OFFICIAL REPORT
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Social Justice and Social Security Committee

Thursday 29 January 2026

Session 6

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SOCIAL JUSTICE AND SOCIAL SECURITY COMMITTEE
4th Meeting 2026, Session 6

CONVENER

*Collette Stevenson (East Kilbride) (SNP)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

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

*attended

THE FOLLOWING ALSO PARTICIPATED:

Michael Davidson (Scottish Fiscal Commission)
Màiri McAllan (Cabinet Secretary for Housing
Craig McGuffie (Scottish Government)
Justine Riccomini (Scottish Fiscal Commission)
Professor Graeme Roy (Scottish Fiscal Commission)

CLERK TO THE COMMITTEE

Diane Barr

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Social Justice and Social Security Committee

Thursday 29 January 2026

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Collette Stevenson): Good morning, and welcome to the fourth meeting in 2026 of the Social Justice and Social Security Committee. Our first item of business is a decision on taking business in private. Does the committee agree to take items 6, 7 and 8 in private?

Members *indicated agreement.*

Subordinate Legislation

Domestic Abuse (Protection) (Scotland) Act 2021 (Consequential and Supplementary Amendments) Regulations 2026 [Draft]

Removing from Heritable Property (Form of Charge) Amendment (Scotland) Regulations 2025 (SSI 2025/402)

Bankruptcy and Diligence etc (Decrees for Removing from Heritable Property) (Scotland) Amendment Order 2025 (SSI 2025/403)

Scottish Secure Tenancies (Proceedings for Possession) (Form of Notice) Amendment Regulations 2025 (SSI 2025/404)

09:01

The Convener: Our next item of business is consideration of an affirmative Scottish statutory instrument and three negative instruments.

I welcome to the meeting Màiri McAllan, the Cabinet Secretary for Housing. I also welcome her officials from the Scottish Government: Pauline Brice, housing policy manager; Yvette Sheppard, head of the rented sector unit; and Craig McGuffie, solicitor. I thank them for joining us.

Following this evidence session, the committee will be invited to consider a motion to approve the affirmative instrument. I remind everyone that Scottish Government officials can speak under this item but not in the debate that follows if there is one.

I invite the cabinet secretary to make some opening remarks on all four SSIs.

The Cabinet Secretary for Housing (Màiri McAllan): Thank you, convener, and good morning, committee. Thank you for the invitation to attend to give evidence on the Domestic Abuse (Protection) (Scotland) Act 2021 (Consequential and Supplementary Amendments) Regulations 2026, which, as you said, are accompanied by three negative instruments.

Domestic abuse is a leading cause of women's homelessness in Scotland and social landlords have a vital role to play in keeping tenants safe. Nobody should have to choose between their safety and their home. This package of SSIs will bring into force new powers to protect victims of domestic abuse and hold perpetrators to account.

Part 2 of the Domestic Abuse (Protection) (Scotland) Act 2021 provides social landlords with

a new ground to apply to the court for an order that, if it is granted, will enable the landlord to transfer a tenancy to a victim of domestic abuse. That will allow landlords, rather than victims themselves, to take action in court to transfer the tenancy. In introducing the regulations, we have worked with stakeholders—including social landlords and, crucially, the Scottish Courts and Tribunals Service—to develop the package of secondary legislation that is required to implement those provisions. The package of secondary legislation makes consequential changes to existing legislation. It also prescribes new statutory notice forms to allow the measures in part 2 to operate.

In particular, the regulations provide that only the abusive tenant can be removed from the property where a court order on the new ground is granted and not the victim and the victim's family unless that family member is named in the court order. Only the abusive tenant will be given notice to remove themselves and their belongings from the property unless anyone else is specifically named in the order.

The tenant and any qualifying occupier must be notified that the landlord is seeking to raise a court action on domestic abuse grounds and provided with information on what that will mean for them. The victim is always notified that the landlord intends to raise court proceedings on the new domestic abuse ground, including when the victim has had to flee the property.

These changes are essential so that the victim and any members of the victim's family cannot be removed from the property along with the abuser, and so that all parties understand what court action will mean for them, including, of course, the victim's right to play a part in any court action that might arise.

Implementation of part 2 of the 2021 act has been very complex. It has required consequential changes to legislation, which I have been moving through. That has included changes to court orders and issues with data sharing between relevant bodies, all of which are essential but complicated. We have also begun progressing a number of other important measures to strengthen protection against homelessness for domestic abuse victim survivors, not least the creation of a national fund to leave. We put £1.5 million behind that in this financial year and have allocated £2 million for the following financial year.

We have also worked closely with the Scottish Courts and Tribunals Service on the development of appropriate court rules and changes to court forms. The commencement date of 1 August, which we are proposing in the regulations, provides sufficient time for them to be ready. Detailed statutory guidance for social landlords on the use of the new provisions has also been produced. A draft has been shared with key stakeholders to seek their views and that will be updated accordingly.

In summary, the package of regulations will allow social landlords to take action on behalf of victims, removing a significant barrier that has forced too many people to flee their homes to escape abuse. The perpetrator can now be made to leave, not the victim. This is an important step in our commitment to continuing to tackle domestic abuse and to supporting those who are affected by it to rebuild their lives.

The Convener: Thank you, cabinet secretary. We will now move to questions. Our questions will be directed to you, but you are, of course, welcome to invite any official to respond, should you wish to do so.

Claire Baker (Mid Scotland and Fife) (Lab): I welcome the regulations that are being introduced. I have some questions for clarity. You mentioned the guidance that is being prepared. When will it be prepared? Will it be in advance of 1 August, which is the date of the introduction of the regulations?

My second question is about data sharing. You spoke about speaking to the Crown Office and Procurator Fiscal Service and local authorities. Where do organisations such as Scottish Women's Aid come in when it comes to raising awareness that the regulations are in place and can be enforced?

What would be the grounds for eviction for the person who has been made to leave? Typically, it would be the set standards of what eviction could be enacted on. Would it require an offence to have been committed? What are the grounds for eviction of that individual?

Màiri McAllan: I will go through your questions, Ms Baker, and bring in my officials when I need to.

The first question is on the statutory guidance. It has been developed alongside stakeholders, it will be revised to reflect their comments and it will be published in spring. It will support social landlords to be ready for the go-live date of 1 August 2026. All is in order and under way with sufficient time to build in stakeholders' views, and it will be ready in time for the regulations coming into force.

On your second question about the stakeholders that we have engaged with, I was keen to highlight the Scottish Courts and Tribunals Service, because that speaks to the complexity of getting the regulations to a position where they can be enforced. However, organisations such as Scottish Women's Aid are vital to the development of that work. In my notes, I found a quote from

Marsha Scott, the chief executive of Scottish Women's Aid, who said:

"Not all can stay in their own homes safely, which is why refuge provision is so important, but for the many who could, this regulatory change will bring much-needed reform."

I have fairly frequent dialogue with Scottish Women's Aid on the regulations and on the fund to leave in particular, and that will continue, because its assistance in helping women to navigate the situation will be very important.

On your third question, which was about grounds for eviction, I will hand over to Craig McGuffie, our solicitor, who can talk us through that.

Craig McGuffie (Scottish Government): Ground 15A, which is being added to the Housing (Scotland) Act 2001, will enable a social landlord to seek the termination of a joint tenant's interest in a tenancy or the recovery of possession of a property if the abuser is the sole tenant. That ground applies when

"the tenant or one of the joint tenants has engaged in behaviour which is abusive of a person … who is a partner or ex-partner"

of that tenant, and the house must be the person's sole or principal home. There is no standard that must be met—the regulations just refer to "abusive" behaviour. A conviction is not needed. A course of conduct that fell short of criminal behaviour would be enough for a social landlord to seek an eviction.

Claire Baker: Thank you.

Elena Whitham (Carrick, Cumnock and Doon Valley) (SNP): Good morning. As a former Scottish Women's Aid worker, I am delighted that we are having this discussion, and I hope that the regulations will be approved.

My questions follow on from Claire Baker's questions. We know that, when women who are experiencing domestic abuse leave, that is the most dangerous time for them. I worry that, as Marsha Scott has set out, the circumstances that we are talking about would present an equally dangerous period for such women, so the guidance will be critical in that respect. How can we ensure that support organisations and social landlords are aware of the complexity surrounding the issue? I have a bit of a concern about their seeking to raise an action when the person experiencing domestic abuse is not quite comfortable with that. I want to ensure that that issue is being considered and that we think through all the possibilities of what could happen during such a difficult time.

Màiri McAllan: I welcome that question. The dangers and difficulties that women face when they are being subjected to abuse make all of this much more complicated and sensitive. Careful thought is required, as you have encouraged us to take.

Although the regulations are an important step in allowing a victim/survivor to stay in her home and to have the perpetrator removed, ultimately, it relies on that woman feeling able to use the new administrative process. We know that, if you are being subjected to abuse, you are not always in a position to advocate for yourself and so on. That is why the guidance that we are producing with stakeholders will be critical, and it is why what Craig McGuffie said about the evidence of abuse and the breadth of our characterisation of abuse is important. There is no requirement for a court order or information from Police Scotland, although all of that will constitute grounds for the new form of charge to be used. A spectrum of things can constitute evidence of abuse, and we will encourage awareness of that through the guidance and our work with stakeholders. We will take a gendered and victim-centred approach to enable people to understand how the system will work.

Elena Whitham: One of my big worries is about ensuring that the victim/survivor is in the driving seat as much as possible. I worked previously with social landlords in this policy area, and I would caution against their taking the driver's seat—they must ensure that what is done is done in conjunction with the victim/survivor, as opposed to something being done to them, if that makes sense.

Màiri McAllan: It absolutely does. We will seek to foster that approach through the guidance.

Elena Whitham: Thank you.

Jeremy Balfour (Lothian) (Ind): Good morning. I have two questions.

I welcome the regulations, but I would like clarification on a couple of issues. From your discussions with social landlords, has there been any evidence that, when they carry out checks, they might be less willing to rent accommodation to couples with a history of such issues? We do not want people to be penalised when trying to get social housing, and I wonder whether that might be an unforeseen consequence.

09:15

Going back to look at the other side of something that we discussed previously, I am a wee bit interested in knowing what evidence would be required. In some very exceptional cases, malicious claims will be made by a man about a woman or by a woman about a man. What is the burden of proof? I appreciate that that would not

be a court order, but if I were simply to make a claim of domestic abuse against my wife, would that be enough? What safeguards are there for people who are wrongly accused of doing something?

Màiri McAllan: On your first question, I am not concerned that there will be a freezing effect on landlords' willingness to rent to couples or families. Abuse can arise in almost any domestic situation or arrangement that you can imagine. Therefore, although it is vital that we work with landlords to help them understand the existence and nature of abuse, I am not concerned that doing that will have any effect on who they do or do not let to. In any case, letting should always be on the basis of housing need.

I will turn to Craig McGuffie to say more on the question about burden of proof, which is deliberately broad, because of what Ms Whitham said about the difficulties that are faced mostly, but not always, by women. In the vast majority of cases, it is women who suffer abuse. I would not be comfortable with setting a very high level for the burden of proof, such as requiring a court order or police information. I think that it is right to frame that broadly. The guidance will flesh it out, but it can include discussions, evidence, speaking to neighbours, testimony from the victim themselves all the way through to court provisions, should the landlord feel that that is required. It is deliberately broad. Craig may have more to say about the landlord's perspective.

Craig McGuffie: It is important to remember that these are civil, not criminal, proceedings. The court has to be satisfied, on the balance of probability, whether there has been abusive behaviour, which is defined in section 2 of the 2021 act as an instance where

"a reasonable person would consider the behaviour to be likely to cause"

the victim or survivor

"to suffer physical or psychological harm"

which can include

"fear, alarm and distress".

That means that there is no need for a criminal conviction. The evidence could come from witness statements, criminal proceedings or a charge, but there is no restriction on the sorts of evidence that a social landlord could present to the court, because there is no criminal standard of proof.

Jeremy Balfour: That is helpful.

There is quite a lot of responsibility on social landlords. What training are you planning to provide over the next six months, up to August, to help social landlords, who will have to come to a view on this? Some people will have experience of this, but others will not. What training would you expect social landlords to have before August and when can we expect to see the guidance?

Màiri McAllan: I will answer your final question first. As I said to Ms Baker, the guidance is under development. It has been shared with stakeholders and we will now incorporate their feedback before publishing the guidance in the spring so that it is ready when the regulations come into force in August.

There is a legitimate question, which Scottish Women's Aid raised with me and which Ms Whitham alluded to, about training, understanding and the ability to navigate the complexity of domestic abuse in all its forms. There is work to be done in that regard and we are dealing with a lot of social landlords, some of whom have the capacity for training or for undertaking close and intensive work, while others do not. Through a combination of the guidance that we are developing on these rules in particular and of a provision in the Housing (Scotland) Act 2025 for domestic abuse policies to be developed and implemented, there will be a train of work that will allow us to ensure that a close understanding of the nature of the issue is embedded with all the social landlords who will navigate this.

The Convener: As there are no further questions, we move to item 3, which is formal consideration of motion S6M-20309. I invite the cabinet secretary to speak to and move the motion.

Màiri McAllan: I ask the committee to consider the motion favourably, as the regulations represent a significant step forward in protecting the housing rights of victim survivors of domestic abuse and their families.

I move,

That the Social Justice and Social Security Committee recommends that the Domestic Abuse (Protection) (Scotland) Act 2021 (Consequential and Supplementary Amendments) Regulations 2026 [draft] be approved.

The Convener: As members have no comments to make, I invite the cabinet secretary to sum up.

Màiri McAllan: I have nothing further to add.

Motion agreed to.

The Convener: Are members content to delegate to me responsibility for approving a short factual report to the Parliament on the affirmative instrument?

Members *indicated agreement*.

The Convener: Our next item is consideration of four negative Scottish statutory instruments, three of which were referred to in evidence under

item 2. Do members have any comments on SSI 2025/402, SSI 2025/403 or SSI 2025/404?

Members: No.

Social Security (Residence in an EEA State or Switzerland) (Miscellaneous Amendment) (Scotland) Regulations 2025 (SSI 2025/415)

The Convener: Do members have any comments on SSI 2025/415?

Members: No.

The Convener: Does the committee agree that it does not wish to make any further recommendations in relation to the instruments?

Members *indicated agreement*.

The Convener: Are members content simply to note the instruments?

Members *indicated agreement*.

The Convener: Thank you. That concludes our consideration of secondary legislation. I thank the cabinet secretary and her officials for attending today's meeting.

09:23

Meeting suspended.

09:25

On resuming—

Scottish Fiscal Commission

The Convener: Our next agenda item is an evidence session with the Scottish Fiscal Commission. I welcome to the meeting Professor Graeme Roy, who is the chair of the commission; Justine Riccomini, who is a commissioner; and Michael Davidson, who is the head of social security and devolved taxes. Thank you for joining us. I invite Professor Roy to make some brief opening remarks.

Professor Graeme Roy (Scottish Fiscal Commission): Good morning, and thank you for inviting us to speak to you about the latest edition of "Scotland's Fiscal and Economic Forecasts", which we published alongside the Scottish budget. I will outline some key highlights from our report and, in particular, how they relate to our social security forecast.

Our publication comes at a time of on-going economic uncertainty. That has been a theme in our previous reports, and it contributes to our latest assessment of the economic outlook. Overall, we forecast that the outlook for the Scottish economy is broadly similar to what we said last December, with a small downward revision to growth next year, from 1.5 per cent to 1.3 per cent.

That is important, because the weak growth in the economy continues to feed through to a weak outlook for living standards. We forecast that real disposable income per head, which is a broad measure of living standards in Scotland, will grow by an average of only 0.4 per cent each year over the medium term. That is in line with trends since the financial crisis, but it is significantly slower than the 3 per cent average improvement in living standards that occurred in the pre-crisis period.

The Scottish Government is balancing funding across the spending review period using borrowing, the Scotland reserve, Crown Estate revenues and the transfer of some funding from resource to capital. Despite that, the funding position remains tight. After adjusting for inflation, resource spending is set to grow by an average of 1.1 per cent in each of the next five years. Within that, the spending review shows that health and social security spending will have the largest real-terms increases, but resource funding to local government will fall as a share of the budget over the spending review period.

We forecast social security spending of £7.4 billion next year, which is £66 million lower than our December 2024 forecast. The largest change is a decrease in our forecast for disability and carer payments. That decrease is partially offset by higher inflation and an increase in planned

spending on the pension-age winter heating payment as a result of the Scottish Government policy change in June 2025.

We have reduced our spending forecast for adult disability payment because there have been fewer approved applications and more people are exiting the payment than we expected back in December 2024. We still expect that the number of people who receive adult disability payment and the amount that is spent on it will exceed what would have occurred had the personal independence payment remained in Scotland, although the latest data suggests that the difference will be narrower than was suggested in our previous forecasts.

Since last June, the difference between our forecast on spending on social security and the block grant adjustment funding in the final year of our forecasts has narrowed from £2 billion to £1.2 billion. Interestingly, that is largely because of United Kingdom Government changes, with the reversal of the planned restrictions on personal independence payment eligibility increasing BGA funding relative to what was planned. On top of that, the removal of the two-child limit for universal credit and the cancellation of the Scottish Government's two-child limit payment reduce spending in Scotland.

The pressure on the budget from social security spending has therefore been reduced from our forecasts in December 2024 and June 2025, but there are risks to the assessment that we set out. Future policy changes by the Scottish and UK Governments could lead to further movements. First, in the next month or so, the Scottish Government is expected to respond to the recommendations of the independent review of adult disability payment. If that changes policy, it could change spending, too.

Secondly, the UK Government is undertaking the Timms review of PIP, which is expected to report in the autumn. Similarly, any policy changes that affect spending in England and Wales would have a knock-on effect on block grant adjustment funding for the Scottish Government.

Finally, there is underlying uncertainty in the social security forecasts—we have discussed that previously, and I am sure that we will discuss it again today. We are seeing a bit more of a stable picture emerging on the main disability payments operation that Social Security Scotland has established, but some uncertainties remain, particularly around areas such as authorisation rates and award review outcomes.

09:30

The Convener: Thank you very much, Professor Roy. We move to questions, starting with Claire Baker.

Claire Baker: Good morning. You started to lay out the reasons for the change in the forecast for predicted social security spend, which has decreased quite dramatically from £2.1 billion to £1.2 billion, and you said that that was due largely to changes at UK Government level. Is there anything more that you want to say about that?

You also said that there are still risks in that respect, with the review of ADP in Scotland and reviews of PIP in the UK. When will another forecast come out? Do you do them only at budget time? I ask that because everyone seemed quite confident about the £2.1 billion figure, and a lot of the discussion was about how Scotland's social security budget was increasing at quite a fast rate. Where do we take that debate now? Do you have concerns that the figure is now half what it was, at £1.2 billion, or can we all relax? Is the £1.2 billion figure still something that we need to pay attention to and think about in the context of our sustainability?

Professor Roy: I will make some high-level comments, and Justine Riccomini might want to come in on the specifics.

The movements that have taken us from £2 billion down to £1.2 billion are really significant variations. Interestingly, they show that, because of the nature of the framework that we have, it is not just what happens in Scotland that matters but what happens in the UK, too. With the movement down from £2 billion to £1.2 billion, we have made some adjustments to our forecasts, but the biggest changes have been the £0.5 billion change in the funding associated with the planned PIP restrictions being offset and reversed, and the planned changes to the two-child limit on universal credit, which amount to another £0.2 billion. That is one of the risks with the framework—policy changes not just in Scotland but in the UK can have a significant impact on the net position that flows through.

On your technical question about when we will do our next forecast, the answer is that we typically do forecasts at budget time and when there are other fiscal events, such as the medium-term financial strategy. That usually comes out in the spring, although, with the election, the next one is likely to be delayed.

Justine, do you want to come in on the specific numbers?

Justine Riccomini (Scottish Fiscal Commission): I think that Graeme has covered the narrowing issue, but if you look at paragraphs

5.37 and 5.38 on page 88 of our report, you will see that, in the forecast in December 2024, social security spending was expected to exceed BGA funding by £1.5 billion up to 2029-30, but, between December 2024 and June 2025, that difference widened right out to £2 billion. We are now saying that it has come back down to £1.2 billion. That establishes how exposed the Scottish funding position is to UK Government policy changes.

We also forecast that £0.4 billion would be taken out of the BGAs in 2029-30 for changes to PIP that the UK Government announced in March 2025, but those changes have since been abandoned, and, obviously, we have changed our forecast accordingly. We have just seen nearly £0.5 billion being added back in.

We have also seen how some non-policy changes to Office for Budget Responsibility and SFC forecasts can change the overall net position. If you look at page 88 of our report, you will see that we have worked out that the forecast is now more in the Scottish budget's favour than it was. In paragraph 5.38, we talk about how the downward revision in our forecast and an upward revision by the Office for Budget Responsibility narrows the gap. In that example, both the forecasts have moved in a direction that favours the Scottish budget. In future, if, for example, the SFC forecasts were revised upwards and the OBR's were revised downwards, the net position could widen out again.

I hope that that gives you a flavour of the uncertainty of the position. It is a moving feast.

Claire Baker: It is a good lesson in forecasting for MSPs, in that the forecast has shifted significantly and there is justification for that, but it has the potential to change the nature of the debate.

I want to get a better understanding of the predicted £1.2 billion gap in the Scottish budget for the next few years. Is that a sustainable or a manageable gap? Can it be adjusted within existing budgets or does it still present a challenge for the Scottish Government's finances?

Professor Roy: Ultimately, because the Government has to balance the budget, if there is a difference between the funding for the equivalent payments in the rest of the UK and how much the Scottish Government chooses to spend on those payments and on introducing new payments, such as the Scottish child payment, it becomes a matter of balancing priorities for the Scottish budget.

It is sometimes unhelpful for us to have conversations about something being unsustainable or not affordable. Everything is affordable in the sense that the Government has to balance the budget. It is simply a question of the relative priorities, and the Government's priority is to make additional spending relative to funding in the area of social security. The flipside of that is that it must find that from other sources, such as taxation or trimming other public services. That is a choice for the Government about relative prioritisation.

Claire Baker: You talked about the narrowing of the difference between ADP spend and PIP spend in the BGA. Other members might have some questions on that. You mentioned that more people have come off ADP, and I think that you said that there have been fewer applications. Is that the reason for the narrowing or is something else going on there?

Justine Riccomini: If we look at the maths, we see that the OBR's forecast for per capita personal independence payment spending is slightly higher than our forecast in 2025-26, but that represents a relatively small difference. The OBR's PIP forecast has grown by 11 per cent but, when you adjust for population differences, the corresponding block grant adjustment grows by 10 per cent and our Scottish Fiscal Commission forecast grows by 8 per cent.

The forecasts were done at slightly different times, and there are many moving parts. Forecasts get done at slightly different times, using different data sets and different assumptions, so it is not necessarily a good idea to look at a single year on its own; you have to look across the piece.

If it is any consolation, we have similar issues when we look at income tax, which is on a larger scale. We often talk about slightly different earnings assumptions, timings and reconciliations, but we have to do the forecasts over a wider period of years. For the next year—2026-27—we can see what we think is an opposite effect, with the forecast growing slightly faster and the net position widening back out.

Over the whole forecast period, the growth in spending and the block grant adjustment are very similar relative to the 2024-25 starting point, which we have outturns for. We think that the gap is generally less over the forecast period than it was before, which is good news, but we need to look across years, which is what we have said on pages 81 and 82 of the report. We need to look over time at what the trends are in authorisation rates and exits, and at the reviews information.

Claire Baker: I have one more question. We have a paper from the Scottish Parliament information centre, which says, in table 1 on page 2—I do not know where the information is from—that adult disability payment expenditure is still growing at the fastest rate. The table says that the amount spent will increase by 70 per cent, but expenditure on the five family payments will grow

by only 15 per cent. Much of our debate is about child poverty, yet those payments are growing at a much slower rate than ADP. Do you expect that trend to continue?

Professor Roy: The trend in total spend on disability payments is similar to trends across the UK. In recent times, we have seen a sharp inflow of people—adults and children—on to disability payments.

The growth of some of the other payments is more stable because the case load is stable. The classic example is the Scottish child payment. We pretty much know the population of children in Scotland who are entitled to that, and although there will be variations in that relative to changes in the economy, take-up, as a proportion of the population, is likely to be relatively stable.

However, across the UK, there is a significant and continued inflow of people on to disability payments, which is why that figure is rising so significantly. The correlation between disability and age is also a factor.

Alexander Stewart (Mid Scotland and Fife) (Con): Professor Roy, in your opening statement, you touched on the forecasts, observations and some of the risks that we face. It would be good to work through some of that now.

What were your observations about the extent to which the social security net position changes between forecasts? What do the changing forecasts mean for the level of risk that social security spending poses for the Scottish budget as a whole? That has an influence on what can be done and where we can go. It would be good to get clarity about the observations that you have made.

Professor Roy: I will go first, and then Justine might want to come in.

The general point, touching on the answer that I gave to Ms Baker, is that the difference between the equivalent funding and the payments in Scotland will be about £1.1 billion next year. That will rise to about £1.2 billion during the forecast horizon. That money and resource have to be found elsewhere in the budget or through higher taxation. The risk is about how much that moves.

Based on the current spending plans, I will unpick what the risks are. On the one hand are those that we have spoken about before, such as new payments that came in for the first time and regarding which there was uncertainty about how they would be delivered and what take-up would be. We have more confidence and certainty about that now. I used the example of the Scottish child payment. We are now pretty confident about take-up and we know the number of children in Scotland, so that is a relatively stable forecast. We are less confident about some other payments, such as disability. We are seeing a significant inflow across the UK of people who are going into disability payments. Some of the reasons for that are linked to age, but we do not fully understand the factors or how the trends will continue, which has led to our observations on disability payments. That is a risk, because if that trend continues or escalates, more funding could be required. If the numbers ease back, there could be fewer spending commitments.

09:45

The final piece in all this is that the net impact on the budget will depend on the policy choices of the Scottish Government and the UK Government. If the Scottish Government chooses, in the future, to reform adult disability payments—for example, by increasing average payments or expanding coverage—that would represent a spending commitment that would need to be paid for. Similarly, if the UK Government reforms some UK-level payments, perhaps by doing the same thing, that would lead to additional funding. That is where the risks can shift. The bolder or the bigger the policy reforms, the bigger the potential effects on the budget.

Alexander Stewart: Exactly.

Justine Riccomini: I will add to that. One of the risks that we are looking at relates to our forecasts on disability case loads. As Graeme just mentioned there is, first and foremost, upward pressure from an ageing population in Scotland and that brings its own problems for those people.

The other thing that we are seeing across the UK generally—a number of surveys show this—is the rising prevalence of disability for mental and behavioural conditions. That also adds to the risk profile. There are also reports of cost of living pressures. Particularly in 2022, there was quite a significant rise in inflation. That might have led more people to make a claim. We are not necessarily aware of the absolute detail; we simply know that the numbers show that claims are rising.

There might be other factors that are associated with the overall benefits system that could push people towards claiming for disability or for particular health-related problems.

We know that the OBR discussed the matter with the Finance and Public Administration Committee earlier this month. I think that it was noted that people who are only on unemployment-related benefits are subject to certain sanctions and conditionality, such as benefit caps, whereas health-related or disability benefits in particular are paid at higher rates and are exempt from benefit caps. That can also affect the numbers.

Finally, there might be interactions with rising numbers of and spending for children with special educational needs, too.

Alexander Stewart: What are the key areas of uncertainty in the current forecast of the difference between the block grant adjustment and social security spending?

Professor Roy: One area of uncertainty is policy changes. As I mentioned, we are waiting on the Timms review, which could have an impact. It could change the level of BGA funding, which could then have an impact on the net position. Similarly, we are waiting on the Scottish Government's response to the ADP review. There are probably known unknowns in that regard, if I can use that phrase.

There are two parts to the broader uncertainty, particularly around disability aspects. One is the overall trends in health and how sustained they will be. There are a lot of studies looking into that and the effects that are causing that.

Then, within our forecast, we highlight a couple of interesting things, one of which is about the authorisation rate. We have seen relatively high numbers of applications for ADP holding up. However, the chart in figure 5.3 of our report shows that, back in 2023, the authorisation rate was around 50 per cent—in other words, one in two people who were applying for adult disability payment were being successful. In the most recent data that we have, for July, that is down to 35 per cent, which is lower than PIP, so the success rate for adult disability payment is lower than for PIP. New payments are still bedding down, so it is an area that we will be interested to watch. We do not think that the rate will keep falling; we think that it will start to level off and might rise again. However, it is an area that we do not know about, and we need a bit more time for the data to get more stable.

The Convener: I invite Elena Whitham to ask her questions.

Elena Whitham: A few of my questions have already been answered or touched on, which is just the nature of how our questioning goes.

I want to press a bit more on case loads, which are rising right across the UK. In February, the office of the chief social policy adviser in Scotland is due to publish a report that will look back over the past decade—actually, more than a decade; back to 2010—to unpick and understand what the trends are. It is difficult to separate out speculation from the hard causal linkages that we are looking for, but will you speak a little bit about that? We know about the ageing population and the issues in regard to mental health, as you said. When things look uncertain, that makes it really difficult for this committee, the Parliament and the Government to set policy and strategy for the future. You also touched on the differences in the authorisation rates, which might have had an influence on the position between ADP and PIP. Again, that makes it a bit difficult for us to unpick everything behind it. Those are my questions; you have already touched on them a little bit, but anything else that you can offer would be helpful.

Professor Roy: I will make a couple of general comments, and I will then bring in Michael Davidson on the data. I think that you are right and, in many ways, we share those challenges in our ability to forecast and to understand what is driving the trends. It is really important that we see the data flowing through and where that can potentially have an impact.

Scotland's budget is protected in the sense that, as long as the trends in Scotland and the rest of the UK are similar and matched, the block grant adjustment funding will flow through and maintain similar growth in Scotland. That is not a great outcome, because it shows that more people are moving into those payments, which is a bad outcome for the economy and society more broadly. However, from a fiscal point of view, the key for us is whether there is a relative difference between Scotland and the rest of the UK. We estimate that there are about 35,000 more people in Scotland who are on ADP relative to what that number would have been under PIP, and that is just a relative differential, even with the falling authorisation rate.

What are the factors in that? I probably read the same things as you in trying to unpick and understand what is going on. Age is obviously a part of it. Historically, there has been a positive correlation between age and disability payments and, as the average age of the population rises, you expect those payments to increase over time. However, there has been some speculation that has been proven to be not entirely right. On some of the stuff about people flowing into the payments because of economy impacts, when we have looked at the data in hindsight, we have found that the cost of living has not been one of the main driving factors. That takes us to what might be more concerning reasons structurally, such as the decline in wellbeing and in physical and mental health leading to a more significant sustained flow of people moving into the payments. That is a whole host of complexities.

One thing that is concerning—Michael might want to come in on this and help with the numbers—is that we have consistently underforecast the inflow of children into child disability payments and underestimated the case loads. We are concerned about whether that inflow will lead to a constant flow through. As we see

those increases coming through, what does that tell us more broadly about the experience of young people and children?

I know that that is a long answer, and I share the frustrations, but I hope that, over time, we will get a bit more clarity about the drivers of the trends.

Elena Whitham: Before you bring in Michael Davidson, can you tell us whether, in terms of the increase in the child disability payment numbers and the flow through, perhaps, to those individuals getting the adult disability payment, you have any understanding as to whether the increase is related to mental health or neurodevelopmental issues rather than any physical health issues? That might not be a question for you to answer, but it just came to mind as you were talking about the issue.

Professor Roy: Michael, do you want to come in on that?

Michael Davidson (Scottish Fiscal Commission): Yes, I am happy to.

I have some figures for the transition from the child payment to the adult payment. According to the latest data, around 500 children per month are moving on to the adult disability payment as they turn 18. For most young people who are coming up to 18, and therefore leaving CDP and applying for the adult payment, the success rate is, I think, around 75 per cent. That is a lot higher than the rate for new claims, which is at around 30 per cent. Of course, that is understandable, as those young people are already in the system.

I do not have figures for the conditions related to the child disability payment, but the rise in that caseload has been very much more to do with mental health and behavioural conditions rather than physical conditions. As Justine Riccomini has mentioned, it links with some of the data from schools on the volume of children with additional support needs. With that cohort of younger people ageing into adults, we are getting a higher proportion of younger adults in the adult disability payment caseload. Moreover, we know that the exit rates are very low, so the concern is about this cohort of people who start to receive adult disability payment at a younger age and who will therefore, as they age, continue to receive the payment for quite a long time.

Justine Riccomini: It might also be something to do with better diagnosis and more detailed or in-depth assessments of children with mental or behavioural problems, which were not necessarily recognised even a few years ago.

Elena Whitham: Thanks for that.

My last question is about expectations with regard to the differential between the caseloads of ADP and PIP. We have already discussed how that has narrowed a little bit, as the figures show. In a recent evidence session, we questioned David Wallace about the authorisation rate, and he said that it was not a policy decision or something that they were looking at proactively, but they were trying to understand what had happened there, too.

That said, I take your point, Professor Roy, that you do not expect that to remain in that space, and that it might start to change again. Again, the changing nature of the forecasting makes things difficult for us to understand. Can you say anything about that?

Professor Roy: I appreciate that, and we have talked about this before with the committee. I think, as forecasters, we have to be patient in some ways and see how things bed down. With the Scottish child payment, for example, we did not know what the take-up rate would be before it came in. Now we have good data points that we think are pretty stable and pretty robust, and our forecast is likely to be more stable going forward.

If the authorisation rate for the adult disability payment falls from 50 per cent—in other words, one in two people who apply for ADP get it—to what is essentially a one-in-three authorisation rate, that is quite a shift, and the question for us is this: is that just volatility, or is it a trend? We need just a few more data points to know that it is actually just volatility and that the rate itself will stabilise, so that, once the payments bed in and everybody is into the new system, the average rate will be relatively flat over time. That will give more confidence and certainty about the forecasts.

I think that you touched on this with David Wallace, too, but we are seeing a similar issue with the outflows—in other words, those cases in which awards are being decreased or ended. We have seen quite a lot of volatility in that over the first couple of years of the adult disability payment and, again, we just need to wait for another few data points in order to have certainty. I share your frustration at the challenges that you face in making decisions and scrutinising the situation because of that volatility. We just need to wait for things to bed down.

10:00

Jeremy Balfour: I was interested in your comment a few minutes ago about how it is unfortunate that more people are claiming, although I have not quoted you exactly. Is it not just about better diagnosis? People who were sitting with a physical or a mental disability 20 years ago were simply not being diagnosed appropriately and they should have been entitled to that benefit.

Professor Roy: Yes, exactly. You are right. There are two parts to what is influencing the trend. One is better diagnosis, which reduces stigma and encourages people to claim. In surveys that ask people whether they have a disability, the data shows that that figure is much higher than the proportion of people who claim payment. That suggests that there is a way to go for people who are entitled to payment to access it.

Secondly, there is a trend across the UK of more people moving into disability payments or reporting a diagnosis relative to what has happened in the past. That reflects a broader set of factors, such as concerns about wellbeing, social media for young people, poverty and inequality, and the broader challenges in society and family life. There is certainly a trend in the data that was not in the data in the past.

Jeremy Balfour: Arguably, both the UK and Scottish Governments should be tackling those social issues. If we got them right, the level of ADP and other disability payments might then reduce.

Professor Roy: The key thing is whether the inflow that is coming in has always been there and, now that the system has been improved, it is just flowing through properly. There is also a genuine policy concern. Is something happening in society and the economy more broadly, with instability, the quality of work and in-work poverty that leads to people having a poorer quality of life than they otherwise would have had? What can you do with earlier interventions to prevent people having to flow into payments that they otherwise would not have claimed?

Jeremy Balfour: Professor Roy, you are too young, but for those of us who are slightly older and go back to the dark ages, PIP and its predecessors were all set up to help those with disability get into employment. They were meant to help with the costs of doing that. Has any work been done on whether, if we reduced ADP or took people off it, that would have any effect on the employment rate? Would those people be less likely to go and work, which would mean an increase in other benefits, such as universal credit?

Professor Roy: That is not work that we have done. We would not look at policy counterfactuals. From my work in the academic world, I know that there is a big literature and a lot of work on how to ensure that there is employability support, not just for people with disabilities, but for people more broadly, whether they are dealing with poverty or inequality and the like and what more can be done on that.

I will make one interesting point that I know the committee has been interested in in the past. Back in the olden days—it was very kind of you to say that I am too young to remember that—there was an assumption that getting into work was the way out of poverty, but we know that that is no longer the case. A significant number of families who are in poverty have somebody in their household who is working and that gets us into much broader questions about the quality of work, fair work and the living wage. There is a broader issue about the quality of employment that would add to your point about employability.

Marie McNair (Clydebank and Milngavie) (SNP): Following on from Mr Balfour's comments about people claiming ADP while they are in employment, I make the point that a lot of folk have partners who can only do part-time work, which means that their household income will be limited.

As happened with my colleague Ms Whitham's questions, mine have mostly been covered, but I will ask about forecasts. Over a short period, several policy announcements have affected your forecasts, including those on winter heating measures, the two-child policy and the Scottish child payment. Do you want to say anything else about how policy changes can affect your forecasts? You have already covered that, but have you missed anything that you would like to say now?

Justine Riccomini: There are three main themes, the first of which is in-year policy changes. Scottish Government policy changes, including previous responses to pandemics and whatnot, have a considerable effect on our forecasts. Factors such as discretionary housing payments and the Scottish welfare fund all have an effect. What usually happens is that the spending increases above our forecast, but there was a big reduction in 2024 due to the Scottish Government aligning with UK Government decisions about the winter fuel payment, which also influenced our forecast.

There are other factors that we regard as being outside our control, such as a change of direction or a new idea or policy that comes in. Those things may not come as a surprise to others but, nevertheless, we have to amend our policies.

If the Scottish Government decides to give additional money to local authorities, that is not demand-led spending per se. It can be done on a one-off basis in a particular year, which means that it might show up as a forecast error, even though that was not down to us.

Disability payments form another big chunk, and we have discussed those already. To some extent, they can be outside our control, in that they are demand led but also depend on the number of people who get through the system and receive those payments. We rely on Social Security Scotland to provide us with the bulk of that data.

Despite our original concerns about the data coming from Social Security Scotland, that is now really starting to come through and we are seeing improvements all the time in the data that we are getting. That is a good news story and we just want more of the same, because that would really help us. It has been quite difficult for us to predict spikes in demand but, over time, and as things begin to stabilise, we will be able to make better predictions.

Our forecast errors might have been slightly larger on the new types of payments, but that was because everything was new and we had to make assumptions about what those payments might look like over time. When we see the reality of that at outturn, those figures might come down.

Michael Davidson: Can I add a bit more about the policy background?

Marie McNair: On you go.

Michael Davidson: The pension-age winter heating payment is a particularly interesting one, because there were multiple iterations of it. I hope that I have got the dates right.

In summer 2024, the winter fuel payment was restricted to households where someone was in receipt of a qualifying benefit, which was essentially pension credit. That was a UK Government decision, and the Scottish Government followed it because of a reduction in funding.

In November 2024, there was an expansion through the provision of a £100 payment to all households that did not include someone with a qualifying benefit, which resulted in an increase in costs from about £30 million per year to about £100 million for 2025-26.

Last summer, the UK Government expanded provision of the winter fuel payment to all households at the previous payment rates, but it said that the money would be clawed back from those with an income of more than £35,000. The Scottish Government followed that approach, so our forecast has gone back up to £195 million for 2026-27.

That shows that, in quite a short space of time, there has been a lot of movement in what had previously been quite a stable and manageable area of forecasting.

Marie McNair: It is good to hear about—

The Convener: Sorry, Marie—before you ask your next question, Claire Baker wants to come in on that line of questioning.

Claire Baker: Thank you. It is linked to what Michael Davidson was talking about. We do not yet know how many people are engaged in the clawback for those with an income of more than £35,000. Given that the Scottish Government is linking the payment to inflation, we can expect more people to reach the £35,000 limit sooner than would be the case if the payment was not linked to inflation. Does that make sense?

Michael Davidson: Not on the clawback side of it. Our understanding is that the £35,000 limit will not be increased by inflation, so that means that more people—

Claire Baker: Sorry—I am talking about the pension-age winter heating payment. That payment will increase by inflation, so will more people reach the £35,000 limit sooner?

Michael Davidson: I am not sure whether it is taxable income, because that would be affected more by someone's pension income.

However, the uprating in Scotland means that a gap will emerge between the UK Government's BGA funding and spending. That gap will have grown to about £30 million towards the end of the five-year forecast period. That relates to gross spending on pension-age winter heating payments before the clawback.

The clawback is an interesting issue that gets into the technicalities of the fiscal framework. Our understanding is that His Majesty's Revenue and Customs will collect that money. The block grant adjustment is based on gross spending—spending on everyone in England and Wales before the clawback is applied—so the Scottish Government will receive the full amount. Social Security Scotland will pay the gross amount to everyone, and HMRC will then claw back the money, through the income tax system, from households that have an income of more than £35,000. HMRC will retain the clawback from Scotland and from England and Wales, rather than the money flowing back, because the Scottish Government will get the block grant on gross terms, not net terms.

Claire Baker: Thank you.

The Convener: I apologise for interrupting you, Marie, but I am conscious that Claire has to leave the meeting early to attend another appointment.

Marie McNair: Sure. It is good to get assurance on the data, because that issue has been raised numerous times. It is very difficult to plan budgets when the UK Government is making U-turns every other day and there is uncertainty about proposed cuts to PIP. It is also really hard for the Scottish Fiscal Commission to plan ahead when there is such fluctuation in the policies that are in front of us.

My next question is about terminal illness claims. The Scottish Government has adopted a much more humane approach to claimants with

such illnesses, with an enhanced rate being paid for both components. What impact does that have on the forecasts for disability benefits? Is the number of terminal illness claims pretty low on the grand scale of things?

10:15

Michael Davidson: We looked at that specific aspect in advance of the launch of adult disability payment. We did not have any data, but it was an area where we knew there would be a change. We used a study from the Scottish Government—it was a Delphi analysis on the potential impacts—which informed our forecast at that stage. Because of the scale of adult disability payment, that is not an area that we had looked at specifically, but we now have the full set of adult disability payment data. However, we do not separate that part of the forecast out, because we see it as a relatively small part. We pick it up in our look at the overall data rather than looking at it separately.

Professor Roy: I add that that is a good example of a policy differential. For us, from a fiscal perspective, it is relatively small, but if you started to have policy differentials in other areas of the payment system more generally, you would start to have different effects.

The flipside of that is that any reforms in the UK to perhaps reduce inflows into disability payments or restrict eligibility would mean less funding under the framework. That means that the Scottish Government would then have to take decisions to either replicate that or find that money from somewhere else.

Marie McNair: Absolutely. It is good to see that there is fairness, dignity and respect in our policy.

Spending on mitigating the benefit cap has generally been below budget levels. However, the way that the UK Government has chosen to leave some families with more than two children with their benefits capped might lead to more demand on the budget. Are those your findings?

Professor Roy: That is one of the things that are always difficult to forecast, in part because the number is quite low. We were forecasting around £8 million on the benefit cap in 2024-25, and it came in at around £5 million. A lot of that is because the pool of people potentially subject to the benefit cap is relatively small. They are groups of vulnerable people, but they are quite small groups, and small variations in the uprating can have a potentially significant impact.

We have done some work on that, and we think that because of the mitigating of the two-child limit and the knock-on effects on the benefit cap, we think that the Scottish Government will need to spend in order to account for that. The Scottish Government will then have to—if it is committed to mitigating the benefit cap—add additional spending.

Again, from a fiscal perspective, the numbers are relatively small, but the issue matters a lot to the people who are impacted. We think that the figure is around £8 million, which would take the total up to around £15 million. However, compared with £6,000 million of total payments, it is relatively small.

Marie McNair: I will leave it at that, convener, but I might come in later on if time allows.

The Convener: Yes, that is fine.

I invite Carol Mochan, who is joining us remotely, to ask her questions.

Carol Mochan (South Scotland) (Lab): Good morning. I want to ask about the effects of inflation, which I know you have already touched on in your answers.

To what extent do changing inflation forecasts pose a risk to the social security budget? How do you feel the Scottish Government handles its inflation forecasting in relation to its overall budget?

Justine Riccomini: I will run through the position for the year immediately ahead.

It poses a fairly low risk at the moment. Inflation, as such, does not generally pose a massive direct risk to the forecast for the immediate budget year. We normally know what the rate is, because it is set out in September each year. In this case, it was 3.8 per cent in September 2025. The Scottish Government tells us in advance what it has decided to do with regard to uprating things for the coming year. That is the short-term issue.

When it comes to inflation over the medium term, that could be mitigated by block grant adjustments. There is some risk over the medium term. Most benefits in England and Wales are uprated in the same way as benefits in Scotland are uprated. When the outlook changes, that has a proportional effect on the block grant adjustments. That means that the Scottish Government has to find money to uprate any benefits that are not covered by the block grant adjustment funding—in other words, the replacement Scottish benefits that are now higher than the equivalent benefits that are provided by the Department for Work and Pensions.

At the moment, we expect that around 85 per cent of the cost of any change in inflation would be matched by block grant adjustments. We have included with our report a supplementary table—figure S5.14—in which we have estimated the cumulative cost of uprating to be £1 billion in 2030-31, £0.9 billion of which would be covered by the

effect of the uprating of the block grant adjustment funding.

The other thing to bear in mind is that there is now a specific risk in relation to the winter payment measures, as the rest-of-the-UK equivalents have not been uprated. That means that the Scottish Government is exposed to a specific risk in that area. It is a small risk in our terms but, nevertheless, it is a risk. Because the winter heating payment and the pension-age winter heating payment are uprated but the corresponding cold weather payments and winter fuel payments are not uprated in England and Wales, that leads to a differential.

Carol Mochan: I appreciate that answer, as it has helped me to understand the issue a wee bit better. You are saying that, on the whole, inflation is a lowish risk, but there is a risk if Scotland decides to have a different policy that is demand led in responding to needs. The Scottish Government needs to make sure that it thinks about how it can manage that.

Professor Roy: You have captured it perfectly. Essentially, the block grant adjustment funding is designed to deliver payments that, overall, are equivalent to those in the system for England and Wales so that, if inflation rises across the UK and payments in the rest of the UK are uprated for inflation, that funding will flow through to the Scottish budget. If changes are made and there is a different policy in Scotland—for example, if it is decided to improve take-up rates—the funding for that has to be paid for.

I make the point that, when we use the language of risk, we use it in relation to the uncertainty in our forecast. The Scottish Government has to strike a balance in deciding how to spend its money, and I am sure that it would tell you that it would not see such a spending and policy choice as a risk. We talk about the risk of our being unable to perfectly forecast exactly what will happen.

Carol Mochan: That is helpful. I appreciate your time.

Bob Doris (Glasgow Maryhill and Springburn) (SNP): It has been an interesting session. There has been some overlap with the questions that I was going to ask, but I thank Professor Roy for explaining risk in context, because every organisation deals with risk management as a matter of course.

I want to ask about the word “error”. The Scottish Fiscal Commission makes forecasts, and we talk about forecast errors. The Scottish Government’s spend is based on the Scottish Fiscal Commission’s forecasts on taxation and the planned budget is based on forecast demand, and the Government is bound by those numbers. When, in its forecasting, has the Fiscal Commission made an error, in the normal understanding of the word, compared to an error that was made because the rug was pulled from under your feet? That could have been due to a UK policy change or another external factor that could not reasonably have been foreseen within your forecasts.

Professor Roy: That is a good question. As forecasters, when we talk about error, we mean it in the broadest sense—so, the difference between what we said was going to happen when we published our forecast and what happened in reality. You are right, although I would not say that the rug is pulled from under our feet; perhaps we can explain it as “policy surprises” that mean that things can be different.

We do make errors, which we would typically assess as a judgment that we have got wrong. A good example of that would be the authorisation rate that we have spoken about. We saw data that indicated that it was 50 per cent, and we saw that come down slightly. We made a judgment call that it would not go down all the way to just over 30 per cent, but that turned out not to be correct. Sometimes, we do not get our judgment calls right. There are also sometimes errors in the data that we receive; it may not have been cleaned properly or it may be slightly incorrect. We made a mechanistic error, which we talked about in our forecast evaluation report. We had not correctly adjusted for people who were in receipt of child disability payment and were moving on to adult disability payment—we double counted 18-year-olds. Overall, I would say that our forecast errors are relatively minimal and we correct them whenever we can. In the scheme of the overall planning for the Scottish Government that we have to do, they are relatively limited.

Bob Doris: That is helpful. I should say that I was not seeking to be critical of the Scottish Fiscal Commission—

Professor Roy: You are more than welcome to be.

Bob Doris: I was trying to put the word “error” in context, which is important. The Scottish Government sets its policies in the context of what it anticipates the next year will be like and on forecasts that are set by the Scottish Fiscal Commission. Any shocks, if you like, to projected income can have massive and speedy implications for the Scottish budget. For example, Justine Riccomini referenced exposure to UK policy changes; I am not seeking to make a constitutional point, because the UK Government should get on and change its policy as it sees fit. Potential deficits increased by £1 billion plus and quickly decreased again because of a UK Government

policy turnaround. However, that might not have been the case.

I come to my substantial question. The Fiscal Commission has to project what the effect of potential policy changes might be without having a crystal ball. The Scottish Government has to set its budgets, which are always balanced. That is all within the context of the fiscal framework, which is supposed to allow for a degree of flexibility. A review of the fiscal framework is coming up. Do you think that the time is right to look at it again so that we can ensure that the flexibilities and provisions are appropriate?

Professor Roy: Ultimately, we will inform the review by providing factual evidence. It will be a negotiation between the two Governments. Your substantive point was well made in the context that, through tax and social security devolution, we are now seeing the real subtleties of how the framework operates. Even though we have tax devolution and social security devolution, the decisions that can be taken in the Scottish Parliament and the funding implications for its budget are still heavily determined by what happens in the UK Government.

10:30

A good example of that is the abolition of the two-child limit. In the autumn, the UK Government's decision to abolish the two-child limit for universal credit essentially changed the Scottish Government's spending plans and gave it an opportunity, of around £120 million to £150 million, in the run-up to its budget. That was a decision that was taken by the UK Government that had an impact in Scotland. That is just the nature of the framework that has been set up.

There could be more flexibility in the framework. People have spoken about some areas in which flexibilities could be used to smooth spending over time. One thing that we have talked about in detail with the Finance and Public Administration Committee is that the Scottish Government is quite constrained in its ability to shift moneys from year to year in order to smooth out any lumpiness in spending. For example, it plans to use, or has a contingency to use, the ScotWind moneys—the one-off payments from the granting of offshore licences—in order to smooth day-to-day expenditure. The general point is that it is not a great idea to use one-off moneys to smooth expenditure. The question is this: does the Government have enough flexibility, while staying within its limits, to smooth day-to-day spending and offset policy decisions at UK level that come quite late in the day, and manage such changes appropriately?

Bob Doris: That is helpful. I am trying to understand what the Scottish Government can do when it feels that there is a shock to its budget, other than to cut its cloth to achieve a balanced budget, which would mean cuts or tax rises elsewhere.

The Scottish Government has resource borrowing of more than £600 million per annum, which—if my notes are right—is capped at about £1.8 billion in cumulative terms. Once you borrow, if there is a recurring shortfall, there are issues, but can that borrowing be used to make up such shortfalls, or is it only for shortfalls in tax projections?

Professor Roy: That is a really good question. Broadly, the Scottish Government cannot borrow to fund day-to-day expenditure except to cover forecast errors around taxation. For example, if the UK Government announced a reform two weeks before the budget that was going to take £200 million out of social security, which would lead to a lower block grant of funding, the Scottish Government could not, based on that, directly say, "Well, we are going to borrow that money and pay it back over time and work out a new policy." That is not the way that the framework works. The Scottish Government would have to balance the budget and then make decisions to trim spending in another area or find additional revenue.

To be really clear, the reason for that is that the framework was designed at the time so that Scotland was no better or worse off as a result of devolution. If you choose to cut social security spending in England, it follows that funding should not flow through to Scotland to deliver an equivalent payment, because that payment is no longer being delivered in England. That is the principle behind it, but it puts the Scottish Government in quite a challenging budget management position.

Bob Doris: I appreciate that. Ironically, that would be a forecast error—not a forecast error in taxation, but a forecast error in relation to anticipated block grant revenue. Forecast errors in taxation or social security can be used for resource borrowing, but not forecast errors in block grant adjustments. The fiscal framework could perhaps look at smoothing out such income shocks.

The Scottish Government has a reserve limit of around £700 million—perhaps a bit more—that it can bank for a rainy day, for lack of a better expression. Does that seem like the right sum for the Scottish Government to retain in reserves for such rainy days, or even just to smooth out year-on-year fluctuations? Could that be used to plug funding gaps ahead of taking a more structured view of how you might want to address any structural deficits?

Professor Roy: The reserve is really interesting, in that there was quite a debate about it just before the previous fiscal framework review. It was essentially capped in cash terms. As inflation kicked in, the reserve limit did not go up. It is now banked and is increasing with inflation. The review might consider that.

I would say two things about the reserve. First, you are right that you can bank it for a rainy day, but that means that you are not spending it now. There are challenges in public services, pressures on funding and so on, and although you can make some savings now in the hope of addressing pressures in the future, you are not spending that money today, when there are probably good causes, or at least demand.

I will make one point about the limit, to give you an idea of the context. We think that total funding next year will be £62 billion, and you have a reserve of £700 million. That is quite a small ratio that the Government has to play with—it is not a significant fiscal resource that it can play around with. It really is quite marginal.

Bob Doris: I will put in context why I have been asking these questions. The future committee for social justice and social security will have to get its head around future budgets and budget scrutiny. We are trying to work out what levers are at the Scottish Government's disposal to plan effectively in relation to future social security spend—the Fiscal Commission has that challenge, too—and whether the fiscal framework can be changed in a way that gives the Scottish Government more certainty in that planning process. Would you like to make any final comments about the fiscal framework that a future social security committee of the Scottish Parliament should absolutely be focused on?

Professor Roy: I can give you a personal opinion, but Justine Riccomini might want to come in as well.

It will be a matter for negotiation. One thing that the next committee might think about is the fact that so much of social security is demand led, which is so different from other aspects of public services and day-to-day public expenditure. Your ability to control it within year or between years is much more limited than in other areas of public services. Once you set the entitlement, that is it, essentially. Demand then flows in, and that determines expenditure. That is quite different from other budgets, where you are allocating money to a local authority or a health board and you could change that allocation if you wanted to.

There is a broad question about whether, given that demand-led element, the Scottish Government has the fiscal levers to smooth those potential variabilities over time. A second question relates to the large, good discussion that we have had today about the ability of the Scottish Government to respond, based on plans, to the exposure of the Scottish budget to policy decisions at a UK level that might happen quite late in the process. We always encourage and push the Government on multiyear spending allocations, and it is really important that those spending plans are set out.

I have sympathy on the point that the Scottish Government has to wait until the UK budget, and it then has to produce its own budget within a very short period of time. There could be some significant policy changes in the UK budget, which makes it very difficult for the Scottish Government to plan the next year's budget, let alone set out a plan for three or four years. If there is anything that could be done to provide greater flexibility there, that would potentially be positive for fiscal management.

Justine Riccomini: It is important to consider not just the social security funding envelope but the whole funding envelope. As Graeme Roy has just said, social security is largely demand led. It can go up or it can go down, depending on what is happening.

We also have to factor in the huge resource spend in the Scottish Government on civil servants—the pay bill, the national insurance bill and all that kind of stuff.

There is only a limited amount of money and the budget needs to be balanced, so if a lot more money is spent on social security in one year, that may be at the expense of another area of the Scottish budget. It is important for any future social security committee to keep that in mind and focus on the bigger picture.

Bob Doris: Thank you.

The Convener: I will continue with that point for the benefit of a future committee. From a demand-led point of view, it must be the case that there will be a drift in the baseline for the forecast, given what you have told us about the number of ifs, buts and maybes in relation to policy changes, inflationary rises and so on.

Professor Roy: There will also be demographic changes. That is why, even without any policy changes, we expect social security spending to increase over the course of the forecast horizon and to take up a more significant share of the total Scottish budget compared to the share that it has now. A future committee in the Parliament will want to think about that.

To pick up on the good question that was asked by Mr Balfour, there should also be consideration of what is happening upstream, because that is the interesting bit. A lot of our focus is on trying to

forecast the take-up of benefits and the payments that will be made. However, once that all beds in, there will also be some fascinating questions to consider about what is driving the trends in, and the flows into, certain payments, and, as Justine Riccomini said, what the outcomes will be of policies in other areas of Government. Will those policies make the inflows better or worse, and how will social security come through into that?

The Convener: Okay—that is helpful.

That concludes our questioning for today and also our public business. Thank you for all your help.

10:42

Meeting continued in private until 11:03.

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