we are really focused on is this: where is the aspiration? How do we encourage people to meet it, to develop transferable skills and then, as they come out of university, to think as broadly as possible about what they can do with those transferable skills and the options that are open to them?

Craig Hoy (South Scotland) (Con): I will take Andy Witty back to labour market participation. In your response to our question 6, you say:

> "Barriers to work in Scotland are well understood and preventative spend, particularly investment in childcare, would bring about more labour market participation."

With the significant investment in the 1,140 hours of free childcare programme, have you seen any demonstrable shift towards an increase in labour market participation among the target group that would give you confidence to say that further investment would yield a benefit?

Andy Witty: A really interesting approach was taken to the policy of providing 1,140 hours of childcare. It was driven by a particular minister at the time, so there was a focus on it. Moreover, as well as delivering the aspiration behind the 1,140 hours policy itself, the Government recognised that more of the workforce needed to be trained up in order to manage it.

That brings me back to the careers point that was mentioned earlier, because what that showed was that there was a career to be had in that area of work. The combination of the policy and the recognition of the need for training and skills to be funded led to the approach succeeding and working. My answer to your question is that, yes, the policy has been a really helpful intervention that has allowed parents and carers to work if they want to. That is one element of broadening labour market participation.

The question was about growing the tax base. You grow the tax base by having more people working and getting them to a working position quicker. Looking at those who have never had a job or participated in the labour market before, and at the targeted help that they need to help them through that, is another important aspect.

Lesley Jackson: I will quickly make a related point about part-time study. The 1,140 hours equate to two and a bit days of childcare on a 52-week model. That creates an opportunity for people who might not be ready to immediately enter the workforce but who might be thinking about qualifications in advance of doing so.

As we set out in our submission, the funding environment for part-time students is not on the same footing as that for full-time students. You have to have a very low income to qualify for funding support for part-time study. We are concerned that there might be people out there who are put off studying part time for a university degree because the funding for help with fees and maintenance and so on is not available to the same level as it is for full-time students.

The Convener: You say that the £25,000 limit has been unchanged for the past 10 years. I must say that, when I was at university, it was part time, because there were only 12 hours a week of classes. I do not know what you mean by part time, because that was pretty much part time as far as I recall, and I understand that things have not changed that much.

Lesley Jackson: I am sure that you were doing your non-contact study hours, convener.

The Convener: Moving swiftly on, I call Liz Smith to be followed by Michael Marra.

Liz Smith (Mid Scotland and Fife) (Con): Universities Scotland speaks strongly in its submission about the problem of the restrictions that the sector is under, about the inflexibility that Lesley Jackson spoke about a little while ago and about the difficulty that that will perhaps cause the sector in trying to be innovative and do new things. What has to happen to get a new, different funding model that leads to greater fiscal sustainability?

Lesley Jackson: That is a good question. Fundamentally, we need a cross-party discussion about what we want from universities and how we will pay for that. We have started those conversations, and we are glad that there has been a cross-party willingness to engage in those conversations. We recognise that it is difficult and, in places, controversial. I will say straight up that it is not about fees versus free. It is about thinking about what the holistic model looks like as we go forward.

I mentioned the demographic change from 2030. I think that we all, including universities, agree that what we will be delivering to meet the needs of the economy and Scottish society is not necessarily what we have been delivering, or certainly not in the way that we have delivered it in recent decades. It is about getting round the table and discussing what that future will look like and how the sector can be more efficient and effective.

Universities are absolutely ready and willing to have that conversation. We already do a lot of work on things such as shared services, and we want to push that further. We know that the trajectory that we are on with the funding model is not working any more. We are too reliant on international student fees, and we do not want to be in that space. An openness and a willingness to engage in that conversation is a good start.

Liz Smith: Is there enough urgency about the issue? There are examples of institutions in Scotland having considerable fiscal difficulties and almost existential difficulties. Is the approach urgent enough to resolve matters as quickly as we can?

Lesley Jackson: We have certainly made a lot of progress in the past few months, and it is the number 1 priority for Universities Scotland over the remainder of this parliamentary session. We had a really positive response when we sought to engage in this space across the political spectrum and with other partners. We certainly hope to see progress on the matter in months rather than years, because, as you said, there is plentiful evidence about the situation that we face.

Michael Marra (North East Scotland) (Lab): I was struck by the call for a transformation fund in the Universities Scotland submission. Back on 24 June, the Cabinet Secretary for Education and Skills said in the chamber:

> "I recognise that many institutions have, over recent years, worked proactively in response to a challenging operating environment to rationalise their operations, including their staffing levels. However, there is a need for our universities to reflect on the levels of growth that we have witnessed in some institutions during the pandemic in particular. Some of the planned job losses that are currently being experienced relate directly to that uncapped expansion; the costs that are being paid today are the unsustainable jobs that were created as a result of that."—[Official Report, 24 June 2025; c 14.]

I think that that is essentially a green light to universities across Scotland to shed jobs, which is in contrast to your call for more investment to try to bridge the challenge, which Liz Smith rightly pointed to. Where do you think things are alighting now? Are universities taking the cabinet secretary's advice, or are they waiting to try to find funding that can help them to make the change?

Lesley Jackson: Every institution has a legal and moral responsibility to be financially sustainable. That responsibility is to the students first and foremost, and also to institutions' staff, their wider communities and Scottish society.

When your income does not meet your outgoings and when you do not have a credible path to raising your income to a level that will meet or exceed outgoings in sufficient time, you are in a difficult position. A lot of institutions are looking at how we get on to a path that enables us to bring funding streams and expenditures in line.

Every institution is looking at efficiencies and effectiveness at the moment. We are a genuinely collaborative sector. We are already sharing £27 million a year as a result of joint procurement, especially in internet services, for example, through Jisc. We want to push that further and look at more radical opportunities for collaboration and shared services to ensure that we are driving maximum value from every single pound that is coming into the system. It is about the costs.

Michael Marra: The situation feels more urgent than a transformation fund, because the universities are acting now. We see strikes and industrial action across the country on campuses, and there are significant job losses. Is there a mismatch between what you are describing, which seems to be a more gentle approach, and what your member organisations are doing, where there is a state of panic?

Lesley Jackson: I am not sure whether I would call it panic; there is certainly a state of urgency.

We need an injection of funding into core teaching and core research. Those two things together are important. We have been working on our submission paper for the 2026 budget, and in it we are very clear that there needs to be an above-inflation increase to those funding lines to help to steady the ship.

Alongside that, we are looking for funding to do the transformation work. We cannot do that work if we are still bleeding teaching and research money. We need an injection of funding and a vote of confidence in the sector so that we can maintain the core provision of teaching, research and everything else that the universities are doing. That creates some space to look at how we can be more innovative and more effective.

Almost all the low-hanging fruit is already gone. It takes time to develop shared services and to work through all the implications. In the meantime, we need core funding because, as in the college sector, the value of the funding has fallen away in recent years because of inflation, employer national insurance increases, post-Covid costs and even energy bills. It is relentless.

The Convener: Has the situation arisen partly because the universities were overdependent on overseas students and the UK Government brought in visa restrictions? The number of overseas students reduced immediately because of that, which has cost the sector a colossal amount of money, not just in Scotland but across the UK. There does not seem to have been a plan B in case that happened; everything was sunny uplands. This is going to continue indefinitely, and universities were not prepared for any change in policy.

Lesley Jackson: Cross-subsidy is built into the model. Universities lose money teaching Scotland-domiciled students and they lose money doing research. There are obviously marginal sources of cross-subsidy—conference income and so on—but the main source is international student fees. I would say that universities were driven in that direction by the model and by the desire to keep up the quality and the excellence, which drives recruitment and the quality of education for Scotland-domiciled students.

I certainly agree that there has been a dramatic change because of changes in the immigration regime, which has highlighted the problems with the cross-subsidy model. I do not think that the model was something that universities wanted to pursue; it happened in order to pay for everything else that universities were doing. We are now having to discuss what we can still afford to do if that key source of cross-subsidy income suddenly declines.

10:00

Elaine Morrison (Scottish Enterprise): I will add some thoughts from a business perspective about skills and labour market participation. Some of what we have touched on so far has looked backwards, but we need to think about the innovative business model that we will apply to those areas as we look ahead. Things no longer happen as they did in the past, and the way in which business operated previously—from 9 to 5—no longer applies. However, the timing of care provision has not changed to reflect changes in working practices.

Regarding skills provision, it is still typical for employers to say that they cannot get the skills that they need because they cannot get apprentices, which is because many young people are going on to further study or to do degrees. That is not what employers need—they need younger people to come in and acquire the skills of turning up for work, being present and learning on the job. There is a disconnect at the moment because of the way in which the economy is moving forward, and we need to find the structures that will underpin that.

As for skills in the future, we all know that there are not enough people in the workforce to do everything that we need to do. The adoption of technological capabilities will be core to freeing people up to do the things that only people can do. I encourage colleagues who are looking at future skills provision for business to ensure that we are safeguarding and preserving the skills that will be required. It is our job, and that of others, to encourage companies to think about how they can use technology to offset the skills requirement.

A lot of complexities are coming together. The way in which we traditionally used to look at things has changed so much in the past four or five years.

The Convener: I think that there is a frustration. According to your paper, 8.7 million individuals across the United Kingdom have work-limiting health conditions, but about 4.1 million of those people, which is about half of them, work.

We still have a situation where about 800,000 people are economically inactive, although we do not need to count the 200,000 of those who are students. The Federation of Small Businesses says that only 37 per cent of those aged 16 to 24 are economically active, but if we take the students out, that figure is totally different.

Your submission makes some really innovative suggestions, such as incentivising employers to recruit, retain and retrain older workers. A lot of older workers have a habit of going to work: not everyone wants to retire and some people who retire from one job might want to do something else or move to working part time. However, your paper does not really say how that could be achieved. Can you enlighten us a wee bit about that?

You also talk about empowering employers

> “to reimagine job design and embed flexible and phased retirement options across their workforce”,

which seems to contradict that. In one paragraph, you talk about almost making it easier for people to retire while, in another, you are trying to get more older people into the workforce.

Finally, while I have you on the spot, you say that there is

> “a growing trend of employers requesting workers return to the workplace”

but you say that almost as if it is a bad thing. Transport networks rely on the workforce to boost their incomes, as does the hospitality sector. For a lot of people, their mental health surely benefits from working with colleagues and exchanging ideas. I am the kind of person who does not want to spend their life on a screen or in their house; one of the reasons why I want to work is that I want to be with people. Everyone is different, obviously. Will you respond to some of the points that you made on the second page of your submission?

Elaine Morrison: Yes. The differences are the important part in that—not everyone wants to do these things. It is actually about the balance and the different perspectives that come to it. In essence, it is all about how you retain people in employment for as long as they are willing. For some people, that means having a phasing opportunity, because lots of people reach a stage in their life—I am moving there myself—when they think, “Do I want to work for ever? Possibly not, but do I still want to do something? Yes, absolutely.” Having a phasing capability as a more standard offer is important for individuals. Unfortunately, there are lots of people who have left business because they believed that they were expected to leave business at a particular stage. The workforce and management culture that exists around—

The Convener: It used to be the case that, in many companies, you had to leave at a certain age.

Elaine Morrison: Yes—that anticipated people’s physicality but, now, lots of people are much more physical at latter stages than people were before.

A huge cultural change needs to take place, but how you do that is extremely challenging. It is education based. It is about being able to showcase the businesses that do it particularly well. For this situation, peer learning among businesses is the most intuitive and respected way for people to go and adopt a practice, because they see it working and see that a business’s profitability has not been impacted. It is about being able to showcase the businesses that are doing it well and to talk to them about how they went about the change.

One of the core things that we focus on—this will come into the productivity conversation, but it is relevant—is leadership in business, which, in Scotland, is very underinvested. What we are trying to effect is leaders in business investing in themselves by stepping away from their business to learn about changing practices, take knowledge from other people and take the time to see how it can work. It is about change, risk, appetite, ambition and really thinking about how to do things differently. As I mentioned earlier, the models that we have used traditionally for many decades will not be the models that will work for employees in the future.

The Convener: The part of your submission that I started on was how to incentivise employers to recruit, retain and retrain older workers. How do you get them to do that and change their mindset?

Elaine Morrison: We do that specifically through peer learning. That is the singular approach that I would focus on. You can use all sorts of funds. You can always use funds that provide businesses with a participatory level of support, although, personally, I do not think that that is the right way to do it. The employer has to recognise the value that they are going to get from their employee and, therefore, want to do it.

There can be a cost associated with it. If you are taking people from areas where they need different supports wrapped around them, there will probably be a cost to the business in some way. For example, a disabled or an elderly person whose hearing has been damaged along the way might require to use some special software. There can be costs. There might be things that the public sector could choose to financially assist businesses with, either through taxation incentives or through grant participation.

However, I think that, because businesses tend to do business with other businesses, when they see people doing something really well and recognise that that would be good for their bottom line, they are more inclined to take it on.

Ross Greer (West Scotland) (Green): I have quick questions for Elaine Morrison and Lesley Jackson, both of which are on the theme of how to get best value for public money.

Elaine, if I recall correctly, it was four years ago this month that Scottish Enterprise added conditionality on a real living wage to grants that it issued. I would be interested in your reflections on the impact of that. Has it just resulted in more money going to businesses that were already paying the real living wage, or has it resulted in some businesses that you are working with deciding to sign up and become real living wage employers? Has it tangibly boosted wages in the way that it was intended to do?

Lesley, I absolutely sympathise with the financial situation of the universities sector, which I recognise is not sustainable. Part of the challenge for me is that universities are not frank enough in understanding the political difficulties. Quite understandably, they come to the Government and the Parliament to ask for more funding, but they very often bristle at the suggestion that there should be any conditions attached to that funding. Are there any conversations taking place in the sector about being more open to the fact that, if you come to ask for more money from the Government—quite justifiably, given the state of the sector—it is pretty hard to do so when you have bloated, extremely highly paid senior management teams at one end and, at the other end, graduate teaching assistants who are being paid less than the real living wage and are on zero-hours contracts and so on? Realistically, if the sector is to expect more public funding, it perhaps needs to concede that there will be more conditions attached to that funding.

Elaine Morrison: I am happy to kick off. Yes, conditionality has had a positive impact in some ways. I will expand on that. We have worked with many businesses. I highlight food manufacturing and food production companies, because the margin there is typically a lot tighter than it is in some other businesses and the jobs are often lower paid but there is a higher volume of workers.

Therefore, conditionality has resulted in employers changing their pay levels. It has also been complicated, because the addition of a real living wage pushes up all the salary levels in a company. If the bottom wage level starts somewhere higher than it did previously, other things have to move somewhere along the way.

Real living wage jobs are not our target; higher-value jobs are absolutely where we want to be. We want to increase the value of wages, which helps with tax, and, actually, the evidence shows that companies that are more productive tend to pay better wages and to retain their workforce for longer. To go back to the point about not having enough workers available, if you want to be competitive in your business, the better the terms you can offer your employees, the more likely you are to attract enough workers. The conditionality itself has resulted in some positive changes along the way.

Ross Greer: That is helpful.

Lesley Jackson: We have conditionality attached to funding. For example, we can think about things such as the outcomes framework and the assurance model. We also do a lot of reporting on equality to the SFC and the Government. However, I come back to the point that I made about the need for a cross-party conversation. You are right that we all need to get round the table and be prepared to have an open and honest discussion about how the funding works and how we drive best value. On behalf of the sector, we are absolutely ready to have that conversation. Parts of it will be difficult politically and parts of it will be difficult for the sector, but now is the time for us to have the conversation about a medium-term sustainable model. In fact, we need to have the conversation about a sustainable model for the longer term and recognise that, if that results in more public money coming into the sector, we need to be clear about what the money is for and what our joint vision is for the future of higher-level skills and education.

Tom Ockendon (Scottish Federation of Housing Associations): I want to make a quick point about skills and housing and how they interact. I echo Andy Witty's point that there are shortages in the trades and in the construction skills that are needed to build housing, and those shortages are more acute in rural areas of Scotland. That ramps up the cost of building homes and makes it a lot more difficult to deliver those homes. There is also a point to be made about being realistic that the issue is not just shortages but the fact that there is an ageing workforce. There is a limit to the age to which you can work in those trades, so retaining the older workforce is not necessarily the answer to the shortages.

There is also the issue of a lack of homes and a lack of affordable homes in certain parts of the country. That means that you cannot get the skills or the workforce, and you cannot retain the workforce in the places where it is needed, because of the lack of affordable housing. You cannot get the skills in the first place, but, when you do have the skills, people cannot necessarily afford to stay where they want to in order to work in that sector. I want to hammer home the point that we need more affordable housing in certain parts of the country to retain the people who are working in those jobs.

Stacey Dingwall (Federation of Small Businesses): I will pick up a couple of points that Elaine Morrison made that were in agreement with what we are hearing from our members. Small businesses are more likely to take on someone who is a bit further from the labour market, because they can offer flexibility to someone—they are more likely to have a personal relationship with their employees and to understand the flexibility and accommodation that they need.

This year, it has become even more expensive to employ someone, and, unfortunately, we are starting to see that having a bit of a chilling effect on our members' ability to hire people. That is a shame because, as I said, small businesses are more likely to take on people who are further from the labour market, whether that is older people or apprentices. About 25 per cent of our members take on apprentices, which is an increase of about 5 per cent on two years ago. More are taking on apprentices but, unfortunately, more are also having a negative experience, which is putting them off doing that in the future.

The Convener: Sorry, what kind of negative experience?

10:15

Stacey Dingwall: Just in terms of people being ready to be in the workplace and having the softer skills that are needed. To take someone on is a big investment for an employer. We talked about the cost of taking on an apprentice, which pushes up salary levels across the wider workforce; it is quite an expensive investment for an employer to take on if they are not seeing a return on investment. If they have been burned, they are less likely to take someone on, which is a shame, because we know that the majority of those employers who have taken on an apprentice say that it is a positive experience.

Liz Smith: Are those apprentices people from school?

Stacey Dingwall: Yes.

The Convener: I know a garage owner who takes on apprentices; he says that, during the first couple of years, they just break stuff. [Laughter.] It has always been like that; it is just about getting to know how things work.

Stacey Dingwall: Small businesses have a disadvantage as well. Someone might come in and do well but then get a better opportunity at a larger company—which is understandable, of course. However, if the investment is lost after a year, it is a risk for a small business to take.

The Convener: I have a wee anecdote from when I was in Glasgow City Council: the council used to win all the training awards for the best construction workers; the private businesses would hoover them all up at the end of the training course and the council would be left with the others, so to speak. That was way back in the 1990s.

Stacey Dingwall: The impact of that is that our members of small businesses are not getting access to the staff that they need. In our latest national survey, about a third of them told us that they are having recruitment challenges; of that third, 20 per cent have had to cut the services that they offer as a result of not having enough staff. It is having a real knock-on effect on small businesses, on the income that they are able to generate and on their ability to maintain their other staff. The impact of staff shortages is quite worrying.

Michelle Thomson (Falkirk East) (SNP): Hi, everybody. I have been listening to the session with interest. As the convener set out at the start, one of our key focuses is fiscal sustainability, but we have not really reflected on that thus far. We have touched on the UK balance sheet, which is pretty dismal—it drives everything and ultimately flows through into what we see in Scotland.

We have almost got a counterintuitive challenge here. First, we have touched on the availability of labour, which we know would be a key way of addressing some of those challenges, when we have political drivers against immigration. Secondly, I was surprised that Scottish Enterprise's submission did not mention artificial intelligence, because it has so many links to skills and productivity, which we have touched on. Finally, I have a gentle challenge to Universities Scotland: you ended up in a position of overreliance on overseas students, but, from a business perspective, any business would be doing the risk analysis of having so many eggs in one basket—of a critical type of customer, if you like.

Are we ready and up for this challenge, given its counterintuitive nature and a backdrop of decreasing and constrained public sector funding against a demand from everybody for more money, often for a good reason, such as wanting to invest? Do we have the audacity of thinking and the leadership that we need? Do we properly understand the almost counterintuitive nature of fiscal sustainability? I appreciate that this is a pretty big question. We have had a nice chat so far. However, will that nice chat really start to shift the dial? That is my question. Elaine, you are nodding—

Elaine Morrison: Yes, at your saying that it is a huge question.

The Convener: You seem to be prepared to answer it, from what I can see.

Elaine Morrison: Gosh, where to begin on some of that? Let me just say from the outset that AI should have been referenced in the submission—

The Convener: I must say that you referenced old technology in your submission, but not new technology.

Elaine Morrison: It changes so quickly. The question that I am leading on in Scottish Enterprise is how we drive up levels of capital investment in Scotland. A huge part of that is about technology adoption by business, of which AI is one type of capability.

There is a huge unknown with AI. I said earlier, "Let's use technology where we can and make sure that we free up the skills for the things that only people can do," but a caveat comes with all that, of course. Bringing things back to the fiscal scenario, if you think about Edinburgh alone, the number of people who are employed in the knowledge economy in Scotland's capital is considerable—although I do not know it off the top of my head—and that contributes to the tax take. The application of AI could have a significant impact on those individuals and what they do, and therefore on what comes into the pot somewhere downstream. It could have a considerable impact on the teachings that come through the academic institutions.

The Convener: When you say "considerable impact", do you mean a positive or negative impact?

Elaine Morrison: Negative. I do not know—I do not have a crystal ball—but it could have that impact. I think that a Gartner study that looked across several thousand professional bodies or companies across the world found that something like a 20 per cent saving could be applied by the use of artificial intelligence. That is really positive, because it can increase productivity. Most employers currently think about how AI can decrease their costs—that is, how to take away jobs and save money along the way. The balance just now is about trying to understand enough about the technological application to consider how we plan to redeploy those jobs and manage that transfer of skills for the future, and how we get companies using AI in the right ways.

The governance structure that sits round AI at the moment is not very well grounded. A bit of a free-for-all is happening around the world in terms of the use of some of these things, and the pace of change is significant.

Sorry—I am trying to bring this back to the fiscal implications. There is a positive in the fiscal sense because, from a public perspective, there are things that technology can definitely do that people do at the current time. There is potentially a positive, depending on the lens that you look through, in that you could reduce the cost to the public purse to do some things. However, the other side in the economy is that AI could replace—indeed, it will replace—people's jobs. That could be a negative, unless we can reuse those people in a different way.

Michelle Thomson: I know that it was a massive question, but I personally am not hearing a great deal about the strategic thinking on the challenges and enablers of AI, for example, from Government, even in the face of the considerable uncertainty and complexity. I feel as though it is a juggernaut that is travelling very fast towards us and that we are tinkering round the edges.

We need to get ahead of the game in developing excellence in service provision, even with basic things such as getting small and medium-sized enterprises to actively develop agents to do some of the grunt work. It is about attitude and realising that we have only one choice, which is to seize the opportunity, because the alternative guarantees failure.

The Convener: Frankly, there is a fear of the unknown in many organisations. They think, "We're going to have to adopt this, but do we have to do it this week?" or, "What's the implication going to be for the workforce and the whole structure." I led the first debate on AI in the Parliament, way back in 2018, and the information that we had then about the impact on employment was completely different from the information now. At that time, the sectors that we were told would be most adversely affected and those that would be boosted were completely different from the scenario now. That issue is still being grappled with.

I will move on to capital investments in a couple of minutes, because a few people mentioned that in their written submissions, but a couple of folk want to come in at the moment.

Andy Witty: I want to pick up on the valid point that was made about looking forward in regard to skills, because the current model is unsustainable, with regard to the funding level and the equity of funding. College is a skills engine, yet it has the lowest cost per head of funding across the education system. Streamlining apprenticeships will be key going forward. Colleges Scotland is supportive of the Tertiary Education and Training (Funding and Governance) (Scotland) Bill that is currently going through the Parliament, because the alternative is the status quo, which delivers 40 per cent of the funding to colleges, which actually deliver the training, while the rest is used elsewhere en route. Even without any additional moneys, there are better and more streamlined ways to use that funding to help a new apprenticeships model.

We talked about other work-based learning models and the skills alignment as being part of the new model going forward, as are micro-credentials and the idea of modular training. The formation of qualifications Scotland has the potential to help with that.

The funding model also needs to change to allow regionalisation. Growth will come from the regional economies, and the colleges are regional players at scale, so giving them the flexibility of a single funding pot that can be used as needed rather than lots of little individual pots that have their own rules and bureaucracies is key.

The flexible workforce development fund was mentioned earlier, and there is an opportunity for a flexible workforce development fund 2.0, which would look at targeting the skills needs of the economy, whether those are green skills or social care, where those are needed.

We recently commissioned a report from Professor Joe Little that is in the public domain. He looked at the policy environment in those countries that are delivering world-class vocational and technical training. As well as recognising colleges as the essential producers of national skills, it talked about alignment with the economic and business needs, meaning priorities that are driven by Government in consultation with business. That needs to be part of the model in the future. Alignment with the economy directorate needs to be explored. As well as funding through education, which should be done, in terms of it being the skills engine and driving the economy, it would be good to explore closer links to the economy directorate in the new model.

John Mason: I want to go back to Tom Ockendon, if I may, on the combination of housing, skills, and the shortage of workers. I realise that the SFHA does not build houses, but I presume that you have some sort of feel for it. Is the sector moving on with skills and technology as it might be? For example, I have CCG in my constituency, and it does off-site building. I get the impression that off-site building has not taken off in the way that it might have done, despite the fact that it is a nicer environment for workers to work in and it might, for example, suit older workers better than being on site. I also saw an article recently about using robots for bricklaying because we are short of bricklayers. Is the sector really moving forward in that way?

Tom Ockendon: The short answer is that I do not know. There is a limit to how much the sector is working in that way. The reason for that is probably the risk and the fact that innovation and investment are not likely to come from the housing association sector itself. Housing associations are unlikely to invest in such technologies, because the nature of their operation is that they are social partner businesses and the risk of investing in potential technologies would have to move outside housing associations for them to adopt it. I do not think that they have got to the point of taking on such a risk fully.

John Mason: It might be unfair to ask you too much about that sector. We got the impression earlier that planning is resistant to modern techniques. Some planning departments like to keep houses looking like they have always looked. Have you picked up on that at all?

Tom Ockendon: I do not know about that specifically.

The Convener: Lesley Jackson, did you want to come in?

Lesley Jackson: I wanted to make a different point.

The Convener: I am sorry; I thought that you wanted to come in on the back of John Mason's question.

I want to move on to the issue of capital. We are about an hour in, we have another half hour to go, and I want to move on if we can. Everybody will have an opportunity to sum up at the end of the meeting. So, if we have missed anything or you feel we have not covered something, we can touch on it then.

Elaine Morrison, in your submission, you state that

"A low level of capital to support workers is a key cause of the UK's relatively low labour productivity",

and you go on to say that

"it would take almost a century to catch up with the capital intensity of higher productivity peer countries".

That is quite a depressing prospect. You also say that it would take that long

"Even if the UK was able to increase its investment rate by about 4%-points".

You go on to say:

"The UK has firm-level barriers including risk-aversion, investment constraints and cultural issues".

What are those constraints, and how do we overcome them?

10:30

Elaine Morrison: I am trying to figure it out. If we look at Scotland's performance rather than that of the UK—

The Convener: Well, I have to say that Germany's economy has been stagnating for five years.

Elaine Morrison: It has been. Germany is having a tougher time. I should not see an upside to that at all.

If we look at Scotland's economic performance, we see that our levels of capital investment by business are second from bottom among Organisation for Economic Co-operation and Development comparator countries. Something like 40 per cent of businesses in Scotland do not carry any debt. Stacey Dingwall may have some thoughts on that from within the SME space.

Is that a problem? It is, because those businesses' buildings are not well capitalised, businesses are not making advances in the areas that they need to, and they are not taking new energy-intensive but advantageous opportunities, and so on. The lack of willingness by business to take on capital is increasingly becoming more of a problem. The counter to that is that, when we look at the well-performing economies, we see that the better-invested businesses have higher levels of productivity and better-paid employees, as I mentioned earlier.

There needs to be something to balance some of that along the way. The approach that Scottish Enterprise is taking—it is just one approach—has three prongs. The first is about attracting new money that comes into the economy and thinking about what the big strategic propositions for Scotland will be that will put us on the map for the future. Whether that is around data capabilities, aerospace capabilities or whatever it happens to be, how do we bring new money into the economy from outwith Scotland?

The second prong is the work that we do generally with businesses. How do we get businesses to invest? Why would a business invest in its capital? It has to be looking more at its market, its exports and its innovation capabilities—all the things that one would expect a business to be looking at—but most of them are not doing that, because they are just so caught up in the business of doing the business, except for some of our bigger businesses.

The third prong is the way that we work with the commercial property market. That comes back not specifically to housing, but to the links around planning and the way in which infrastructure development is taken forward. Scotland's industrial capability has aged very poorly in comparison with those of other countries and it needs to be brought up to speed, but developers will not do that speculative build for high-specification industrial capabilities.

The Convener: One issue is clearly the current political and economic instability. The UK economy is flatlining and there is a lot of turbulence in the political situation, so people may be afraid to invest—that tends to be the situation. However, we can look at the benefits of capital. Your submission says:

> "a permanent increase in the economic infrastructure investment rate of 1 per cent of national income permanently raises GDP by around 4.9 per cent and for social infrastructure (eg housing, health, prisons) it is about 3.5 per cent."

There is obviously a balance to be struck between those two, but both are extremely positive. However, although the Scottish economy has had a huge increase in capital allocation this year, it will decline over the next four or five years and we will be where we were a couple of years back. There is not really any major advance in catching up to international competitors, as you suggested.

How does the Scottish Government tackle that, given the restrictions on capital that we have as part of the fiscal framework?

Elaine Morrison: I do not know how the Scottish Government tackles it; I only know how—

The Convener: It is more or less the UK that decides our capital.

Elaine Morrison: Sorry—I simply mean that I cannot speak on behalf of the Scottish Government in the answers that I am giving.

The Convener: No, I am asking what you think the Scottish Government should do with the resources that it has. I am not asking—

Elaine Morrison: Apologies. There are two sides to it. There is public sector spend on capital projects for things such as housing, transport, roads and so on, and there needs to be a level of stability and assurance around those things. It is about consistency. You absolutely hit the nail on the head: with the changes that take place across economies, people put off their investment decisions. That happens both in the public sector and in the private sector. My focus tends to be more on the private sector in this space. There is the changing inflation, the cost pressures and all the normal issues that come through. However, we hear a lot from businesses about economic instability that comes from different policies and regulatory changes. We do not have any advance warning in a significant period of time when something new comes in. All those things make it difficult for businesses to calculate the return on investment because of the changing input costs.

Michael Marra: I am not sure that I buy that, to be honest, nor the point that was made by the convener on instability. Business and enterprise research, development expenditure and investment in business and capital in Scotland have been low for decades. It was the subject of the very first economic development policy under devolution, but those numbers have not shifted at all.

As much as I recognise the current global situation—we see what is happening in France and in other countries—and the challenges that people have, such as shifts in interest rates and political instability generally, we need to look at this more fundamentally. Part of my analysis of that is that there is a very high rate of foreign ownership of companies in Scotland. The owners would not typically invest in satellite operations in other countries, but your solution seems to be more foreign investment rather than trying to find means by which we can capitalise domestic firms and use our financial sector to make sure that people are taking on that investment and making longer-term returns. I understand the challenge behind some of that, but I am not sure that your prescription feels all that current.

There is another part to my question on capital, if it is okay to come on to that—

The Convener: Sorry—we will let Elaine Morrison answer the first part of the question.

Elaine Morrison: The attraction of investment that I am talking about is not in relation to foreign direct investment in the sense of businesses setting up here. Taking a sovereign wealth fund as an example—pension funds that exist elsewhere—how do we attract those moneys to come here to do things that will help our economy?

The second point about foreign direct investors who come into Scotland is that they invest heavily. They make some of the biggest contributions to jobs, levels of research and development and better-paid wages—that is a massively important part to retain. It is predominantly in the SME base where there is a lower level of that investment, and it is not because people are not ambitious; it is about the willingness to take on risk. The supply of finance, particularly debt finance, is extremely high. It is not that there is no availability of money; it is that the money comes with guarantees, which puts a lot of people off taking it on to advance their businesses.

So, I disagree with you on the FDI component—

Michael Marra: I am certainly not opposed to FDI—it is an integral part of how we make sure that we have a functioning economy. In essence, the more of it there is, the better. My point is about the longer-term shape of the economy. There is a higher number of SMEs in Scotland in comparison to other parts of the UK and a smaller number of corporates. That exposes the part of the challenge that you put as well.

I want to ask Andy Witty the other part of my question on capital, if that is okay, convener. The submission from Colleges Scotland touched on some of the issues that we have been talking about—productivity through investment in information technology and other areas. However, it did not touch on the fact that there is an £800 million backlog in maintenance alone for colleges in Scotland, nor your ability to make the kind of transformations and changes that you are talking about. I would compare that to our university sector and the challenges that it faces at the moment. For example, you can go to the west end of Glasgow and see the huge number of new buildings that are there.

Is there a more fundamental challenge about taking on debt and structuring the businesses? Colleges do not seem to have that option, because they sit underneath that. Are you hearing any alternatives or ways that the Government will deal with these issues? This sits with the Government.

Andy Witty: You raise a fair point about the maintenance backlog and the lack of life-cycle maintenance, which means that the backlog gets worse and worse. Audit Scotland has a figure for the shortfall in the funding that is required for that—funding just to get buildings wind and watertight. It is about providing a reasonable level of maintenance to ensure that somebody can learn in a place and not have to dance around lots of red buckets, which happens in several campuses across Scotland.

There is a challenge around the funding vehicle for colleges with regard to capital. Work has been done on that by the Scottish Futures Trust, and, of all the capital vehicles, very few are available for colleges to access under the current set-up. Funding for colleges is very dependent on the Scottish Government and traditional capital routes. The SFC has a college infrastructure strategy, one strand of which is looking at funding vehicles, but we are keen to see that progress as quickly as possible.

On the funding element, the SFC is taking forward a college infrastructure investment plan, and, again, we want to see that moving faster. When Scotland's infrastructure investment plan is refreshed, we need to ensure that it includes the college element. There has not really been an opportunity for that up to this point, because this is the first time that we have had a comprehensive plan looking at what is needed across the college sector. This time, we are trying to deal with not only the wind and watertight issues, but what needs to happen to reach net zero targets by 2045 and the carbon neutral target by 2038—trying to provide a modern place for learners. We have said that skills are key for driving the economy, so we need to invest in the places and the technology to allow that to happen.

Michael Marra: We do not know what that infrastructure pipeline will look like, including how it will be laid out. Clearly, there will be a list of projects in some form. However, as Michelle Thomson and possibly also the convener have touched on, there is the issue of the level of capital investment. It is highly unlikely that £800 million will suddenly be available for that in that pipeline. Have you been making representations to the Government that you want to see a policy shift that might unlock capital possibilities for colleges, beyond just a list of projects? Is that part of the conversation ahead of the pipeline?

Andy Witty: Yes, it is, because there are a number of aspects to this, and laying out the capital needs of the sector is clearly one of them. With regard to funding vehicles, we have asked what needs to change within the legal structure of colleges to allow other capital funding vehicles to become available. There are also elements to do with other projects, such as the single Scottish estate work. Colleges are at the edge of that, although that is not for want of the wish to be involved. The focus of the work seems to be central Government buildings and property, but it would benefit from taking a wider look. Colleges have buildings right across Scotland, so how can those be utilised? There could be co-location of public sector resources and services, given that colleges have properties all over Scotland and are places that communities know and are willing to cross the threshold of. We have been progressing all of those elements in discussions.

Craig Hoy: Elaine Morrison, we touched on this issue earlier, but a lot of SMEs and a lot of sectors, such as life sciences, report that raising capital and funds in Scotland is difficult. In the Scottish public sector—in local government, for example—£65 billion is sitting in pension funds. Some of that ends up being invested in the life sciences industry in Australia, for example, through traditional pension investment portfolios, but there seems to be reluctance among public sector pension funds to put money into early-stage investments in, for example, life sciences here in Scotland, although there have been examples of that. For example, the Strathclyde pension fund used a specialist venture capital fund to invest, resulting in a win-win situation of attracting jobs to Strathclyde and a getting a return on its investment. What more could be done, for public infrastructure but also for those sectors that are seeking access to cash in Scotland, to lean on public sector pensions more, and what discussions have you had with Governments or pension funds to bring that culture about?

Elaine Morrison: That is a great example of conversations that are taking place in Scottish Enterprise. We have a team that focuses on early-stage investment. The Scottish National Investment Bank is the primary place for those conversations, but we have a role in supporting earlier-stage entrepreneurs and young companies with scaling capability. That tends to involve a seed level of funding, up to a co-investment level. Colleagues in that team have been engaging with local pension fund holders as a potential funding source. That is a relatively new conversation—it seems strange that it is a new conversation—and there seems to be more of an appetite to do that.

However, there is a bit of a communication disconnect. It sounds simplistic, but certain offices seem to believe that someone else is taking something forward. The point was made earlier, with the example of education and the economy, that we need to get much better at linking our conversations across the piece in order to understand things. The holders of those pension funds need to be asking, “Where is the need in Scotland?” However, equally, we need to be better at asking where the demand is that would service those needs.

An investment portal has been created with support from the Scottish Government. It will be hosted by Scottish Development International, but it is as much about accessing local funds as it is about accessing overseas funds.

My short answer to your question is that, to date, we have not done those things well enough, but conversations are taking place on that front.

10:45

Craig Hoy: There is the concept of bootstrapping, where small business owners borrow money from banks or family members, or remortgage their house, rather than finding more sophisticated ways to raise funds. I get the impression that, post-Covid, banks have been less open to lending them money. Have FSB members picked up on that trend? A large number of small businesses have higher levels of debt than they had pre-Covid. Does that mean that we are in for a tough period with investment in SMEs and small businesses?

Stacey Dingwall: I was going to say exactly that. Elaine Morrison is right to say that small businesses are reluctant to take on external finance—that is certainly true post-Covid. About 25 per cent of the respondents to our survey told us that they had tried to obtain external finance in the past year, which is the same number as in 2023, so the percentage has not increased. The requirements for personal guarantees are a big reason why small businesses have not taken that on. Certainly, post-Covid, businesses that are still paying off loans do not want to take on any more.

A big issue for the majority of our members is that, often, they do not see approaching enterprise agencies such as Scottish Enterprise or the Scottish National Investment Bank as an option because, when they look at the Government’s strategy and priorities, the focus is on unicorns, tech scalers and high-growth companies. We need those companies and it is great to support them, but our members often feel overlooked and a wee bit underappreciated. Some of them just want to grow a bit more modestly. They may not feel as though they have been prioritised or that they have the capacity to try to navigate the system. It is a very complex maze to navigate and, to be honest with you, they do not have the time to take out of their business in order to try to obtain the finance.

The Convener: I was going to come to you next anyway, Stacey, because you wanted to come in anyway—you can come in on whatever you wish. You said that you are keen to see an increased share of public contracts being awarded to small local firms. Your submission says that you have found that

“while some barriers had been removed following the introduction of the Procurement Reform (Scotland) Act 2014, others persisted.”

What are those barriers?

Stacey Dingwall: Tender processes can be intense. If you are self-employed or a sole trader, trying to navigate the system while running your business is too much of an ask, unfortunately. Earlier this year, we commissioned some research from the Centre for Local Economic Strategies to try to update some of our 2012 research. We looked at what share of spend was going to small and micro businesses as a consequence of community wealth building, on which legislation is progressing through the Parliament. Our main aim was to get an idea of how much each local authority had spent in the past year. However, it is very difficult to get a picture of that, because local authorities report and disclose the information in different ways. We found that some local authorities are exempt from disclosing that information altogether, even when a freedom of information request has been submitted. We could not get a true picture of how much is being spent with small and micro businesses.

We are pushing for some amendments to the community wealth building legislation to standardise the reporting requirements for local authorities. I do not understand why they would be reporting the same spend in different ways. We should be allowed to track public money, as it is important to be transparent. If we set the reporting requirements, we need to look at setting targets. We are doing well, and we are doing a lot better with the proportion, but we can do better, which would require targets.

The Convener: You have said that you would support

"the introduction of statutory targets on how much is spent by public bodies with small businesses each year."

How would that work practically? A small business may not produce a specific product that a public body might require. In general, how would setting statutory targets align with the aim to make Scotland more competitive?

Stacey Dingwall: Local authorities can never source their energy contracts from small businesses in the local community, so it would be silly for us to say that 75 per cent of all spending by local authorities must be with a business in the area—we are certainly not asking for that. However, as part of the community wealth building pilots, local authorities such as Clackmannanshire set a target to increase their local spending by, I think, 3 per cent—

The Convener: My area, North Ayrshire, has done similarly.

Stacey Dingwall: Yes, those areas were in the pilots. When they set those small incremental targets, they achieved them and often went above and beyond. I think that local authorities are committed to the concept of community wealth building and to doing better. Let us set some targets to focus the mind and increase spending by 1 or 2 per cent every year.

The Convener: All else being equal, although I think that people want to buy locally, doing so might be 20 per cent more expensive, and that public money could be better spent with a company 25 miles up the road that might be more efficiently and effectively run.

Stacey Dingwall: Yes—quite. We are looking not just at individual local authorities—because some local authorities are very small—but also at local authorities working together on a regional basis. Obviously, local authorities have to be conscious of price, but there is certainly scope for them to be doing more, and targets tend to focus the mind.

The Convener: Price, quality and delivery are what it is all about, is it not? It is about the right price and the right quality, delivered on time—if only, eh?

Lesley Jackson: I want to come back on Michael Marra's question about estates, which is an issue for universities. We have an extremely diverse estate, from grade-A listed to 1960s horrors to modern facilities. Universities are able to invest, for example through debt, in the improvement and development of their estate—Glasgow was mentioned. Obviously, a key part of the attractiveness of our institutions is that they have modern teaching and research facilities. However, we also have significant issues with a backlog of maintenance in some of those older buildings. It will cost approximately £850 million to bring all the university facilities that are currently in categories C or D, which means that they are beyond the intended lifespan, up to category B, which means that they are in a satisfactory condition. We are certainly not looking for public sector grant funding to fill that space, but we get about £5 million a year from the Scottish Government for estates, which is a very small amount to fill such a gap. At the moment, the majority of capital funding that comes into universities goes to research.

We are keen to have a conversation about affordable borrowing for some institutions that might not have the ability to pay the market interest rates that other institutions might be able to pay. In the past, when it sat with the Scottish Funding Council, universities were able to borrow financial transactions money at a very low interest rate. Those FTs were moved to capitalise SNIB, which is entirely understandable, but of course SNIB is mandated to lend at commercial interest rates. We have a very constructive relationship and an on-going conversation with SNIB, but we are really keen to have that engagement with the Scottish Government to see whether there is a space where universities could potentially access loan funding to deal with some of the estate issues, especially where facilities are shared with the community. We might look at whether there is a longer-term borrowing opportunity that we could use to leverage money into the sector.

Michael Marra: That is a really useful comment on the diversity of the sector. I reflect that that diversity is probably not available in the college sector, but I recognise that there are challenges in universities.

The Scottish Government approved the mutual investment model—MIM—back in 2019, and it does not appear to have been used at all, whereas it has been used in Wales to build around 30 schools and colleges. Whether or not the Scottish Government decides to use it is really a policy question. It is my understanding that some investors are open to actively working in that kind of area. Dundee and Angus College is one example that is close to home for me. Have you had any indication, Lesley and Andy, that the MIM has been used or might be available?

The Convener: I will let Lesley in to respond to that, but then I will go to Tom Ockendon because his is the only paper that I have not referenced yet and I want to ask him about it. Michelle Thomson will be the last member to contribute. After that, we will have to go to wind-up points, because time is against us—we are already just about out of time. I will give all five of our guests an opportunity to make any final points that they might wish to make. Andy Witty will be the last to speak, because he was the first to speak at the start of the meeting.

Lesley Jackson: I have never heard of the MIM, so I will ask my sector estate colleagues and come back to you.

The Convener: Tom Ockendon, on capital, you said in your paper:

> "Investment in the Affordable Housing Supply Programme (AHSP) should be a priority for the Scottish Government's capital spend."

You went on to say:

> "Crucially, government grant in Scotland is still around 50%—which should not be altered through capital spend plans. Any changes to that ratio—as seen in England where grant has been as low as 15% in recent years—risks pushing rents up."

Have you heard that the Scottish Government is planning to reduce the grant from 50 per cent, or is it just something that you wish to flag up at this point?

Tom Ockendon: I think that there are no concrete plans but there was a lot of talk at the time of the housing investment task force about additional private investment, and there was not clarity on what that meant. We were concerned, looking at the balance of grant levels, about the potential in that regard.

Even with the emergency action plan, we do not know what the balance is of that £4.9 billion over four years: we do not know whether it is £4.9 billion of public money or £4.9 billion that is balanced in some way between public and private money. We would urge the Government to make it public money because the housing associations could then borrow on top of it.

Leveraging private finance is what housing associations do. In the previous parliamentary session, there was £3.5 billion of investment in the affordable housing supply programme. The total spend on that was more than £7 billion—so the housing associations doubled it. That was off the public sector balance sheet as well.

We do not know of any concrete plans to change the grant level, and we would urge the Government to keep it at that level.

The Convener: Right, so you are just putting down a marker and expressing concern about that.

Tom Ockendon: Yes.

The Convener: That is fine.

Michelle Thomson: I want to briefly make explicit a point that has been implicit in some of the discussions about access to finance. We have heard valid commentary about SMEs: personal guarantees are hugely prohibitive, as is carrying coronavirus business interruption loan scheme loans, bounce back loans and so on. In relation to the college sector being able to access funds under the current structure and Lesley Jackson's comment about FTs and SNIB, it might be worthwhile for us to put down a marker that access to finance in different sectors is deeply constrained when linked to the economic multipliers that have been mentioned, particularly around housing. We should think about that in a slightly different way.

The Convener: Thank you for that. As I said, everyone will have an opportunity to say anything that they do not think that we have touched on or that they want to re-emphasise after what has been said earlier. Andy Witty will go last—I am looking for a volunteer to go first, otherwise I will pick somebody.

Well volunteered, Lesley.

Lesley Jackson: Thank you, convener. I want to respond to Michelle Thomson's point about international students and fees—that if a university were a business, it would have looked at those. I completely take that point.

Universities receive about £3,000 less per Scottish student now than they got in 2014. The only source of income that is big enough to deal with that reduction has been fees from international students. We have diversified in terms of markets—for example, not being overreliant on one or two countries. It is expensive to go into new markets because they are so hypercompetitive internationally. Some of the recent visa changes have actually pushed us away from diversification: we are hemmed in by very tight rules around visa refusals.

The other model that you might have heard of is transnational education—TNE—which involves having campuses overseas. That is another good way of bringing in income without bringing the students into the UK. However, TNE is expensive and long term. Some universities, such as Heriot-Watt University, are already well established in that area and others are looking to build on it, but that takes time.

I will end on this, convener. Michael Marra drew out the point that, given the crisis that we are in, changes need to be made in the sector. We are up for those changes. Some of them take longer than others but, in the meantime, a stabilising financial settlement gives us a little bit of breathing space so that we can look to the future and ask, "What do we want from the sector and how are we going to deliver it?" To go back to Ross Greer's point, what are the changes that need to be made by everybody involved in that system in order to make it successful in the future?

The Convener: Okay. Does Elaine Morrison want to go next?

Elaine Morrison: I am happy to come in. I would like to leave the committee with two points, the first of which is to encourage you, in your various considerations, to think about the alignment across different departments and how such an approach really gives a lot more synergy. There are lots of opportunities that are undoubtedly being missed, just because of the lack of interconnectedness between some departments.

The second point I share with you simply because I have oversight of it. The business support partnership comprises 39 public sector organisations that provide support to business. We publish information about that on a flat content website called Find Business Support. More than 100 publicly funded organisations are defraying support to business currently, and I do not believe that that is the optimal model for the future. The associated cost to service all of that is particularly high, and, as Stacey Dingwall pointed out earlier, the model makes it more complex for business to understand whom to go to for what support at whatever point in time, and it probably costs more to deliver than what actually reaches businesses on the other side.

Again, it is about thinking about the future instead of thinking just about the here and now. We need to get those models right.

Stacey Dingwall: I want to stress the importance of adequate impact assessment by Government of all the policy and regulations that it brings forward. In the new deal for business group, we did a lot of work on revising the business and regulatory impact assessment—or BRIA—to better account for the impact of policies and regulations on small businesses. We have had some issues recently with adequate impact assessment not being done of VAT implications for small businesses in the implementation of schemes; I am thinking of the visitor levy, for example, the consequences of which we are now dealing with.

Currently, such assessments are optional, if highly encouraged, but, to be honest, we would like to see them become mandatory. Some consultations are still being published without even partial BRIAs, so they do not fully assess the impact on small businesses. Given that the impact on such businesses is often very different from that on business at large, it is important that we do such impact assessments more thoroughly.

The Convener: Thank you for that.

Tom Ockendon: I would just like to highlight how housing, and specifically affordable housing, cuts across the Scottish Government's priorities and the medium-term financial strategy, especially its first two pillars. Furthermore, with regard to the fiscal sustainability challenge, one thing that we have not quite touched on is the fact that health spending is rising with the ageing population. Housing is such an important social determinant of health, and we need to invest in it at the more acute level—in dealing with homelessness. Where does all that spend end up in the health system? There are also more general housing issues such as accessibility, energy efficiency, space and the neighbourhoods that people live in. If we are looking at trying to save money elsewhere in the healthcare system and in the overall Scottish budget, I would say that housing would be a really important part of that.

The Convener: You touched on adaptations earlier, and the fact is that small investments there can make a big difference.

Tom Ockendon: Exactly.

My second point is that housing is a massive enabler of economic growth, which is something that has probably been underappreciated, especially in certain parts of the country where there is a real lack of affordable homes. The issue is not just the skill shortage but investment in homes, maintenance of homes and so on. I would defer here to Duncan Maclennan, who is the authority on this. He has been working on this issue; indeed, he recently brought out a paper with the David Hume Institute, and he has another paper coming.

I think that that would be a good place to look at, because without that investment in affordable housing, you are not going to achieve economic growth and everything that comes with it—and in a way that includes people and gives them an affordable place to live and the ability to contribute to the economy.

The Convener: Thank you very much. Mr Witty, you are last but not least.

Andy Witty: I will just leave you with a thought about looking forward with regard to the public service reform strategy. It is important that the Scottish Government lay out how it will change the public service delivery model in response to that. We need to start with what is needed to support Scottish Government objectives: reducing child poverty, addressing climate issues, dealing with the unsustainable skills model that we have discussed this morning and so on. The issue is how each portfolio spend aligns with those priorities, and not just the priorities within its own siloed portfolio. How do we get true cross-portfolio prioritisation of spend to support the Government's objectives?

I suppose that the thought behind that ask is that an agreed streamlined process across all different Government departments of how that would work and how it would be done would be beneficial, because that sort of thing does not exist at the moment, and I think that it would be helpful.

The Convener: Thank you very much for that.

I thank all our guests this morning for their very helpful contributions to our deliberations. We will continue to take evidence on this issue over the next few weeks, because fiscal sustainability and long-term fiscal pressures are always on committee members' minds.

Without further ado, I call a break until 11.10 to enable a changeover of witnesses and to give members a break.

11:05

Meeting suspended.

11:10

On resuming—

The Convener: We continue our evidence on pre-budget scrutiny, this time with a focus on social security in the context of fiscal sustainability. For our second evidence session, we are joined by Shirley-Anne Somerville, Cabinet Secretary for Social Justice, Ian Davidson, deputy director, social security policy, James Wallace, deputy director, social justice finance lead, Scottish Government, and David Wallace, chief executive, Social Security Scotland. Good morning and welcome to the meeting. I invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Social Justice (Shirley-Anne Somerville): I say at the outset that our benefit expenditure is essential investment in the people of Scotland and directly results from conscious policy choices made by the Parliament in accordance with the unanimously passed Social Security (Scotland) Act 2018.

Investing in this way in Scotland's social security safety net and targeting help to those who need it most is necessary to tackle more than a decade of Westminster austerity and continued cruel welfare reforms. The Scottish Government continues to deliver vital assistance for older people to heat their homes, to help disabled people live independent lives and to support low-income families.

Our social security system is proudly based on dignity, fairness and respect. It is fair, but it is robust, with applications assessed thoroughly so that those who are not eligible for support do not get it, but those who are eligible absolutely do. We are committed to ensuring that our finances remain on a sustainable trajectory.

This financial year, we are investing £1.2 billion more than the block grant adjustments that we are forecast to receive from the UK Government for social security, of which £649 million is to mitigate some of the worst impacts of Westminster policies—for example, the bedroom tax and the benefits cap—as well as the inadequate level of universal credit, which we established the Scottish child payment to combat. By 2029-30, our additional investment is projected to be just less than 3.5 per cent of the total Scottish Government resource budget, which is an increase of less than 1 per cent compared with the current financial year.

The importance of value for money for our benefits investment is set out in the Social Security (Scotland) Act 2018, and is further underlined in our social security charter. It means, for example, that we have delivered £1.4 billion, paid to June 2025, to support children and families through the five family payments, including the Scottish child payment. That support is only available in Scotland. It also means more than £5.5 billion this financial year will go to support disabled people to meet the costs associated with everyday tasks such as washing, going to the toilet and getting dressed—tasks that people who are not disabled take for granted. That stands in direct contrast to proposed Westminster welfare reforms.

The UK Government's chaotic approach to welfare continues to cause substantial and unnecessary difficulties, such as the intention to introduce a two-tier universal credit system, leaving people with disabilities or long-term health conditions with less money compared with existing recipients. I have been clear that the Scottish Government does not support and will not accept those changes, and we encourage and urge the UK Government to drop those remaining plans.

By contrast, it is estimated that our Scottish child payment, which has been described by Professor Danny Dorling of the University of

Oxford as having an impact that is “stunning”, will keep 40,000 children out of relative poverty this year. It is no surprise that many leading charities have rightly called on the UK Government to follow our lead on the Scottish child payment, which could, according to the London School of Economics and Political Science, lift 700,000 children in the UK out of poverty overnight, and to follow our lead on abolishing the punitive two-child limit. Our modelling estimates that our action in that respect will result in 20,000 fewer children living in relative poverty in 2026-27.

On fraud and error, the Scottish public finance manual sets out clear expectations for managing fraud risk. It requires public bodies to promote an anti-fraud culture, maintain strong internal controls and actively minimise risk. Social Security Scotland has published a counter-fraud strategy that outlines its approach to preventing, detecting and responding to fraud. That is especially important given the nature of its work, which delivers public benefits with dignity, fairness and respect.

11:15

Protecting the integrity of those benefits is essential not only for financial sustainability but to maintain public trust in the system. The organisation’s approach is grounded in zero tolerance to fraud but is also proportionate, ensuring robust controls without creating unnecessary barriers for clients. Balancing sustainability with our overarching ethos and principles is why I could not recommend legislative consent for some of the overpayment recovery measures in the UK Government’s current bill.

As delivery expands to 19 benefits by 2026-27, the risk of fraud naturally increases. Social Security Scotland has made strong progress in building the systems and capabilities to manage that effectively. Continued investment in technology, skilled people and robust systems will be essential and what has worked well to date must now be scaled and strengthened to meet future demands.

Our social security investment is making a real difference in people’s lives. The children I have mentioned are being kept out of relative poverty. The five family payments I have mentioned will be worth around £25,000 by the time a child turns 16. That is another example of why the Joseph Rowntree Foundation and other projects predict that Scotland will be the only part of the UK with falling child poverty levels next year.

With a backdrop of austerity and a continued cost of living crisis, we know how critical support is for households. That is why the Scottish Government is protecting the vital payments that are available today. Labour and the Conservatives, along with Reform, talk about cutting welfare spend with no regard to the financial struggles that many households face. The Scottish Government will continue to deliver our vital payments with our balanced budget each year, delivered by a system that is robust but fair, and administered to provide support to all our constituents.

The Convener: Thank you for that bold and helpful opening statement. I am delighted that you are here this morning because we have discussed social security ad infinitum over the years on this committee, but it has always been through a finance secretary rather than with you or your predecessors—those who are directly responsible for it.

The catalyst for inviting you here this morning is the article in *The Scotsman* about the £36 million that, allegedly, the Scottish Government is not pursuing. That caused considerable concern among members of the committee. In relation to the freedom of information requests, a Scottish Government spokeswoman was quoted as saying:

> “The Scottish social security system is focused on treating people with fairness, dignity and respect. Scottish Ministers have been clear they cannot support UK Government proposals to take powers to recover directly from an individual’s bank accounts without requiring a court order, or to potentially suspend driving licences.”

It is suggested in the article that although the spokeswoman said that there was no hole in the Scottish budget, there was no elaboration on where the money would be found to write off the £36 million in alleged fraud and overpayments. Clearly, if that is not recovered, that would be £36 million lost to the Scottish Government. You talked about fraud methods. How are we ensuring that fraud is minimised? What is being done to restore that money to the Scottish budget?

Shirley-Anne Somerville: Thank you, convener. I very much welcome what is my first time in front of the Finance and Public Administration Committee. I will see whether I still hold that view at the end of the meeting, but it is a pleasure to be able to come and give evidence today.

I will bring in David Wallace to talk through the operational matters around the serious concerted effort within the agency in regard to the benefits that we are responsible for.

First, however, in relation to the item that was in the newspapers, it was particularly disappointing to see the way in which things were portrayed. There is no black hole in the Scottish Government budget and certainly the Scottish Government takes very seriously our responsibilities to ensure that we have firm policies for overpayments, of which fraud is one part.

As a Government, we looked very seriously at whether we should take part in some of the aspects of the UK Government fraud and error legislation because I was concerned about, for example, the ability to take money away from people's bank accounts without due notice or consideration of their current circumstances. That is a concern for me, because that is not a person-centred approach; it does not take account of the impacts on that individual.

The other aspect is in relation to taking away driving licences. We all have areas in our constituencies—and, I am sure, constituents—where we can imagine that taking away a person's driving licence would not help them to get a job or to be able to take their children to childcare, for example.

The impact of that on an individual is punitive in a way that does not help them to get into employment, education or training, or to be able to assist with wider family issues. I was greatly concerned about that type of measure. It is a tactic for dealing with overpayments that I did not agree with. What is important is our absolute determination to have strong and robust policies for overpayments, including those related to fraud, but we will not tackle that using the methods that the UK Government was suggesting.

We had a great deal of back and forth with the UK Government about whether we could continue working on historical debt, that is, debt that has been built up. We were unable to do so, which is why I declined further co-operation on that part of the bill. We will move forward to deal with that in a way that fits with the ethos of the social security system, but, as I said in my initial statement, is still very robust.

I am happy to bring in David Wallace if you would like further information about how we deal with issues relating to overpayments, fraud being one of those.

David Wallace (Social Security Scotland): I will say a bit about what we do operationally within the agency, which will exclude the figure that is being talked about at the moment. To emphasise a point that the cabinet secretary made, overpayments can occur through either error or fraud. We have an overpayment recovery system that is built on fairness, dignity and respect. Those values are built into the ethos of how we recover overpayments.

We will always seek to do a voluntary recovery, and we have a number of methods for doing that. We will always ensure that we are only seeking money that does not put people into financial hardship—that is very much part of the recovery team's work. All our recovery teams, for example, have been trauma trained, so they know that they are dealing with potentially vulnerable people. All those things point towards trying to recover any money that has been paid.

I also emphasise that, if an error has occurred because of an official mistake, which the client could not reasonably have been liable for, we would write off that debt. Therefore, I would slightly separate the process for the recovery of overpayments from that for fraud.

The organisation has a robust counter-fraud strategy, which the cabinet secretary referred to. We have also been developing deep expertise and capability in relation to fraud in the organisation. We are always a little careful about what we expose publicly in relation to that capability, but we have built teams from across other organisations that have dealt with fraud in the past. We also have surveillance powers and a number of safeguards around how we use those powers. We are building that capacity and capability. We have a zero-tolerance approach to fraud, and we will always tackle and investigate fraud reports.

The Convener: I am not going to pursue that matter, because there are a number of issues that I want to cover, but I am sure that colleagues will want to come in and explore it further.

Cabinet secretary, in your opening statement, you talked about £649 million to mitigate UK austerity. If that money is being used to mitigate UK austerity, it is not being spent on devolved services. We heard the concerns that were raised by the college sector earlier this morning, whose budget for the year is roughly £649 million. You will be aware that that budget has been cut by 17 per cent in real terms over the past five years. Surely, the issue of poverty is one of opportunity cost. The colleges have robustly argued that investing in skills, training and employability, as opposed to larger benefit payments, for example, will ultimately have greater benefits for the individuals themselves, the economy and society, and that it will make Scotland more fiscally sustainable. Is opportunity cost not one of the big issues that we have to face at this time? You said that there is not a black hole, but the funding gaps that the Government faces are around £1 billion for the next financial year and £2.6 billion by 2029-30.

Shirley-Anne Somerville: There is an opportunity cost with all budget decisions right across Government. A current example is the mitigation of the two-child cap. The figures that I discussed in my opening statement relate to the current mitigation of the cap but we expect those costs to go up. The First Minister has made it very clear that if the UK Government's child poverty strategy—which we now think will start at the end of the year after the budget, but that timing is of course up to the UK Government—were to include the scrapping of the two-child cap, we would no longer have to mitigate it and we would use that money on further anti-poverty measures for children. That is one example of the opportunity cost of what we are doing.

The Convener: You talk about anti-poverty measures, but are investments in colleges, local government and the university sector not anti-poverty measures that allow people to do more with their lives—more so, for example, than spending additional money on benefits?

Shirley-Anne Somerville: Indeed. That takes me to my next point, which is the very important part that child poverty delivery plans play. Social security is only one aspect of assisting people with poverty; the others are about ensuring well-paid employment and allowing people to take part in education and training.

There are different ways of dealing with poverty. Social security is a very important one, and some of the evidence that has come to the committee and others shows that it is making an impact. However, we can tackle poverty in other ways. That is why there are several legs to the child poverty delivery plan stool: employment is one of them, and the way into employment through education is clearly very important, too. It ties into the wider opportunity costs that we have in Government.

The Convener: Universities Scotland told us that

“the flexible workforce development fund”,

which is

“valued at £10.5 million a year, was discontinued in 2023-24”

and that

“the Open University ... had to turn away ... 1,000 learners”,

many of whom, I imagine, would have been from disadvantaged communities. Universities Scotland also told us that

“The Scottish Funding Council’s upskilling fund”,

which was

“previously valued at £7 million ... was also discontinued”

last year. Those measures have been taken to save money here and there, yet, as you pointed out in your opening statement, additional funding of at least £1.2 billion—the Scottish Fiscal Commission said that it is £1.3 billion—is going into measures over and above devolved benefits. However, that £1.3 billion is coming out of other areas. Local government tells me that it is having to cut virtually all non-statutory services, including support for people with debt, for example, people who are unemployed and childcare facilities.

It is not as if the money that the Scottish Government is investing in welfare is over and above; it is being taken from those other services. Therefore, because of the emphasis on welfare, other areas are being denuded of resources, including areas that local government feels are essential to get people out of poverty. That is the irony of it. The Scottish Government keeps talking about welfare being an investment in people, but what analysis has been done to compare the outcomes for people who receive higher benefits with the outcomes for people from investing in employability, college places or universities?

Shirley-Anne Somerville: I absolutely take the point that different measures can be taken right across Government to alleviate poverty. Choices have been made across Government on that point. I would say that those choices have also been made across Parliament, because, with very few exceptions, the delivery through the secondary legislation on the eligibility methods for social security has been supported on a cross-party basis. Those proposals from the Scottish Government have been supported, with very few exceptions, on a cross-party basis. We have made conscious choices to have certain eligibility criteria for different benefits or to have benefits that are only available in Scotland and not elsewhere. I do take that point.

11:30

A number of different evaluation measures are in place. I can point to one in particular, which is a report by the chief social policy adviser last year that looked at the evidence from Social Security Scotland about achieving a fairer Scotland through reducing poverty, household poverty, material deprivation and debt and considering health and wellbeing. That report by Professor Linda Bauld looked at the impact of social security payments on individuals.

The Government has important work to do to look at where the payments are going and the impact that they are having on individuals. That does not mean that that money cannot be spent in different ways across Government but, as part of social security, we are keen to look at the impacts that those payments have.

The Convener: I think that everyone would agree that those payments will make people’s lives less awful if they are on benefits, because more money always does. However, how does it lift people out of poverty and give them a different kind of life, in which they will be in employment, be able to look after themselves in that way and not be dependent on benefits? That is where we are going.

I understand that the Convention of Scottish Local Authorities raised a concern about the two-child cap a couple of weeks ago. I raised that with the Cabinet Secretary for Finance and Local Government, who said that there were on-going discussions with the UK Government. The Scottish Government signalled the policy change a considerable number of months ago, and the Labour Party said that it would support the budget only if we ended the two-child cap during this financial year. To be honest, that was a bit of kidology. If that is the case, why are discussions still on-going about whether housing benefit and council tax benefit will be impacted by the ending of the two-child cap? In other words, if we give families additional resources through ending the two-child cap, they could no longer be eligible for other benefits. Has that been sorted now? Two weeks ago, my understanding was that the matter was still under discussion.

Shirley-Anne Somerville: I am happy to bring Ian Davidson in to give further detail on that, but those discussions started immediately. We have looked at the issue that COSLA raised and are content that we foresee no issues at present.

Ian Davidson: There has never been an issue in relation to reserved benefits; I am not quite sure where COSLA got that from. The discussions with the UK Government have made clear that the new benefit will be disregarded for those purposes. We will bring the legislation forward through the normal route—a section 104 order—to make the necessary changes to UK legislation. However, there has never been a bone of contention with the UK Government.

The Convener: Thank you for clearing that up. As I said, my understanding from evidence taken two weeks ago was that the matter was still under discussion, and COSLA seemed to think that, too. I am glad that you have put that on the record today. It clarifies an important point.

I want to talk about childcare. One of the great achievements of the SNP Government has been the increase in the number of funded childcare hours. When the SNP came in, the number was 412 hours and provision was means tested. It is now 1,140 hours for three and four-year-olds. That is a big achievement. The system has been better resourced than is the case down south, where there are staffing and funding issues, but it seems to me there are some advantages in the system down south. One of those is the fact that working parents can get support from when their child is nine months old. In Scotland, we have that support from the age of two years. Also, it seems that, if you have income of more than £850 a month, you do not get that childcare. Basically, mothers who are working do not get childcare support, but mothers who are not working do. That is the reverse of the position in England.

How will it persuade women to get into work if they lose childcare by going into a job? I understand that there is a threshold of 20 hours a week, as well as £850 a month. That seems to me to be trapping people in poverty as opposed to encouraging people into employment.

Shirley-Anne Somerville: Perhaps I can respond to the committee in writing with further detail on that, as childcare is not in my portfolio. Overall, however, as we look at childcare, we also need to consider the importance of having an offer that is available to everyone, whether they are in work or not, because it is not just about providing childcare to get people into employment; it is also about supporting young children. That important aspect should not be available only to the children of those who are in work, because it is about early learning as well as being somewhere for people to go.

There are issues with the expansion of childcare down south, which shows the importance of ensuring that staffing levels and supply are adequate. Again, you raise an important point in that, when we are looking at poverty, it is not just about social security. I recently undertook a visit to speak to young mums who are getting support not just on income maximisation but in relation to barriers to employability, such as whether they can access the types of childcare that they require and the fact that that has to work with the support that they get from the wider system.

A great number of people are in in-work poverty, so getting a job is not necessarily a route out of poverty for many—particularly for women, and not just for young women. It is important that we look at providing people with support even if they are in employment, if that work does not lift them out of poverty.

The Convener: Fifty-seven per cent of people who are in receipt of universal credit are in work, so that is a point well made. There is no means testing in relation to three and four-year-olds, but there is in relation to two-year-olds. However, it is a fact that, if you are in work, you do not get free childcare, but if you are not in work, you do, which seems the exact opposite of how it should be. That is the opposite of how it is in England. Where is the incentive for people to get themselves a job, especially given that someone who has been unemployed for a long time will not necessarily be able to get a well-paid job? People end up in a poverty trap whereby they lose certain benefits once they earn an amount that is above a certain threshold.

There is a real disincentive for people to find a job. That is the crux of the matter. It is not just about providing benefits to a certain level; it is about getting people to change their lives so that they realise the opportunities that might be available to them. I am struggling to see how giving childcare to people who do not work while denying it to people who do work is in any way positive.

Shirley-Anne Somerville: I am happy to provide further information about eligibility for two-year-olds. It is not to do with being out of work per se. The terminology that was used—

The Convener: The term was "vulnerable two-year-olds".

Shirley-Anne Somerville: Yes. The eligibility criteria are about providing families who would benefit from additional support for those young people—

The Convener: There is still a cash threshold of £850 a month.

Shirley-Anne Somerville: That is because we know that one of the important aspects of childcare and other services is preventative spend. Creating generational change in young people's lives is about the impact that we can make in the earliest years. That was the reason for the term "vulnerable two-year-olds". We now talk about "eligible two-year-olds" in relation to early learning and childcare, but that type of preventative spend is an important part of our work to improve our longer-term rates and make systemic change in relation to poverty.

The Convener: I will ask a final question, because colleagues are keen to come in. The Scottish Parliament information centre says that, over the next five years, the amount that is spent on social security in resource budget will increase as a share of the Scottish budget from 14 per cent to 20 per cent—from £6,332 million to £8,684 million. We all appreciate that that is demand led, but within five years the Scottish Government's decisions will have added £1.5 billion to the total as a result of the Scottish child payment and other things that have been mentioned.

The Scottish budget is not likely to grow much. If we are lucky, we can maybe add 1 per cent in real terms. Consumer prices index inflation will go into welfare payments, but the gross domestic product deflator is what tends to be involved in our resource budget.

How do we manage to continue to afford an effective welfare system without impacting on every other area of Scottish Government spending? Whether we look at justice, where we have 800 fewer policemen than we had five years ago; the national health service and integration joint boards, which are all chronically in debt at the moment; or struggling universities, colleges and so on, welfare spending appears to be squeezing out other areas of expenditure. Ultimately, that has an impact on the Scottish economy, growth, the tax base and the ability of the Scottish economy to employ people who are currently in poverty.

Shirley-Anne Somerville: As I said in my opening remarks, we recognise that, by 2029-30, additional investment is projected to be around 3.5 per cent of the total Scottish Government resource budget. That is an increase of less than 1 per cent compared with the current year, but it is still an increase.

The Convener: I am sorry, but I do not recognise those figures. SPICe and the Scottish Fiscal Commission have said that it is going to go from £6.33 billion to £8.7 billion.

Shirley-Anne Somerville: I am talking about the additional investment that we are making, which is what we invest above the block grant adjustment.

The Convener: Okay. Fair enough.

Shirley-Anne Somerville: Those are the decisions that, in effect, add pressure.

The Convener: You have said that, at the moment, the figure is about £1.2 billion over and above the block grant adjustment. The Scottish Fiscal Commission is saying that it is £1.3 billion and that it will go up to £1.5 billion.

Shirley-Anne Somerville: Yes. There will be an increase, and I absolutely recognise that. That is the crux of the matter, convener. There is a projected increase in our additional investment above BGA and a projected rise in overall social security expenditure for reasons that will have an impact not just in Scotland but in the rest of the UK and will therefore be covered by BGA.

We then get down to why those numbers are going up. If there is a demand call for those numbers to go down, people are, in essence, asking for changes to eligibility for benefits. What changes will people wish to make to benefits for carers, those on low incomes and so on? That is the only way that that trajectory will change.

The Convener: Well, hold on—not necessarily. Adult disability payments are projected to go up from £3.6 billion to £5.4 billion and the number of claimants to go up from 529,000 to 703,000, which is a colossal increase of 174,000 in four years, even though some people who are on the benefit will pass away. However, Scottish Enterprise pointed out that half of the people who are on the adult disability payment are already in employment, which suggests that enhanced support for employers who recruit disabled people might be a better approach, and it would reduce the impact.

Shirley-Anne Somerville: It might be better. There are two aspects to consider here. I still say that, if we wish to change the trajectory, we will have to change eligibility. If I understand what is behind your question, convener, if others make the case that disability payments should be made only to people who are out of work or that they should be means tested in some way—

The Convener: No. People who are working pay taxes, so that reduces the share of the Scottish budget that is going on welfare even if the welfare budget does not decrease. If you increase the Scottish budget by 10 per cent, 5 per cent or whatever, because more people are working, we can afford those welfare payments. The issue is that the economy is not growing but the welfare share of it is growing and it is squeezing every other aspect of the Scottish budget. That is causing real difficulties for universities, colleges, the justice sector, local government and everywhere else. That is the issue.

Shirley-Anne Somerville: That is why I was very pleased either last week or the week before to attend the opening of the employability hub in Beith—

The Convener: Oh! That is the opening that I never got invited to even though it is in my constituency.

Shirley-Anne Somerville: I knew that I was going into a slightly sensitive area there, convener, but that is important in that it shows how we are ensuring that the type of employability support that is specifically for disabled people is now available in all 32 local authorities. That takes to a national level the support that was available in some areas but not in others to do exactly the thing that you mentioned—to ensure that, if those who have a disability are able to find employment, they can do so and be supported in that. The Government was pleased to be able to announce that additional funding to ensure that that support is now available right across the country.

The Convener: Thanks very much. I look forward to getting a reply to the letter that I sent two weeks ago about why I never got a notification of that meeting.

11:45

Craig Hoy: Good morning, cabinet secretary. With regard to your Government's philosophical position on welfare spending, do you see it as a mark of success that the number of people who are in receipt of benefits goes up, or is the mark of success that the number of people in Scotland who are in receipt of benefits goes down over the long term?

Shirley-Anne Somerville: I think that it is a mark of success if those who are eligible for a benefit are supported to get it and no longer feel any stigma in getting what they are entitled to. One of the reasons why expenditure on benefits, and particularly adult disability payment, is going up to a greater extent here than it is in the rest of the UK is that, as the Fiscal Commission and others have pointed out, people are being supported through that process. There is analysis to ensure that, if they are eligible, they will get it and, if they are not eligible, they will not get it, but the process is a supportive one, and people are now coming forward who, because of the stigma, did not come forward under the previous system.

Craig Hoy: Would you say that your Government is better at getting people on to benefits than it is at getting people off them?

Shirley-Anne Somerville: I would say that all Governments have a responsibility to ensure that, if benefits are available, there is a take-up strategy to allow people to get the benefits that they are eligible for. We have a benefit take-up strategy to ensure that those who are eligible are supported to get what they are entitled to. There is a cross-party understanding on that, I think, when it comes to pension credit, which is a reserved benefit. Everyone seems to be in agreement that pensioners should have a benefit take-up strategy and should be encouraged in that respect. We should have the same type of strategy for disabled people, carers and those on low incomes.

Craig Hoy: You have said that, at the heart of the benefits system, there should be fairness and respect. What does it say to taxpayers about your Government's approach to showing them fairness and respect that it seems unwilling to pursue £36 million of welfare expenditure that was either mispaid or claimed through fraud?

Shirley-Anne Somerville: I am happy to go into a lot more detail on this, and I am sure that David Wallace will be, too. However, as I said at the start of this session, it is factually incorrect to say that the Scottish Government is not moving forward with any analysis of, and then action on, the historical debt that was built up with the benefits administered by the Department for Work and Pensions. We can spend as much time as you like going through this, Mr Hoy, because I am content that we have a robust process for dealing with fraud, as David Wallace has laid out, as well as a process that ensures that what we do with overpayments is robust but fair.

Craig Hoy: Would you expect that figure to fall over time, proportionally, as a percentage of the benefits bill?

Shirley-Anne Somerville: I am very assured by the work that we have done and will continue to do in the agency to look at different types of overpayments and to ensure that we take the issue very seriously.

However, I come back to a point that was made at portfolio question time, which is that we have to be careful about what happens when a number increases. Sometimes it will increase, because the number of benefits that the agency deals with is increasing. When you massively increase the case load, the number of redeterminations, appeals and cases to do with overpayment will increase, too. What we then need to analyse in order to get the proper context is, of course, the proportion of benefit payments that are overpayments or are seen to be fraud.

Therefore, instead of talking about total numbers, we should, as we continue to increase the number of benefits that the agency deals with, be talking about the proportions for different benefits within the agency. If you wish us to do so, we can go into further detail on that.

Craig Hoy: I think that colleagues might want you to do so.

In relation to the work to lift children out of poverty, the Scottish child payment has been welcomed by a number of third sector groups and independent analysts, but I want to talk about those above the poverty line who are in receipt of the payment. You will be aware that, last July, SPICe prepared a paper that contained a graph that showed that more Scottish child payment recipients are above the poverty line than are below it. Do you not think that, if the Scottish child payment was better targeted, you could be more effective in lifting children above the poverty line, rather than measuring its performance against recipients' average disposable incomes after housing costs?

Shirley-Anne Somerville: Mr Hoy will forgive me as I do not have the SPICe briefing to hand. I will ensure that my officials furnish me with it so that I can see where the argument was going. We need to bear in mind that, in essence, the Scottish child payment is a top-up to current benefits. That legislative foundation was decided on because it was the quickest way that we could get money into people's pockets at a time when there were real concerns about austerity—there still are—and there was a need to respond to the calls that were being made on the Scottish Government to assist. Eligibility is based on the benefit that the Scottish child payment tops up. It is mainly attached to universal credit and there are a small number of other benefits.

Under a more recent act, we have further powers that would allow us to change the legislative basis for the Scottish child payment. In future, it could be changed so that it is not a top-up to a reserved benefit and so that we could set our own eligibility criteria. We would have to look at that decision to see whether those changes would be worth while or not.

The Scottish child payment is targeted. The impact that it makes on relative and absolute poverty has been set out not just by the Scottish Government but by the Joseph Rowntree Foundation and others. I hope that that gives you an explanation of the reasons for its legislative basis and the way that it has been targeted. The delivery of the Scottish child payment was one of the successes of devolved social security, in that it was the quickest that a benefit has ever been implemented by any part of the UK's social security system.

Craig Hoy: The First Minister has set lifting children out of poverty as one of the central pillars of his Government. The graph in the SPICe paper from last July says that, after the Scottish child payment had been paid, 25 per cent of children were still below the poverty line and 75 per cent were above the poverty line. A significant number of children were above the poverty line prior to being in receipt of the Scottish child payment. If you are serious about eradicating child poverty, would it not be bolder if you were to address the needs of those who are effectively below the poverty line, rather than the needs of those who fall below the UK median income?

Shirley-Anne Somerville: I go back to my point that the legislative basis for the Scottish child payment is for recipients to be in receipt of universal credit. I have not seen evidence that would suggest that universal credit is given to people who are not in poverty or that it is somehow a profligate measure that allows people to live with great expanse. Indeed, all the work that is done by the Joseph Rowntree Foundation, the Institute for Public Policy Research and others suggests that people who receive universal credit lack the ability to get the basic essentials of life. That is why we have called on the UK Government to deliver an essentials guarantee. We have to be very cautious about talking about people who are in receipt of universal credit as if they are living in a profligate and expansive financial context. The evidence, not just from the Government but from others, is that they are not.

Craig Hoy: There is a taper element of universal credit that leads to a soft touchdown, so that people are incentivised to work and can keep more of their benefits for a period while they are earning. The finance secretary has always said to me that she is very keen to ensure that you do not embed cliff edges in any legislative or policy intervention. However, it strikes me that there is a cliff edge to the Scottish child payment. I have done a back-of-the-envelope calculation, but it seems to me that the taper gives people something like a five-times greater incentive to take on extra hours and work harder than is the case with the Scottish child payment, because people lose that at a certain level of income. Have you looked at any form of taper for the Scottish child payment that would remove the cliff edge that your Government says it is keen not to have as a central element of any public policy?

Shirley-Anne Somerville: It is very important, and analysis has been done, to look at the Scottish child payment to see whether it is a disincentive to work. The evidence that has been gathered is that, at its current level, it is not a disincentive to people taking up employment, and that is a very important part of the work that we are doing.

I go back to the work that has been done outwith Government to demonstrate very clearly that universal credit does not cover the basic essentials of life. The Scottish child payment provides additional income to people to assist them with the essentials of life. It does not do everything by any means that those campaigners wish us to do. There are many calls for us to increase the level of the Scottish child payment to further deal with the inadequacy of universal credit, but it is important to have the context that people on UC and the Scottish child payment are still very much in poverty or just on the cusp of poverty, and we are assisting with that.

It is clearly an option to look at tapers for the Scottish child payment, if that is what Mr Hoy is suggesting. It is possible for that to be built in, but it would build additional complexity into the system. I go back to my earlier point about why we brought in the Scottish child payment in the manner that we did. We did that to ensure its quick delivery. Any changes that anybody wished to see to develop a taper would require changes to the programmes, processes and systems, so that could not be done overnight, even if the Government was persuaded that it should be done. I stress that it is not an aspect that we are looking at at this time, because we are still very much concerned about the inadequacy of UC and, therefore, the income that many people receive.

Craig Hoy: Finally, in relation to adult disability payment, you will be aware that the Scottish Fiscal Commission has pointed out to us that there is a significant gap between those coming off the benefit in Scotland versus the UK—2 per cent versus 16 per cent. What will your Government do to address that? Surely that is a red flag in relation to the sustainability of a benefit.

Shirley-Anne Somerville: It is important that we go from that headline and look at the reasons for that. I will break that down, convener, if I may. The analysis of the 2 per cent in relation to current social security reviews is that a large proportion of that is case transfers that have come over from the DWP. In essence, they are not a typical review—it was done to allow for that case transfer to happen. What we will see in future analysis of reviews from Social Security Scotland is what that looks like when a case is reviewed from a Social Security Scotland decision. That is different from the case transfers. We will see that number increase from 2 per cent, because the case transfers are now complete.

On the 16 per cent from the DWP, just under half—I think that it is around 40 per cent; I can get the figures later—of the decisions that are made on DWP reviews are overturned at a later point in the process, either through its version of a redetermination or an appeal. That takes that 16 per cent down quite markedly, because it has made the wrong decision about that review, so it is not really 16 per cent at the end of the process. Then, of course, we will wish to compare the Social Security Scotland number outwith case transfers with the DWP number at the end of the process, once appeals have been taken into account. That work to look at the quality of the work and the decision making is currently on-going in the directorate and the agency.

I am aware that my answer has already taken some time, but if Mr Hoy wishes to have more information, David Wallace and Ian Davidson can come in on what we are already doing to make sure that the review process is fit for purpose.

12:00

The Convener: I first raised the issue of tapering at the SNP conference in 1986, so it is a long-running saga.

Ross Greer: I was about to say good morning, but it is no longer the morning. Good afternoon, cabinet secretary. I will go back to the question about the recovery of incorrect payments. You and I have had discussions about the Housing (Scotland) Bill and council tax arrears—a different area but with similar principles. We talked about the tipping point: that is, the point at which it is not viable or good value for money to try to recover money. That can be due to the immediate cost of recovery but also to situations where recovering money would push an individual or a family further into crisis, which is morally wrong but also brings further cost to the state due to its consequences. I would be interested to hear you briefly expand on how that is taken into consideration in the recovery of incorrect social security payments. What is the tipping point at which it is no longer value for money to try to recover those incorrect payments?

Shirley-Anne Somerville: I will bring in David Wallace on that and on the difference between an error and fraud.

David Wallace: We do not have a bar, as it were, where something happens if income drops below it. We encourage people to keep in touch with our recovery teams throughout the process. As I mentioned earlier, the teams have particular training: they are trained about trauma, they are trained with intelligence and kindness, and they are trained to spot safeguarding issues. That has been quite deliberate. Our contact with the client is important. It should involve a discussion about their financial circumstances—in other words, what is and is not affordable for them.

We also have methods by which we can refer clients on to financial support. The Money Advice Trust, for example, is a place that we would refer people to if they are struggling to make payments. At the moment, the payments are voluntary and are set at a level at which clients articulate that—and we are comfortable that—they are affordable.

We are also clear that it is a continual conversation. We are not setting up payments with people by saying, “This is the payment, and this will be the payment for ever after.” We encourage clients to keep in touch with us if their circumstances change whatever the case might be, for example if the funding that is available to them changes. We always emphasise that they should keep in touch. We are mindful of not pushing people into financial hardship, for all the reasons that the cabinet secretary and you have outlined, such as the knock-on effects on the much wider system. If we are simply knocking people into debt or issues elsewhere, that is not a good result for the public.

Ross Greer: Just to check, are the payments covered by the debt write-off rules? Forgive me, I cannot remember the underpinning legislation. Council tax debt in Scotland has a 20-year limit. Lots of other forms of debt and public sector repayments have a five or six-year cut-off point. Are social security payments covered by any of that? Is there a point at which they time out—after five or six years, for example—regardless of the circumstances under which they have been accrued, even if those circumstances involve fraud? Such a principle operates on the basis that, even in situations where there has been fraud, if it is not paid off within six years, it is very often because the individual is in circumstances where, realistically, they are never going to pay it off and trying to recover it will cost the state more than the figure to be recovered.

David Wallace: I would need to check that. We might not have reached that stage with some of the recoveries. As the cabinet secretary pointed out, a lot of what we are doing involves a system that is still settling. We still have an active programme of new benefits coming our way. I am afraid that I would need to check that. I will come back to you on it.

Ross Greer: Thanks very much. I am uncomfortable even using the language of value for money when we are talking about giving people basic dignity in their lives. They are often very vulnerable people who are really struggling. However, to take a wider view here, we can all recognise that poverty costs a huge amount of money—to the individuals who are in poverty, to the state and to the wider economy. It has an impact on the health service and on criminal justice, and it leads to loss of productivity and so on.

Cabinet secretary, you mentioned Professor Linda Bauld’s report in your opening remarks. I am interested in whether you are using that report or other sources for your part of the spending review. How do you strike the balance in deciding what is an appropriate amount of money to invest in social security from a limited public sector pot, given that, if that money was invested elsewhere, there might be an immediate saving—for example, if you take billions and put them into colleges, as we were discussing earlier—but there could be more long-term, significant costs? How does all that factor into the exercise that you are undertaking with the spending review? Is Professor Bauld’s work the north star that is guiding you, or are you using other sources to make those value for money calculations?

Shirley-Anne Somerville: The work that is being done by Professor Bauld is exceptionally important because, now that we have had what is still a relatively small number of years of devolved social security, we are continuing to build on the impact of that system on child poverty or on the support for disabled people and their carers. Those aspects are looked at.

One of the other areas that we are keen to look at touches on the point that the convener made at the start about the impact on poverty levels of policy A compared to policy B. There is that which gets children and the family out of poverty immediately compared to a policy that will help that family to get out of poverty in the longer term, such as in five or 10 years. Things are never black and white, and it is not an easy comparison to make, but that is the type of work that we are doing to look at how many children are lifted out of poverty not just by social security policy but by changes to childcare and employability. There is also the additional layer of complexity of not working in silos, because a change to childcare might not make a difference unless we also ensure that there are supportive employability measures to go alongside it.

We are therefore taking a multilayered approach to that work as we develop the next delivery plan for tackling child poverty at the same time as we are going through our budget and spending review processes. Those two processes, for finance and tackling child poverty, need to be interlinked right across the Government as we do that forecasting. That is difficult, particularly when we look at longer-term impacts, but it is necessary when we are looking at policy choices.

Ross Greer: A moment ago, you mentioned the review work that found that the Scottish child payment is not acting as a disincentive for parents and carers to enter employment. I might not be aware of it, but is any equivalent work being done on the adult and child disability payments? They are not connected to employment. There is a cost to being disabled whether someone is in work or not, and that is an important principle for those payments, but I am interested to know whether any work is being done on that, particularly because of the committee’s interest in getting more economically inactive people who are able to work and want to work into work. Has any analysis been done of whether those two payments have had an impact on family employment prospects?

Shirley-Anne Somerville: I am happy to provide further information on that, if we can, although it might not just be from the Scottish Government. It goes back to why Scotland has the CDP or ADP, or why there is the personal independence payment down south. They exist to recognise the additional costs of being disabled whether someone is in employment or not. That is an important principle.

The changes to the PIP that the UK Government proposed rather turned that on its head, because they were about taking support away from people. It became evident from the concerns that were expressed by disabled people’s organisations, for example, that people were less likely to get into employment or to be able to stay in employment that they were already in, because many people used their ADP, or PIP down south, to deal with some of the additional costs, and that supported them into employment. More work needs to be done to follow on from the work that DPOs have done with their own members—which I appreciate; I think that their case is exceptionally credible and I would support it. However, there are still discussions in the rest of the UK about those types of policy changes.

That is still important to me because of the discussions that we had near the start of this parliamentary session about how a policy change there has massive impacts on our block grant for social security. I recently attended a round table with DPOs to discuss their continuing concerns about what was happening under the welfare changes that are still in place in relation to UC. They were also concerned about the fact that, at a UK Government level, there seems to have been a move away from acceptance that CDP and ADP were there to support people with the additional costs of being disabled. If that principle is in question, but we still agree on it, there is a degree of work that we all have to do to show its importance. Part of that is about how those things support people into employment or support them so that, even if they will not be able to get into employment, they are not socially isolated.

Ross Greer: I am not one to suggest reviews for the sake of reviews but, given that this is such a significant area of expenditure—with the expected growth in it that the convener mentioned—and given the wider UK political context, it would be valuable to discussions to have a robust evidence base that demonstrates that it is not a disincentive to work and that it is potentially supporting economic activity. I expect that that will not be realistic in the timeframe for spending review decisions before the end of the year, but it is something that I would encourage the Government to look at in the not-much-longer term.

Liz Smith: Cabinet secretary, you said in answer to the convener that you were very disappointed about the report in *The Scotsman* about the £36 million and that the article was not accurate. Do you mean that £36 million is not an accurate figure?

Shirley-Anne Somerville: The figure is accurate, but to describe it as a black hole and saying that the Scottish Government is not looking to recover some of it is inaccurate. I have no issue with the figure; I have an issue with the interpretation that that somehow meant that the Scottish Government was just going to leave that to one side and not do anything about it.

Liz Smith: If the £36 million figure is accurate, what is your estimate of how much you will be able to recover?

Shirley-Anne Somerville: We are still undertaking work with the DWP to get an understanding of what sits behind that £36 million—that is, what proportion of that £36 million is for disability benefits, what is for carers and what is for industrial injuries—because those will have different recovery proportions. We cannot do that piece of work alone; we need to do it with the DWP in order to get that information. Ian Davidson can provide some information—as much as we can provide, because two Governments are working on it. I do not want to put either of them in a difficult position.

Liz Smith: I understand that, but it is a very important amount of money. Given what the convener was, rightly, asking, we have a duty to scrutinise that. If the convener agrees, it would be helpful if we could get an update on that fairly quickly. It matters for the budget because it is a large sum. It would be helpful for us to have an update as soon as possible.

Shirley-Anne Somerville: That requires us to get information from the DWP. We will endeavour to do what we can to provide you with that information, but we need information from the DWP to assist us in understanding what benefit it is from. I also caution against an assumption that it has an impact on next year's budget. It does not have an impact on one year's budget. The work that we do to recover overpayments is done over time—it is not only about one year. With those two caveats, I would be happy to provide information if we can at all.

12:15

Liz Smith: I understand that that has implications for budgets in general, which brings me nicely to my next point. The convener twice attempted to ask you about the opportunity costs—again, it comes back to the scrutiny of this Parliament. On the basis of what modelling does the Scottish Government believe that its social security approaches are providing better benefits and better outcomes in delivering the anti-poverty strategy compared with college funding, schools funding, early years funding and many other things? What actual opportunity cost measurement is the Scottish Government undertaking to provide the evidence for its policy decisions, which allows financial scrutiny by this committee to show whether those policies are the right ones?

Shirley-Anne Somerville: My apologies if I was not clear enough to the convener earlier. It ties in to the work that I just spoke to Ross Greer about—the work that is going on as we draft the next child poverty delivery plan and as we go through our budget and spending review processes. As part of that, we are looking across Government—social security being quite a small part of that—to see the differences that policies could make.

That is the type of work that is being undertaken as we deliver the tackling child poverty delivery plan, which will be published next year. Of course, we need to take account of the decisions on that as we move forward with the budget. That is the type of work that is being undertaken on those measures to compare one policy to another.

Liz Smith: But cabinet secretary, the Fiscal Commission is predicting that, between the coming budget and 2029-30, the social security budget will go up by nearly 30 per cent. That is a huge increase. The committee is interested to know what might be cut in relation to that spend. We have heard this morning that various other portfolios are complaining bitterly about a lack of money. In order to make judgments on the issue, the committee has to see what the outcomes are. That question is a huge issue for the Scottish Government, given what the Scottish Fiscal Commission says is a completely unsustainable social security benefit system for the future.

Shirley-Anne Somerville: I again point to the fact that we need to look at two aspects of the increases in the level of social security expenditure. One aspect is down to changes that are happening across the UK and will therefore be covered by BGA, and the other is the additional investment that we make.

I appreciate that, just because we get the money in from social security block grant adjustments, it does not necessarily have to be spent on social security. It is up to the Scottish Government to consider entirely different aspects around that.

Liz Smith: Precisely.

Shirley-Anne Somerville: My second point is that the increase in expenditure is not due to any changes to eligibility that the Scottish Government is bringing in. It is about the eligibility that is currently in the system, which has been passed by this Parliament, and those policy decisions following through to an increase in social security expenditure.

I totally appreciate that there is, quite rightly, both in this committee and in Government, an analysis of the increasing levels of social security. Those are conscious decisions that have been taken by this Government to protect disabled people, carers and people on low incomes. The changes and the forthcoming increase are not happening because we are due to make any further changes to eligibility that Parliament has not already voted on.

Liz Smith: But your colleague Shona Robison, the finance secretary, said to the committee two weeks ago that there are certain decisions that the Scottish Government will not be able to pursue as it would like to do. She said that the roll-out of free school meals will not be as extensive as the Scottish Government would like. That means, I would hope, that there is a conscious decision within Government to decide how the money would be better spent on other things. However, others would argue that the provision of free school meals is a very important part of the strategy to tackle poverty. I ask again, what are the decision-making criteria that the Government uses to decide which areas have the best outcomes in tackling poverty?

Shirley-Anne Somerville: If we look at the aspects around free school meals, it is clear that the Scottish Government remains committed to universal free school meals in primary schools. We are working on the pilots for those children in secondary 1 to 3 who are in receipt of the Scottish child payment. We are not moving forward with universality for primary 6 and 7 pupils at this time; we are targeting provision to those in receipt of the Scottish child payment, because, given the financial context, we have taken the decision not to have universal free school meals but to target it to those who are in poverty. I suggest that that demonstrates that the Scottish Government has taken a very difficult decision not to move as fast as it would like on universal free school meals, because it has targeted the level of expenditure for P6 and 7 and for the pilots to those who are in poverty.

Liz Smith: Is it also a recognition by the Scottish Government that various universal policies cannot continue in the future because we simply cannot afford them?

Shirley-Anne Somerville: No. Many of the universal policies sit outwith my portfolio. Liz Smith and I have had these conversations in the chamber and in the Social Justice and Social Security Committee. There are reasons to have universalism and there are other policies that should be targeted, but the Government has no plans to take away benefits or entitlements from people. That is an important reassurance that we can give. Although we are talking about those who are in poverty, the cost of living crisis impacts many people who are not caught by poverty measures. It is therefore important that they know, as they look to the years ahead, that the Government is not going to take anything away from them, which would cause great concern for people who are still struggling.

Liz Smith: Your colleague Shona Robison is arguing strongly that you cannot roll out universalism to a greater extent because you simply cannot afford it.

To come back on the point that you raised earlier, the Government wants to target those who are most in need. That is what we signed up to in 2018. I suggest that the policy of universalism across the board is simply not sustainable for the Scottish budget.

Shirley-Anne Somerville: We are still committed to universal free school meals for primary-age pupils. What has changed is the timescale for delivery. The levels that we have in social security are targeted. You point to the 2018 act, which is targeted at those on low incomes, those who are disabled and those who are carers. There are parts of Government policy in other portfolios that are universal because the Government has taken that decision. I am sure that there is a debate to be had among our stakeholders and others about universalism, but the Government has tried to give people the important reassurance that we would not take entitlement away from people.

Liz Smith: We will leave it there. I am sure that the debate will continue.

John Mason: It has been mentioned that some issues are UK wide and some are specific to Scotland. The Scottish Fiscal Commission says that

“the UK-wide higher demand”

for disability benefits especially

“is because of a deterioration in health, meaning more people are eligible, and the cost-of-living pressures”

are encouraging more people to apply. Do you recognise that as a UK-wide issue? Is health getting worse?

Shirley-Anne Somerville: The matter has another important aspect, which came through very clearly at the round-table discussion that I had with DPOs and other stakeholders: the number of people who are coming forward for disability benefits because of mental health or other conditions that they previously had not been supported to apply for, or because stigma in society had prevented them from coming forward. I heard very compelling evidence from contributors at that round table that many people are now coming forward for mental health reasons who would not have come forward in the past. Although they were eligible for benefits in the past, they did not come forward.

There is then a question of whether that is a good or a bad thing. I think that it is a good thing if stigma around poor mental health is reduced, so that people can have open discussions and get a benefit to which they have always been entitled but never felt they were able to achieve. There are changes in our societal discussions around some disabilities and conditions that have seen a particular increase in certain case loads. I would add that aspect to the discussion.

John Mason: I agree with what you are saying and with what the Government is trying to do. The question for the committee is whether we can afford what we want to do. The SFC has talked about the fact that people in Scotland are supported more—you used the word “support”, too—and that we have promoted some of those payments more. I want us to be kind, gentle and nice, but I am left wondering whether we are going too far down that road, because we cannot afford it.

Shirley-Anne Somerville: Another aspect, which I alluded to earlier, is the fact that the spend on, in particular, adult disability payment and child disability payment, is preventative. If we were to reduce the amount of support that we are giving to people, would we then see an increase in demand on our health services or on our social care services, for example? There is a need for us to consider the implications of reducing a benefit on, for example, the health service.

Another area attached to that is that, if you reduced the eligibility for disabled people, you would also, by default, reduce the eligibility for carers benefits, and many unpaid carers in our constituencies would then not receive the financial support that they currently receive. Although I do not have the figures to hand, we can provide to the committee the discussion—which the committee will be well aware of—about the contribution that unpaid carers make and the impact that it would have on our health and social care if they did not do what they do. So, it is about the important aspects of what would happen within health and to those unpaid carers if we reduced expenditure on social security. We can provide further information on the issue after the meeting.

John Mason: Again, I agree with all your arguments, which are all well put. Clearly, if we can help people, then their health improves and there is not the same pressure elsewhere. However, I still wonder—as, I think, the committee does—whether we are getting the balance right in all of this. We call it capping, rationing or whatever. If people need hip replacements or want to get into a care home, they have to wait for quite a long time. The fact that there is a cap means that there is a limit to those budgets and that we can spend only so much on operations, care homes, nursing staff and all those things. However, there seems to be no cap on this budget. I understand that it is demand led, but must it increase by inflation every year, for example? I realise that, if it did not, people would be less well off, but would that not be one way of controlling the expense?

12:30

Shirley-Anne Somerville: It does increase by inflation every year. We voted on that, as a Parliament, in the bill that went through—

The Convener: Last year.

Shirley-Anne Somerville: It was initially a Jeremy Balfour amendment, but then it was a Scottish Government amendment. We will have to check the record to see how that vote went. We were already required by statute—the 2018 act—to increase certain benefits, but Parliament voted to extend that universally.

John Mason: I supported that amendment.

Shirley-Anne Somerville: The fact that the social security budget is demand led is an important aspect.

The other cap is on eligibility. It goes back to the point that I made to the convener. The way in which we change the trajectory in spending is by changing eligibility and taking people out of being eligible for a payment. That, in essence, is how to tackle it.

So, yes, the budget is demand led, is based on eligibility and goes up by inflation. However, as I alluded to earlier, the Government could spend money differently if it did not have to mitigate UK Government policies. There is a separate discussion to be had about what could be done with the money if we were not mitigating.

Michael Marra: I thank the cabinet secretary for her evidence so far. I go back to the £36 million black hole. If somebody were to be fined in court for fraudulently claiming benefits, would that fine be added to their debt?

David Wallace: Do you want me to come in, cabinet secretary?

Shirley-Anne Somerville: Yes.

David Wallace: I would separate out the £36 million, which has been accrued under DWP rules—

Michael Marra: Sorry, I am speaking about specific circumstances. If somebody were to be fined, would the fine be added to their debt? It is not specific to the £36 million; it is about individuals, were that to happen.

David Wallace: In a Scottish case, if we went to court and a fine was imposed, we would always seek recovery. I suspect that that would be separate from a fine, as I understand it, but I would need to double check. A fine would be a penalty for having committed the offence, but we would always seek recovery in a fraud case.

Michael Marra: So the fine element would be dealt with separately and would not be added to the recovery process that you are describing.

David Wallace: Again, I can only talk about what I think would happen in a Scottish case at the moment. I am not sure that we have had that situation.

Michael Marra: It would be interesting to know, because I want to explore the issue of deterrence and what happens if a court is making a decision about fraud, in which somebody has stolen money from their fellow taxpayers and citizens. You are talking about recovering moneys, but the question is whether that separate amount can accrue. It would be appreciated if you could come back in writing with detail on that.

Cabinet secretary, in your evidence so far, I have not picked up what you are going to do to get the money back. You have rejected the Westminster approach and have given some grounds for that decision. What action will you take?

Shirley-Anne Somerville: Again, we would separate the £36 million from what currently happens with the benefits. Ian Davidson could furnish the committee with further details about the current discussions with the DWP. The type of information that we need is, for example, the benefit on which an overpayment has been made. That will assist us in our approach to tackling that. Until we get that information, it is quite challenging to hypothecate that money—to say where it will go.

I hope that it is useful for the committee to point to the work that we currently do. The agency already undertakes that type of work to enable it to deal with overpayments in instances of both error and fraud, which are treated differently, as I hope that the committee agrees that they should be. We will continue to do that work, which, in essence, provides a guide to the types of work that could then be done to recover some of the £36 million. To be clear, the DWP would not have recovered the full £36 million in any scenario, because there are different success rates for recovery across various cases.

We need information about the £36 million. What we do to recover the money will be based on the agency's work. David Wallace can go into further detail about how we do that for different benefits, if it would help to provide the committee with examples. We take those issues very seriously, but cases are dealt with differently depending on the individual context.

Michael Marra: This is what I am interested in: you have rejected the UK Government's approach of trying to drive up the amount that can be reclaimed, so what will you do to drive up the numbers? You say that you have to look at the numbers and get more detail, which I understand, but how long have you known about the issue?

Shirley-Anne Somerville: Not very long, unfortunately. In the usual circumstances, the Scottish Government would have knowledge about what would be in a bill before it is introduced, but that did not happen in this context. That makes co-operation between the two Governments difficult, particularly on fraud. We have been working on how the bill could be changed and have reached that end of the process. Work is on-going to get the underlying information, and a series of steps has been undertaken.

David Wallace will be able to go into as much detail as the committee would like about how we deal with fraud and error, which is the kind of work that we would undertake to recover the £36 million.

David Wallace: To reiterate the point, I can talk about the generality. Personally, I do not know what efforts have been made to recover the money. As the cabinet secretary has outlined, we simply do not know what that looks like at the moment.

Michael Marra: What do you do to try to recover money as a result of issues that are arising in Social Security Scotland right now?

David Wallace: As I outlined earlier, if an overpayment arises and is recoverable, we will first speak to the clients who are involved and we will try to reach a voluntary arrangement. We will try to understand their circumstances and what is preventing payment or might be a barrier to it. Within the principles of fairness, dignity and respect, we would seek to recover the money.

After that, there are other layers. For example, we are about to pilot civil recovery, and we recently appointed a legal partner to pursue cases in that way. That approach will be piloted for cases when clients have not been willing to engage with us and we still believe that recovery is available. We are looking at the potential for enforced deductions of overpayments from recurring payments. We are very clear that a challenge process must be built into that system somewhere, and we are working through what such a process might look like.

Michael Marra: Are those mechanisms sufficient to deal with the issue?

David Wallace: They are robust. I do not want to compare it with the DWP's processes, and we have not compared one system with another.

Michael Marra: What is your success rate?

David Wallace: Again, as we explained, the case load is going up. For example, in 2023-24 we recovered £300,000.

Michael Marra: What is that as a percentage of the overall amount of money?

David Wallace: At the moment, our balance is about £10 million.

Michael Marra: Is that £300,000 out of £10 million?

David Wallace: To finish my point, in 2024-25 the amount that we recovered increased to £1 million.

Michael Marra: So, you have got it up to 10 per cent. Cabinet secretary, do you think that a 10 per cent recovery rate is a successful record?

Shirley-Anne Somerville: I am not trying to be obtuse, convener, but some of the cases that David Wallace is referring to are still in process, because the agency is still very young.

For example, if the agency is working through a voluntary recovery of an overpayment but that does not prove successful, it can move to the next step in the process. We will continue to see that number change.

We are always very open within the Government about looking at different approaches if something more can be done.

Michael Marra: You have rejected the UK Government's approach and you have a success rate at the moment of, if I am being generous, 10 per cent recovery. Are you happy with that figure?

Shirley-Anne Somerville: As I say, part of the challenge around that figure, which David Wallace mentioned, is that many of those cases will still be in train. We would start off with the initial approaches to recover that money, and if it is not possible to do so, the case can move through the process. David might want to provide some further information on that.

Michael Marra: I am sorry, cabinet secretary, I am asking you, because it was your decision to not take on board the UK Government position. That was up to you, and you have set out your reasoning for it. Are you happy with that figure, and do you think that 10 per cent is a reasonable outcome for the taxpayer?

Shirley-Anne Somerville: I will always challenge the agency—as the agency will challenge itself—to improve those numbers.

Michael Marra: What tools will you give the agency to do something about it?

Shirley-Anne Somerville: It has been given extra tools through the Social Security (Amendment) (Scotland) Act 2025. Additional information on audit will be provided, which will help. The work done during the progress of that act, which the Parliament recently debated and passed, will assist the agency. That is an example of an additional tool that will be in the agency's armoury, once we go through the secondary legislation process in the Parliament.

I will provide some context on the timing of that. The UK bill that we are talking about has still not passed through the UK Parliament. It has not yet been finalised, so I go back to the point—

Michael Marra: I understand that, cabinet secretary. To be fair, that is not the part that I am talking about. I am talking about your record of recovery and whether you are satisfied with the 10 per cent figure.

I see that Mr Wallace is keen to come back in.

David Wallace: I will just reiterate that point. Some of the processes that I outlined that we will have available to us are not yet available. We will always want to improve on the current position. For example, we are not yet using the civil recovery process—we have only recently appointed a legal partner for that—and that is a powerful collection method.

Michael Marra: Let us hope that the position does improve.

I will move on to the fiscal sustainability delivery plan, which says:

> "Social security statistics show a lower rate of adult disability benefit awards being ended or decreased at review ... we will assess whether the current award review process is working as intended and if any changes may be required."

Can you update us on that piece of work?

Shirley-Anne Somerville: I alluded to some of that work in my earlier response to Craig Hoy. I went through, in some detail, the areas that are being dealt with. The part that we did not get on to is the work that is already going on within the agency to examine the quality of decision making. Rather than repeat what I have already said, can we perhaps talk about the next aspect to that?

Michael Marra: I am happy to do that, and then I will come back on some of that detail.

David Wallace: We have been doing a joint bit of work with our policy colleagues to look quite carefully at our reviews—what we might call a review of reviews. We are currently seeing nothing that would cause us concern about the quality of those reviews. That brings us back to the wider system. We do not believe that we are just making the wrong decision in reviews, if that is where you are coming from. We look at somebody's eligibility, then we look at it again. We believe that the review process is robust.

Michael Marra: That is not where I am coming from. I was quoting the Government—that quote came from the Cabinet Secretary for Finance and Local Government, so the Government wants to see this done. Has a target figure been set for the amount of money that is to be saved in this area?

Shirley-Anne Somerville: Do you mean in relation to social security in general?

Michael Marra: No, in this area. The Fraser of Allander Institute, for instance, expressed concerns that this was a particularly woolly part of the fiscal sustainability delivery plan. A series of different policy measures was set out, but no number was set against that. Do you have a target saving that you have to make in relation to the gateway review—the review of reviews, as Mr Wallace put it?

12:45

Shirley-Anne Somerville: The target is to ensure that the policy is working effectively. Rather than that work having an arbitrary target, where we say that it will bring down social security or that we expect it to deliver a particular level of saving, it aims to ensure that the policies are fit for purpose and are working in line with the policy intent that Parliament agreed to.

The importance of such work is that we can use it to go back to first principles. What is a review supposed to do? Is it fulfilling the purpose of a review, which is to ensure that if someone is eligible for the benefit they keep that benefit, and if they are not eligible for the benefit they do not get it?

Michael Marra: The words that I quoted were in a financial document—the fiscal sustainability delivery plan—and the point was about savings. It was made under a headline that said that there would be a saving of £1 billion.

Shirley-Anne Somerville: Yes, the plan is a financial document, but the important aspect of such work is to take it back to first principles. We have a policy on reviews. We have clearly, and rightly, been challenged on the fact that the review percentage for the Scottish Government is different from that for the DWP; I went through that with Mr Hoy earlier.

We have taken it back to the first principles of what a review is supposed to do: to ensure that someone gets a benefit that they are entitled to, and that they do not get a benefit for which they are not eligible. That is a more robust way of reassuring ourselves that the system is working correctly—we take it back to that first principle of whether a policy is delivering as was intended.

Michael Marra: Thank you.

I take it that that piece of work has been completed. Mr Wallace said that the review of reviews has been undertaken, and you are confident that you are making the right decisions. So it seems that that is done, and you have reported back to the cabinet secretary that no savings will be made in this area.

Shirley-Anne Somerville: No, Mr Marra—with respect, that is not what I said. We have talked about the steps that have been taken within Social Security Scotland to carry out the review of reviews. David Wallace, Ian Davidson, the Cabinet Secretary for Finance and Local Government, myself and others will undertake an overall analysis of our progress on that review, looking at the type of work that I mentioned in response to Mr Hoy and at where comparisons can rightly be made. The initial steps of that work have been concluded. However, we are still keen to ensure that we look at the wider aspects of the review process to make sure that the agency is delivering on the policy intent that Parliament agreed to.

Michael Marra: Can you tell us when that work will be finished? One of the committee's concerns is that we do not know whether the £1 billion of savings will be represented in the Scottish Government's budget when it is presented at the start of next year. You are now saying that no targets are being set in the section that I have outlined for you to save money in this area--you do not have a target, blunt or otherwise. We are trying to understand the shape of the budget. On the basis of what you have just told us, we are not expecting a contribution from you for a saving to that £1 billion.

Shirley-Anne Somerville: Again, I go back to first principles. We always have to ensure that, if people are entitled to a benefit they get it, and if they are not entitled to that benefit they do not get it. The other way to make savings is by changing eligibility. Those are the types of decisions that we will make. When it comes to targets, I go back to the point that, if we want to see a reduction in welfare spending, we have to target people and make changes to eligibility.

The other aspect is to ensure that the system is as robust as it possibly can be. One pillar that you have mentioned is the review process. Rather than that being a process where we have to wait until its end to see whether changes can be made, if issues are identified during its initial steps we can take steps to deal with them immediately. The agency has an iterative process of learning and continuous improvement. There are also other aspects, outwith the review section, where we continuously ensure, through the directorate and the agency, that the system is as robust and efficient as it can be and we make the changes that we are able to.

Michael Marra: That is useful detail, but I do not think that it answers my question, which was about whether you will contribute a saving to the £1 billion of money that has been identified by the Cabinet Secretary for Finance and Local Government.

Shirley-Anne Somerville: The aspects around whether there will be a saving will be dealt with by the learning that comes out of work within the agency, and the wider Government, that demonstrates that changes need to be made to policies, practices and procedures. The budget process and spending review process are exactly where those types of learning points will materialise in changes to budgets. Those will be demonstrated in the publications that will come out in due course.

Michael Marra: Can I ask one more, convener?

The Convener: Kleine.

Michael Marra: Okay—I will have to pick.

I will ask about the effective operation of appointeeships, as that is about the general operation of Social Security Scotland. I am concerned that, since a report identified that 33,000 appointeeships were to be reviewed by Social Security Scotland, only 8,600, I believe, have been reviewed, and there has been a drastic reduction in the number of staff who have been applied to the task. Is that fair, Mr Wallace?

David Wallace: I think so. I do not have the exact, updated numbers in front of me. We have focused our attention on people who are not yet in payment. Some of the numbers will have occurred as a result of case transfer, so an appointee under the DWP system will have gone through an element of a check. At the moment, we are focusing our resource on cases in which any payment is awaiting—our newer ones, under the Scottish system.

However, your reflection was fair. We are consistently and constantly moving our resource across all the benefits where we feel that we need it most. At this point, we are also having to move some of that resource—this is probably what you were referring to—to the benefits that are still to come our way and to training people on the benefits over the winter period.

Michael Marra: My point is about the sensible application of resources in the organisation. We have talked about operating costs and we recognise that that is a challenge for you, given the scale of the things that you have to do, but the promise was that there would be individual interviews with each of the 33,000 people involved. Is Social Security Scotland overpromising and underdelivering? Such arrangements apply to some of the most vulnerable people in Scotland—many of whom, as has been identified by the work that you have done so far, are being abused as a result of the abuse of appointeeships.

There is a lack of pace. You have said that you are going to do that work, but time is running on and you are decreasing the resource to do it. I appreciate our time constraints, convener, so could we have a written update, Mr Wallace, on what has been done, the promise that you made, when you expect that work to be concluded and the number of staff who are being applied to the task, given that you just acknowledged that you have already moved people off that and into other areas? As I said, those involved are incredibly vulnerable—they are some of the most disabled people in society—and they deserve what has been promised.

Shirley-Anne Somerville: One point on which we will be happy to provide further details is the operating costs of the agency compared with, for example, those of the DWP. Those costs, which we continually challenge to ensure that the agency is as effective as possible, are very good in comparison with those of the DWP. There is no issue around the operating costs of the agency.

The Convener: The FSDP says that operational delivery improvements

“will focus on improving performance and productivity alongside the delivery of internal savings and efficiencies, such as the continued automation of some payments”.

There are no numbers against that, which is an issue that always concerns the committee. If we are talking about a Scottish Government budget gap of £1,070 million going into the next financial year, we need numbers on things such as that.

Michelle Thomson: I thank the witnesses for bearing with us. I will finish on one tiny point on the £36 million. You have extensively laboured the differential approach in how you deal with that in Social Security Scotland, but I did not get a strong sense of how your approach to overpayment through error—not somebody’s fault—differs from that to overpayment when there has been fraud as an intentional act of obtaining money by deception. Okay, you are going to be fair, you are going to be nice and you are going to treat people with dignity but, clearly, fraud is an entirely different matter. How do your processes differ in those circumstances?

Shirley-Anne Somerville: I ask David Wallace to come in on that.

David Wallace: Absolutely. I apologise if I have not landed that. The point that I was making at the start is that we absolutely have that differential between how we recover overpayments versus how we deal with fraud. We have an extensive counter-fraud capability: we have brought resource and capability from across wide parts of the public sector—people who are very experienced in fraud investigation—and we have surveillance powers, with safeguards as to how we use them. We have a zero-tolerance approach to fraud and a team that will investigate all frauds.

Information about reporting is possibly already in the public domain. Intelligence comes into the organisation. All those intelligence reports are considered, and we investigate every single one. We have absolute zero tolerance of fraud. All our staff, as well as being trained in kindness, are trained in counter-fraud; our front-line staff are absolutely encouraged to understand what signs to spot, too. There is absolute zero tolerance of fraud, and I believe that we are building robust capabilities and expertise in the organisation. I apologise if I did not make that clear.

Michelle Thomson: That is helpful to have on the record. Such information had not come out, except in the article in *The Scotsman*, as the cabinet secretary said. The approach is about being firm when money is being obtained fraudulently; it is quite heartening to hear about that firmness of approach. When an error occurs, that is an entirely different matter.

David Wallace: I am sorry—am I allowed one more comment?

Shirley-Anne Somerville: It is up to the convener.

David Wallace: I add that we have a high bar in relation to fraud. This organisation does not determine whether somebody has committed fraud; we report to the procurator fiscal and the court determines whether a fraud is there. Sometimes, when we talk about figures for fraud and suspected fraud, our figures can appear low, because we are looking at those who have been through a journey towards a verdict from a court. Obviously, at the moment, only a very small number have gone through that process.

Michelle Thomson: That is an extremely important clarification, because that approach is different from what is happening in the rest of the UK. The difference between a case that goes through court processes where there is a finding of fraud and a case of suspicion of fraud will skew your figures, so that clarification is helpful.

I will pick up on something that the cabinet secretary said right at the start of the conversation. What did you mean when you said that there was no black hole? There are different meanings of the phrase, which we might go on to, but what is your understanding? What are you saying when you say that?

Shirley-Anne Somerville: What could be inferred from the material in the press is that the Government expected to get £36 million that it is no longer getting. To me, the black hole reference implied that, somehow, because the Scottish Government was not taking part in one part of the UK Government bill—although we are taking part in other parts of it—we were setting aside £36 million. I hope that we have demonstrated to the committee that that is far from the case.

What we have disagreed with the UK Government about is the approach to recovering such money. We will recover it through the types of work that David Wallace's agency already undertakes. That can be extrapolated to the work that will go on with the additional historical debt, which will now be transferred.

Michelle Thomson: We have laboured that point and questioned whether the recovery percentage is 10 per cent or more, but my understanding is that "black hole" is simply terminology to express a projected overspend against projected income. People will say, "Oh, the Scottish Government's got a black hole"; equally, you could say that the UK Government has got a massive black hole.

I will briefly explore with you an important differential. In the UK Government's situation, some economists will argue, "Well, of course it's not a black hole, because you can squeeze people till the pips squeak"—in other words, the UK Government can raise tax, increase borrowing or create money out of thin air vis-à-vis quantitative easing. It is different for the Scottish Government, because the only available fiscal lever is to tax. Therefore, when you say that there is no black hole, do you mean that we do not need to worry about the difference between projected income and projected expenditure because we can just increase tax?

13:00

Shirley-Anne Somerville: As part of every budget, we lay out the expenditure of the Scottish Government, part of which is on social security, and the income that we will receive. Decisions about tax are taken at every budget, although the First Minister has made it clear—to give people some certainty—that certain changes will not be made in the coming financial year.

The issue comes back to the choices that the Government makes. If tax is not increased, the Government must decide how to fund all its planned expenditure, of which social security is a part. We are in the foothills of the budget discussions but, if other parties wish to come forward with proposals on how to change the level of expenditure on social security or, indeed, with proposals for tax changes, I am sure that they will do that in due course.

Michelle Thomson: You have made my point for me. There are nearside considerations in relation to the forthcoming budget, and there are longer-term projections. The Scottish Fiscal Commission has made clear the challenges of the fiscal sustainability of continuing to make social security payments at the rate at which they are currently being made. In your discussions with senior colleagues, at what point do you say, "Oh, this looks utterly unsustainable. How on earth are we going to manage it?" What is the tipping point? How do you model that? That goes back to the questions about opportunity costs.

It would be useful to get your personal reflections on the point at which you start to worry, rather than just thinking, "How do we get through the nearside budget that is coming up thick and fast?" I have never been able to detect any sense of longer-term strategic thinking about the fact that the current level of social security payments is clearly unsustainable as it stands.

Shirley-Anne Somerville: I do not think that the level of social security payments is unsustainable. As a Government, we have to work out—these matters will come to Parliament to discuss and make decisions on—the choices that we will set out in our budget and in the spending review about the decisions that we have made on investing in social security. Others might wish to suggest that we should disinvest from social security and that we should take money away from people. It is fair and right for us to discuss that but, internally, the Government has discussed the importance that we attach to social security as one way of alleviating poverty and supporting disabled people and carers. Those choices will be laid bare.

I fully recognise that there is an increase in social security expenditure. One way of tackling that is to look to reduce it by making changes to eligibility. The UK Government has attempted to do that. After looking at the increases in social security expenditure, it attempted to make changes to reduce eligibility, but it has now backtracked on some of those. It is right and proper for us to discuss who should be eligible for benefits and whether we think that benefits are going to people from whom we, as a Parliament, would be comfortable taking them away.

Michelle Thomson: I have one minor point to make. I do not think that we can talk about investing in social security without having clarity on the return on that investment in terms of changed outcomes. That goes back to the discussion that we had earlier. I would be quite wary of using the term "investment", because it immediately makes someone like me say, "Show me the return on that investment."

That is not my question; I am simply making the observation that it is helpful for the committee to hear you reflecting on areas that will need further consideration. In the hurly-burly of politics, we hear a lot of stuff such as, "Oh, the Scottish Government—there's this terrible black hole." The press focus on what is happening in the Scottish Government, and the absence of clear wording impinges on people's trust in the ability of the Scottish Government to manage its financial affairs. Although, to you, that might seem counterintuitive, it is helpful for the committee to hear cautious, tempered language that acknowledges the challenges ahead and owns those challenges. If you do not mind my saying it, I do not hear enough of that in this committee. Clearly, decisions have to be made, and every political party needs to be party to those decisions, because the demand-led nature of our benefits system is unsustainable.

Shirley-Anne Somerville: I disagree with the suggestion that our benefits are unsustainable. It goes back to the point that eligibility for our benefits has been proposed by the Government and supported by the Parliament. There have been very few exceptions whereby there have been votes against or even abstentions in votes on the current eligibility.

We then get into an important discussion. The headline, which I often hear in the chamber, is that we need to decrease the amount that is spent on social security. The Government's position is that we do not intend to take benefits away from people and reduce eligibility, so those who wish to see the spend on social security come down need to tell me where changes to eligibility will take place. In essence, eligibility is the biggest, most substantive change that we can make to affect the trajectory of spend.

Aside from that, we need to ensure that the system is as efficient and effective as possible, which we are doing through the mid-term reviews that have been mentioned. We need to consider continuous improvement. Mr Marra may be frustrated with me for not saying whether a certain aspect is a success, but it goes back to our continuous approach. I would never sit with my officials in our internal meetings and say that what we have at the moment is all that it should be. We discuss how to improve—how the system can get better—and how we interpret that going forward.

Michelle Thomson: That efficiency, in system terms, is important. However, in the light of the statistics—or projections, I should say—the other important issue is what policy levers you can use so that the differential between projected spend and projected income is not so stark. That is more a decision for the Cabinet Secretary for Finance and Local Government.

When I first got elected, I used to talk frequently about the creation of a sovereign wealth fund. My antipathy to using ScotWind money to plug a hole in revenue expenditure is on the record. This is not going to compute, but I will not ask you what the latest thinking is on a sovereign wealth fund. I do not think that anything is happening in that respect, although it probably should be, because the measures that you are setting out, which are about treating people fairly, cannot remain in place without something ambitious being done to create wealth for the long term. That is my tuppence-worth.

The Convener: I have loads of questions, but I will not ask all of them—the committee would lynch me if I did. It is a bit two-dimensional to say, "It's about expenditure," or, "It's about eligibility." If we have a growing, thriving, inclusive economy, people will come out of poverty. It is about treating not just the symptoms of poverty but the disease itself. I have always believed in independence not just for Scotland but for individuals.

We have not really touched on how you decide whether to spend on one benefit versus another. For example, how does the Scottish Government decide to continue to cover the costs of the bedroom tax—frankly, most people who receive the benefit think that the tax was abolished years ago—versus its expenditure on free school meals? How do you decide which one you should go for? Also, how much will the mitigation of the two-child benefit cap be per child per week?

Shirley-Anne Somerville: I am sure that that figure is in my pack somewhere, convener. In essence, it is the money that UC is reduced by. I will get the exact figure to you.

I take your point. This is not just about eligibility, but that is the important aspect that makes the biggest difference when it comes to whether the benefit bill increases. I absolutely take your point that there are other ways to lift people out of poverty of a more systemic nature.

The Convener: Absolutely.

Shirley-Anne Somerville: On the bedroom tax mitigation versus free school meals, I do not look at it in that way. With the bedroom tax, we are carrying out a sense check on what difference the mitigation makes. One key reason why we continue to mitigate the bedroom tax—people just assume that it was abolished; it has not been, and we mitigate its cost—is that it is one of the ways in which we attempt to prevent homelessness and assist people. In essence, the mitigation of the bedroom tax is an important aspect of our housing policy that helps people to stay in housing. The benefit is not just about social security; in essence, it is part of housing policy that we deliver through social security.

The Convener: One could argue that continuing to pay the benefit disincentivises someone to move out of a three or four-bedroom house to a one or two-bedroom house when a family actually needs that bigger house. However, I do not want to go into that specifically.

Shirley-Anne Somerville: I am happy to provide information on how that is not a particularly large issue.

The Convener: There are plenty of other things that you could spend that money on. For example, the Fraser of Allander Institute has said that each £1 spent on colleges would see a £6 return to the economy.

You are right—when I said, "Absolutely," earlier, I meant, "Yes." The Scottish Government seems to look at things from a 12-month perspective, and Michelle Thomson is right to say that there is no long-term strategic vision. If you are investing for the future, you will be investing more in universities, research and development, colleges and so on, rather than just putting sticky tape over the budget every year. That is a big frustration for the committee.

In response to Ross Greer's questions, you mentioned research on whether the Scottish child payment disincentivises people to work. I have to say that the Scottish Government pledged that SCP would be £20 per week by 2026. It is now £27.15 per week, so it has gone above and beyond the manifesto commitment. But let us consider someone who is on housing benefit and is getting the bedroom tax mitigated, the Scottish child payment, the two-child benefit cap mitigated, free childcare and free school meals. Together, that is a pretty big disincentive to return to employment. Potentially, their children will grow up in household with a culture of worklessness. How do you address something like that?

Despite what Scottish ministers might think, there is real resentment in communities, particularly in working-class communities, where people go out at 6 or 7 in the morning to put in a shift for the living wage only to see people across the road appearing to get a lot of benefits while not contributing to society in the same way nor encouraging their children to do so. How do you look not at one particular benefit but at benefits in the round and their impact on wider society?

Shirley-Anne Somerville: Many of the aspects that you mentioned are equally available to people who are in and out of work. Eligibility is to do with whether they are deemed to be in poverty or in receipt of certain reserved benefits, so—

The Convener: I referred to that earlier when I said that 57 per cent of people on universal credit are in work.

Shirley-Anne Somerville: Yes. That is why, when comparing someone who is in work with someone who is out of work, context is very important.

The other important aspect is the work that the Government does on employability schemes, to ensure that there is support for those who are out of work to get into work. There has been recent investment in both parental employability and disability-specific employability support.

13:15

My final point is that the targeted work that goes on, particularly in relation to those with low incomes, is to ensure that they get a level of support that allows them to provide for their families. However, as other organisations tell me regularly, that level does not allow those families to afford the essentials of life. The Scottish Government faces the challenge of increasing expenditure on social security because of the inadequacy of reserved benefits. I would say that the work that we do in social security is targeted at low-income families and is a method of uplifting income to provide further support. We have recently evaluated the impact of the five family payments. That work was produced in the past couple of weeks, and it can perhaps assist with the final point that you were making, convener.

The Convener: Yes, that is important. The issue is about striking a balance and how we can get the best for the individuals concerned and for the public pound. A lot of the employability courses seem to be getting cut, which is of real concern to the committee.

We will leave it there. Are there are any other points that have not been raised that you wish to make to the committee before we wind up?

Shirley-Anne Somerville: No. We have covered quite a lot, and we will get back to you in writing with some of the details that the committee has asked for.

The Convener: Thank you very much, cabinet secretary. You have put in quite a stretch today—it is very much appreciated.

With that, we will have a two-minute break to allow the official report and broadcasting to leave, along with our guests, and then we will go into a brief private session.

13:17

Meeting continued in private until 13:30.

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