

Re-thinking Welfare

Fair, Personal and Simple

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Chair's Foreword



I am delighted to present the second report of the Expert Working Group on Welfare.

Last year, we published our first report. In that we scrutinised the Scottish Government's work on assessing the cost of benefit payments in an independent Scotland and the delivery of those payments. We were also asked to offer views on immediate priorities for change in the event of independence. This was largely a technical piece of work, designed to lay the foundations for the transitional arrangements which would be needed following a vote in favour of independence in this year's Referendum.

In this second report, we have been asked to consider what would need to happen following a 'Yes' vote. We have therefore considered what steps an independent Scotland could take as it begins to establish its own welfare system.

It is clear to us that the key issue is trust: the trust of those who receive benefit payments in a system that supports them and the trust of society as a whole in the fairness and effectiveness of the system. A lack of trust erodes society's continued support for those in receipt of social security and also undermines the self-esteem and confidence of those who receive support from the benefits system. A recurring theme of our report is therefore how trust can be established and maintained.

We encouraged all those with an interest to give us their views and visions. We actively sought the views of those less likely to respond to our written Call for Evidence. We spoke to a wide range of people from across civic Scotland. We heard and read much about what is wrong with what an independent Scotland would inherit from the UK. Almost all of those who responded to us believe that the current approach fails too many people, especially those who are vulnerable. And although we encouraged radical thinking, we received few 'whole system' proposals for change, particularly proposals which would transform welfare. This is not surprising when many are struggling with the pace, scope and direction of the current welfare reform programme. Inevitably their views are coloured strongly by that.

It is clear that three important policy objectives are held in tension: the need for the system to be fair, simple, and personal. Our conclusion was that it is a real challenge to deliver all three in equal measure. Our Report has emphasised fairness and personalisation in the short term with a focus on simplicity in the longer term.

An independent Scotland will inherit a patchwork of policies and approaches to benefits which have been built up since the middle of the last century. We are confident it is possible to establish something which better meets the needs of a small, independent country. We heard evidence of a widespread will to build a new system which is both fit for purpose and progressive.

This endeavour will take an enormous shared effort. It is clear there is no easy solution. It will require our political representatives, people from across civil society, the business community and others, to enter into a willing partnership with future Scottish Governments to create a system of social security which we can trust and share in. We have set out a route map for that journey.

As well as the route map we have made a wide range of specific proposals. We have recommended that the real value of benefits is restored each year. We want significantly improved assistance for those struggling to find jobs. We were struck by the extent of in-work poverty and, given our remit does invite us to provide views on other areas where these would have a positive impact on policy outcomes, made recommendations to improve pay. We have focused on the value of carers.

We also need to plan how we support those in our society who need the most support rather than react in an *ad hoc* fashion. We were impressed with the evidence that a serious and sustained focus on pensioner benefits over the past two decades had significantly addressed pensioner poverty. We recommend a similar long-term and sustained focus on benefits for people who are sick or disabled and who may be unlikely to find a route to wellbeing through work.

Independence will provide an opportunity to remove a series of ‘disconnects’ between parts of the system which are currently reserved and those that are devolved. Integration – the bringing of services together, perhaps in one physical place – would bring significant benefits. For this to occur, a holistic view of budgeting and a renewed commitment to the value of investment and preventative spend will be required.

We know there will be some who react to our proposals with the criticism either that we ‘have not gone far enough’ or that we ‘have gone too far’. These are not unreasonable views, and reflect discussions we have had in the Group. Our response would be to challenge critics to set out their proposals for a progressive benefits system and how they would build a consensus for those plans. The Group has no monopoly on thinking in this area; but what we have proposed is the result of having invested a significant amount of time, energy and effort in attempting to understand the issues and the scope for what might happen over the short, medium and long term. We believe our route map for establishing trust and driving a process of re-thinking welfare is credible and robust.

I am indebted to my fellow Group Members for their expertise and insight, and for the healthy challenge that each brought to our discussions. I know they have greatly valued the independence of the Group and the space this provided for our deliberations. Tragically, one of our members died before this report could be presented. Professor Ailsa McKay was a lively and enthusiastic contributor to our work and her expertise helped the Group enormously. Her vision and passion were limitless, and she continually encouraged us to see beyond the problems and embrace opportunities and possibilities. Though we greatly missed her input into the written report, we have made every effort to ensure her contribution is fully reflected in what we say. I hope she would be proud of our report.

I would also like to acknowledge the considerable support we received from the Secretariat and officials from the Scottish Government, and to recognise their impartiality, professionalism, and integrity throughout this process. Finally, on behalf of us all, I would like to thank all those who shared their stories with us. Many of these were deeply personal, and while some were difficult to hear and others were uplifting, all were shared openly and honestly. Thank you to everyone who took the time to talk to us.

Martyn Evans
Chair, Expert Working Group on Welfare

Members of the Expert Group on Welfare

- Martyn Evans (Chair), Chief Executive of the Carnegie UK Trust
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- Annie Gunner Logan, Director, Coalition of Care and Support Providers in Scotland
- Professor Ailsa McKay, latterly Professor of Economics at Glasgow Caledonian University
- Julia Unwin CBE, Chief Executive of the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust
- David Watt, Executive Director (Scotland), Institute of Directors
- Lynn Williams, Policy Officer – SCVO

The context for our work is that Scotland has become an independent country. However, nothing in this Report should be construed as adopting any stance of the Group, or its individual members, in favour or not of Scottish independence.

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A Summary of the Report and its Main Recommendations

A. Remit and process

1. The Expert Working Group on Welfare was asked to consider the principles which could underpin the welfare system in an independent Scotland. We also considered, in broad terms, the policy propositions for working-age benefits that could be pursued by Governments in an independent Scotland and, where relevant, the implications such policies might have for cost and delivery. The Report is designed to stimulate debate for everyone in Scotland as they consider their future and the shape their welfare system might take. The work builds on the Group's first report, published in June 2013, which focused on what Scotland would inherit and the transitional priorities for change in the event of independence.
2. In order to support our work, we developed a detailed and targeted process to help us build our knowledge and establish a firm, evidence-based and wide-ranging foundation for our recommendations. We received direct written evidence, convened stakeholder sessions, commissioned research and held meetings with benefit recipients, wider civil society and academics, amongst others. We have drawn extensively on available demographic and statistical information for Scotland and its performance in relation to other parts of the UK and other nations.
3. We make nearly 40 recommendations for change.

B. Context, challenges and opportunities

4. A progressive and modern nation is one that, among other things, recognises the importance of an effective social security system to social cohesion and the health, wellbeing and life chances of its population. It should be a safety net, and importantly, a springboard to a better life wherever that is possible. Supporting individuals as they move from one phase of their lives to another, particularly from unemployment to employment, is key to a modern social security system for Scotland.
5. We firmly believe that paid employment is the best route out of poverty for anyone who can realistically be expected to work. The reality for too many people today, however, is that a job no longer guarantees this. Changes resulting from the 'hollowing out' of the labour market, the prevalence of low-paid jobs and the increasing casualisation of employment mitigate against the availability of secure, sufficiently remunerated work for many people.
6. We set out in some detail what we consider the relevant social and economic factors that underpin our Report. These include population, economic performance, the role of work, the structure of the labour market, families and households, the role of caring, poverty, inequality and social attitudes. A future Scottish system cannot be developed without taking account of these factors. They are all central to any consideration of welfare and have played a significant role in shaping the development of our thinking.

7. We conclude that Scotland is a wealthy country, rich in assets. Performance relative to the UK as a whole, its nations and regions and other OECD countries, is strong. The amount spent in Scotland on 'social protection', which includes pensions and other welfare spending, is lower as a share of GDP than in the UK as a whole. When compared against the other regions and nations of the UK, Scotland's productivity is only bettered by London and the South East. Scotland compares well internationally in terms of educational levels achieved and performs best of all four nations of the UK in terms of the fewest people with low skills and the highest number with high skills.
8. There are matters which Scotland will have to address in the future. Employment rates amongst older workers, particularly women, are significantly below the best in Europe. Underemployment and high levels of part-time employment amongst carers, reflect the challenges that families face in balancing care with paid work and what can be a lack of support from social and other services. Finally, while Scotland is somewhat more equal than the UK as a whole, it is still more unequal than many other OECD countries. It is increasingly recognised that inequality is a drag on economic performance.
9. Currently, social protection expenditure as a percentage of GDP is lower in Scotland than the UK and comparatively low compared to the EU 15. This places Scotland in a positive position regarding affordability and increases the potential for investment for future sustainability. The choice facing future independent Scottish Governments is to decide how to use its resources to obtain the best results for its people. Our analysis of the international evidence is that to transplant an approach which works in one country into an independent Scotland will, more than likely, fail. Scotland needs to find its own path.
10. The current welfare system is too complex and too remote. It can be impersonal and can work against the needs of citizens who need its support. It is increasingly losing the trust of both those using the system and wider society. In this respect there is a difference between the UK and the Scottish public. It would seem from the evidence that there is still a stronger level of support in Scotland for an effective system of social security.

C. Social security: Principles and Purpose fit for Scotland's future

11. We set out our views on the Purpose, Principles and Partnership necessary to create a trusted and effective social security system.
12. In terms of Purpose, **we recommend that a new system must provide a safety net through which individuals cannot fall and insurance against life events. We also recommend it should have a more powerful third purpose: to maximise the life chances of every individual.** In summary, to provide a springboard as well as a safety net.
13. A system designed with this Purpose needs more detailed principles to guide the development of policies. **We recommend the new system should be based on the following three overarching principles: it should be fair, personal and simple.** These are held in tension and a stretch towards one, for example, simplicity, will almost inevitably mean a pull away from another, such as a focus on detailed

personal circumstances. Trade-offs between these three are therefore inevitable. In the early years of independence, Scotland should focus on emphasising fairness and personalisation. In the medium to longer term, we would want to explore how to also achieve simplicity.

14. We set out nine more detailed propositions and the reasons for them, which underpin our three high-level Principles.

Fair

- 1) Treat people with dignity and respect.
- 2) Build trust and support by being transparent.
- 3) Be responsive to how an independent Scotland, its society, economy and people change.
- 4) Be sustainable in the long term.

Personal

- 5) Empower people to take control over their circumstances.
- 6) Offer choice as to how benefits and services are delivered.
- 7) Build on the assets of individuals, families and communities.
- 8) Promote work as a realistic goal for anyone who can and provide effective support for those who are prevented from working.

Simple

- 9) Support integration of benefits and services where this makes sense.

15. We believe a social security system should explicitly recognise the relationships which exist between citizens, employers and the State. We propose an explicit Partnership between them to further guide the development of policies of future Governments. It will be civil society (the voluntary sector, trade unions and business associations and the like) that will provide the oil to allow this partnership to work effectively.
16. **We have recommended a draft Social Security Partnership for Scotland for consideration.** This sets out the role of each Partner as it could be framed. We explore the value of social investment – investing in people and supporting them to participate fully in life, whether in or out of work.

D. Social investment-led social security policies

17. We set out a route map for change. We have divided the journey into three sections. The short term (up to five years), the medium term (five to ten years) and the long term (over ten years).

E. Starting reform immediately: actions for the short term

18. We believe it is important that people have certainty in the early years of independence while the system is being transformed. In line with our first report, **we recommend that on independence people should continue to receive the benefits and tax credits they are currently entitled to.**

19. In terms of the levels of those benefits, **we recommend that the first Government of an independent Scotland re-establishes the link between benefit levels and the cost of living, with benefits and tax credits (which are currently subject to a 1 per cent annual increase) being increased each year by the Consumer Prices Index of inflation.**
20. Our recommendations are designed to create a more sustainable system, and if implemented, would negate the need to establish a separate welfare cap. The current UK welfare cap on Annually Managed Expenditure (AME) would be abolished. **Instead we recommend that independent Scottish Governments should report twice during their term of office to the Parliament on the social security budget.**
21. One of the early tasks for the first Government in an independent Scotland will be to embrace and exploit the goodwill, energy and commitment which exists for change. **We recommend that a National Convention on Social Security is established at the beginning of 2015.** Its membership would be drawn from employers, citizens, faith groups, trade unions and voluntary organisations, amongst others. The Convention's task would be to consider our draft Social Security Partnership set out in Chapter 3 and agree its terms, examining closely the issues which lie behind it and providing its views on any changes to what we suggest.
22. **We recommend the introduction of a new Social Security Allowance or 'SSA'. The SSA would initially bring together a number of existing benefits but it would not include Housing Benefit. The so-called 'Bedroom Tax' would also be abolished.**
23. **We recommend allowing the household to choose how often to receive the SSA across a month.**
24. **We also recommend extending that choice to who receives the SSA, but with a default that this would go to the main carer (where this is relevant), not the main earner.** This will ensure that women are not disadvantaged by the arrangements we propose.
25. Currently Carer's Allowance is the lowest income replacement benefit at £61.35 per week. This compares to Jobseeker's Allowance for those aged 25 and over of £72.40. We have concluded that this unacceptable anomaly in the system should be tackled as soon as possible. **We recommend that the Carer's Allowance should be increased and paid at the same rate as Jobseeker's Allowance.**
26. A key aspect of the SSA is the link it will have with assessment. **We recommend that early identification and agreement of an individual's needs and goals should be the starting point.** For some, we recognise that the support they need will be minimal or easily identified, while for others it may require input from other individuals and agencies, and take much longer. Our new approach proposes an assessment that is built around the individual with the intention of 'getting it right first time'.

27. Given that most people re-enter work quickly after having lost their job, **we recommend that the current resources should be more heavily targeted at supporting the longer-term unemployed and those at risk of becoming long-term unemployed.** A revised agreement, replacing the current 'claimant commitment', would outline not only what activity an individual is expected to undertake to move closer to the labour market or enter work but significantly, clearly explain the support which he or she can expect to improve their prospects for finding and staying in work. **We recommend that the current system of sanctions is abolished** and instead replaced with a system that is more proportionate, personal and positive.
28. Given that labour markets are local, **we recommend ending the Work Programme** and replacing it with new programmes to help people find and stay in work which are driven by and designed around long-term local labour market challenges. These programmes will be developed by local and regional groups who know the people they are working with best.
29. When people do enter work, they should expect to be fairly rewarded. We have a number of recommendations surrounding pay. Governments in an independent Scotland should lead by example as has been the case with the current Scottish Government. This is why **we recommend that the first Government of an independent Scotland should have as its goal, that all parts of the public sector will pay the Living Wage by the end of the first Parliament of an independent Scotland.**
30. **We also recommend that, subject to certain conditions being met, the National Minimum Wage should begin to rise (in phased amounts) to equal the Living Wage.** A clear timetable for full adoption should be set out by the first Government of an independent Scotland. **We recommend the payment of Employers' National Insurance should reduce to help businesses make this transition.**
31. For those for whom work is a realistic goal, but who need greater support, we do not believe that the Work Capability Assessment (WCA) is the right way to assess their needs. **We recommend that the WCA is scrapped and outline a series of new features of the assessment process which should take its place.** The new assessment should be carried out by a clinical professional and should be developed in equal partnership with professions, organisations which represent disabled people and people with health issues, and the individuals themselves.
32. **We recommend that an interim set of changes are made as quickly as possible and which address the most serious issues with the WCA before it is replaced. We further recommend the creation of a new Work Opportunities Service.**
33. On independence, some people in Scotland will have already been re-assessed for Personal Independence Payment (PIP), the replacement for Disability Living Allowance (DLA). Others will still be claiming DLA. In the short term, on independence, **we recommend that the Scottish Government undertakes a detailed consideration of how an independent Scotland – as it brings together services which are reserved and devolved – should support individuals with a disability or illness, and those who care for them.** It may wish to establish an independent group to carry out such a review. **We recommend that the review be asked to come up with detailed recommendations for replacing DLA and PIP with a new social security benefit for disabled people.**

F. A strategic focus: medium-term priorities

34. As the welcome success in tackling pensioner poverty over two decades has demonstrated, it is possible to find solutions to large scale strategic challenges. We believe that too many of those who cannot ever reasonably have access to good work because of disability or illness face issues of long-term poverty and hardship. On independence, Scotland must look more broadly at the support on offer to these groups across the tax system, the social security system and through health and social care services in particular. **We recommend that a focus on those with long-term disability and illness becomes a strategic political priority for an independent Scotland over the medium term.**
35. An independent Scotland could take a new and integrated approach to support for housing, including more investment in social housing. Up-front investment in the supply of affordable housing has the immediate benefit of increasing housing supply, as well as generating positive economic effects. Over the longer term, this investment also helps to ensure the Housing Benefit bill is sustainable.
36. We believe it is important to strike the right balance between supporting a well-functioning private rental market and preventing excessive rents that can arise through pressures in the private rental sector in areas of high demand and low supply. This means looking at the nature of tenancies, for example, giving tenants in the private sector longer-term tenancies than generally exist at present, as well as building into tenancy agreements that rents should increase in line with inflation but not above it, at least for the duration of a tenancy.
37. We know that social security policy in every country evolves and adapts over time. Changes can happen due to a whole range of factors, many of which are hard to predict. When this happens, Governments often have to react quickly with new policies whose outcomes cannot be predicted.
38. In order for Scotland to be as well-prepared as possible for changes which occur, **we recommend that Scotland's social security system – policy, delivery and legislation – should be placed under independent and regular scrutiny by a new independent Social Security Commission.**
39. Finally, a new set of institutions may be needed if our vision is to be realised. **We recommend a series of criteria against which any options for change should be judged.**

G. Changing tack: different long-term possibilities

40. In the long term, as trust and confidence in the system grows, momentum for further reform may build as people start to feel more confident about achieving successful change. In our discussions, at least two very different long-term visions were suggested. These were: a form of a contribution-based system; and a basic income for all.
41. The first of these models would take a highly individual approach to social security, tying benefits to personal contributions and savings. The idea of personal welfare accounts is an illustration of this approach. The second vision would seek to abandon means-testing and complexity. The idea of a citizens Income is an

illustration of this approach. **If Governments in an independent Scotland wished to explore these ideas, we recommend that a more detailed and evidence-based examination would be required.**

H. Additional recommendations

42. For completeness, our additional policy recommendations can be summarised as follows:

- **We recommend that policies and programmes designed to help people find, and stay in, work should be driven by and designed around long-term local labour market challenges.**
- **We recommend that instead of only working with people on an individual basis, groups would also be encouraged to develop initiatives within households, local communities and neighbourhoods.**
- **We recommend areas for consideration by the *Working together: progressive workplace policies in Scotland* review, chaired by Jim Mather.**
- **We recommend that the proposals of the *Commission for Developing Scotland's Young Workforce*, established by the Scottish Government in January 2013 and chaired by Sir Ian Wood, are considered as a matter of priority by the Scottish Government.**
- **We recommend that support should stay with some people as they make their first, often tentative, steps into work.**
- **We recommend that an independent Scotland pilots new approaches as part of a different assessment process.**
- **We recommend that the Work Opportunities Service would have, as part of its remit, a requirement to work closely with employers, providing them with advice and support on issues such as better structuring of jobs and adapting facilities for disabled people.**
- **We recommend a clear narrative setting out the benefits of having a more diverse workforce should be a strong part of an underpinning employer engagement strategy.**
- **We recommend that, building on the analysis in our first report, a detailed scoping exercise is undertaken by the Scottish Government on independence to specify the resources, functions and services related to the delivery of benefits which Scotland would inherit. This would provide a solid basis from which the decisions on delivery can be taken.**

I. Costs

43. In each of the last five years, social protection expenditure as a percentage of GDP has been lower in Scotland than the UK and comparatively low compared to the EU 15. Using UK Government data we can see that social protection expenditure accounted for 15.5 per cent of GDP in Scotland and 16.0 per cent in the UK in 2012-13. Scottish expenditure has consistently been below the EU-15 average from 2005 to 2012.

44. The Department for Work and Pensions (DWP) estimates that Scottish benefit expenditure in 2018-19 (in 2012-13 prices) would be £17.9 billion which is **lower** than our estimate of £18.0 billion. Taking DWP and HMRC administration costs together, the total costs for administering benefits in Scotland are forecast to fall gradually from £0.7 billion in 2014-15 to £0.5 billion in 2018-19.
46. The general direction of our policy proposals is to provide a system of social security which supports people into good work. The ongoing administrative costs of these policy proposals are expected to be neutral in the beginning as change is based primarily on making better use of existing resources through offering a more personalised service and better integrating benefit, employment and training activities with the individual at the heart of what we propose. The cost implications of potential long-term reforms are more variable. We believe savings could be achieved by the more effective use of existing systems and processes. Nonetheless, we would expect the sustainability of the system would be a consideration in the work of the National Convention on Social Security. Over the longer term the expectation is that costs will reduce as individuals are successfully assisted into employment.
47. We have used IPPR & Resolution Foundation estimates on the gain to the UK Exchequer of increasing the minimum wage to the same level as the Living Wage. Assuming that Scotland takes a proportion share of these savings, the Scottish fiscal position would improve by around £280 million, before we consider any indirect effects.
48. In terms of the long-term options around personal welfare accounts and citizens Basic Income, there are a wide range of possibilities in terms of design. The costs to the Government could range from marginal to more substantial. While we do not recommend either approach at this time, we do provide an indication of what these approaches might cost.

Conclusion

49. In the short to medium term, we believe our proposals will be more successful in helping people to get into, and stay in, better paid work. They will concentrate social security resources on those most in need. Over time this should also help to reduce the overall cost of the working-age benefits bill, freeing up resources that can be invested in further improving services which support, thereby creating a virtuous cycle of helping greater numbers of people towards and into employment.
50. Our proposals aim to build a system that is personal, fair and simple. We believe that the purpose, principles and partnership that we set out in this Report are the basis on which to build trust – among employers, citizens and communities – in a social security system designed to meet the needs of an independent Scotland.

Chapter 1

Background and Introduction

- 1.1 A progressive and modern nation is one that, amongst other things, recognises the importance of an effective social security system to social cohesion, the health, wellbeing and life chances of its population, and to the creation of sustainable economic growth.
- 1.2 The Scottish Government established the Expert Working Group on Welfare in January 2013. This is our second report (the 'Report') and the broad remit we were given by Scottish Ministers was to look at the medium and longer-term options for reform of the social security system in an independent Scotland. We were specifically asked to provide recommendations to Scottish Ministers on four areas:

A) Principles

The principles which could underpin a benefits system for people of working age in an independent Scotland.

B) Policies

In broad terms, set out the type of policy propositions for working-age benefits which would align with these principles, and:

- how such policies would support people who can work, in to sustained employment;
- how such policies would support people who can't work to participate in society as fully as possible.

The Group should, where it believes this would provide important context to its recommendations, provide views on other policy areas which the first Government of an independent Scotland may need to consider in order to achieve its policy outcomes for working-age benefits.

C) Costs

The broad costs and savings which might arise from our policy propositions on working-age benefits (if any) and, where relevant, views on how those costs might be met and such savings invested, taking due account of the economic and fiscal background.

D) Delivery

Options for delivery of benefit payments and the associated welfare services (which are currently reserved) in an independent Scotland. An indication of the opportunities for bringing devolved and reserved services together in an independent Scotland to create a more holistic system of welfare.

- 1.3 Our remit is set out in Annex A in full.

- 1.4 At this point, it should be noted that our focus has remained on the benefits system. We have not been asked to provide a blueprint of an entire welfare state in an independent Scotland. Instead, we present a vision of how a social security system for those of working age might look in an independent Scotland. Throughout our discussions, the conversations have flowed into policy areas that are not in our specific remit but which have a natural and important connection to our remit such as pay, employment, skills, childcare and health. The weight of the evidence presented to us on these issues means that it is something we have had to acknowledge and comment on.
- 1.5 This second phase of our work builds on our first report¹ which focused on what Scotland would inherit and the transitional priorities for change in the event of independence. Amongst other things, we found the following:
- Scotland has significant delivery functions: Mature delivery arrangements for welfare are already in place in Scotland. Scotland delivers almost all parts of the current UK benefits system to people living in Scotland from locations within Scotland. In addition, Scotland also provides a wide range of services to people living in England, measured in millions rather than thousands.
 - There is a common interest in working together over a transitional period: In the event of a vote in favour of independence, the Scottish and UK Governments have a strong common interest in working together, as envisaged by Article 30 of the Edinburgh Agreement, to support each other in maintaining the delivery of benefit payments during an agreed period of transition.
 - The focus should be on benefit recipients: This common interest is underpinned by an obligation to ensure continuity of service to benefit those in receipt of social security across the nations of the UK. Formalising the current arrangements into an agreed set of ‘shared services’ would safeguard delivery, as well as being the most efficient and cost-effective arrangement for both Governments in a period of transition.
- 1.6 In this first phase we were also tasked with scrutinising and challenging the Scottish Government’s work on assessing the cost of benefit payments and the delivery of those payments in an independent Scotland. We confirmed that the Scottish Government’s methodology to forecast the costs of benefits was reasonable and the Scottish Government has extended those forecasts for the purposes of this Report so that they cover the early years of independence.
- 1.7 As we embarked on our consideration of options for a social security system that was fit for Scotland’s future, we were pleased to do so in the light of the feedback we received following our first report – that there is a strong appetite in Scotland for this wider conversation about the principles and policies, opportunities and choices that will deliver a system that works for the people of Scotland.
- 1.8 From the outset of this phase of our work, we were clear about the need for open, inclusive and honest discussion. In order to support our work, we

¹ Scottish Government, *Expert Working Group on Welfare Reform Report*, 11 June 2013. <http://www.scotland.gov.uk/Publications/2013/06/8875>

developed a detailed and targeted stakeholder engagement strategy to help us to build our knowledge and establish a firm and wide-ranging foundation for our recommendations. The analysis of the written Call for Evidence is available on our website².

- 1.9 We listened to a wide range of stakeholders, through a variety of means. We heard from those affected by welfare reform and those who deliver it. We met with a range of academics and experts in the field. We issued a written Call for Evidence, undertook in-depth focus groups and organised workshops with key interest groups. We used social media³ to promote our work and our dedicated webpages⁴ contain minutes of all our meetings and related papers.
- 1.10 As a Group we were particularly keen to hear from those who may not traditionally engage with a Call for Evidence. We believe that buy-in from all sections of society is crucial to building and maintaining trust within the system. This is why we commissioned Ipsos MORI to look at attitudes towards welfare from groups who may not be at the forefront of the debate. We publish their report alongside ours and have used it to inform our thinking.
- 1.11 We are keenly aware that language, especially that used when describing people who claim benefits, matters. Central to all of our discussions and stakeholder engagement has been a commitment to respect and dignity for the individual, regardless of their circumstances. In this Report we try always to use language which is inclusive and respectful and avoid terms which have polarised the debate over the past few years.
- 1.12 We are extremely grateful for the time and energy that all individuals and organisations have devoted to thinking about the matters prescribed in our remit. We would like to take this opportunity to thank everyone who has made a contribution and helped to shape our work.
- 1.13 This engagement has been crucial in developing and challenging the Group's thinking but the conclusions and recommendations we present are ours alone. Throughout the Report we highlight areas where the evidence supports what we say. In the interests of balance, however, we will also touch on alternative approaches and perspectives. If we have learned anything, it's that the debate on welfare does not remain static for very long.
- 1.14 And while we acknowledge the various political contributions so far, we remain live to the fact that any discussion of 'welfare' is rarely confined to politicians, with arguments passionately expressed across traditional and social media in a way few would have predicted. We have actively sought to challenge some of the stereotypes at the heart of the current debate. Scotland clearly has a unique

2 Reid Howie Associates, *Expert Working Group on Welfare: Second Call for Evidence – Analysis of Written Responses*. Scottish Government, 2014. <http://www.scotland.gov.uk/Resource/0044/00444820.pdf>

3 Expert Working Group on Welfare (@EWGWelfare), Twitter. <https://twitter.com/EWGWelfare>

4 Scottish Government, *Expert Working Group on Welfare and Constitutional Reform on The Scottish Government website*. <http://www.scotland.gov.uk/Topics/People/welfare/EXPERTWORKINGGROUPONWELFARE>

opportunity to build and implement a system that will fulfil the needs of its society, in a way that it sees appropriate.

1.15 This Report is structured as follows:

- In Chapter 2, we set out our evidence-based analysis of the current context, together with the challenges and the opportunities that face Scotland and its people in determining a new and fit for purpose social security system.
- In Chapter 3, we set out a clear purpose for a social security system for Scotland and the guiding principles that should flow from that purpose. We look also at the partners who will have the greatest role in delivering Scotland's new social security system and recommend how their partnership should be developed. Finally, we set out our vision of how social security should, and could, be delivered and integrated in a wider social investment-led policy framework for Scotland.
- In Chapter 4, we set out the policies that we believe will work for Scotland's people, testing the elements of the current system and our recommendations for any change to assess their fit with the Principles.
- In Chapter 5, and in terms of service delivery, we set out how a new 'journey' might work for those receiving social security and which reflects the guiding Principles.
- Chapter 6 contains our assessment of the affordability of our proposals, focusing on sustainability and a longer-term, and wider, approach to the costs and benefits to Scotland and its people.

1.16 Our Group hopes that this Report stimulates an enlightened, informed and consensual debate about the best way an independent Scotland can support those in its society who need support and help them play their full part in a thriving and sustainable Scotland. This is a Report designed to stimulate debate for all of Scotland and its people as it considers its future and the future of its welfare system.

Chapter 2

The Context, the Challenges and the Opportunities

Introduction

- 2.1 In this Chapter we set out our evidence-based analysis of the current context, and the challenges and opportunities that face Scotland and its people, in determining a new and fit for purpose social security system.
- 2.2 Social and economic factors such as the nature of the population, economic performance, the role of work and the structure of the labour market, families and households, the role of caring, poverty and inequality and attitudes are all central to any consideration of welfare and have played a significant role in shaping the development of our thinking.
- 2.3 We have drawn extensively on available demographic and statistical information for Scotland and its place in relation to other nations. We complemented this with the rich qualitative information we gathered in our engagement with those affected by welfare reform and those who deliver it, with other interested stakeholders, from our Call for Evidence and our Focus Group research. We explored the history and the strengths and weaknesses of the current social security system, looking particularly at the experiences of people in Scotland. We finished our evidence gathering by looking at the lessons we might learn through some international social security models.
- 2.4 An accompanying evidence paper expanding further on the issues in this Chapter is also published alongside our Report.

Scotland is a wealthy country, rich in assets

- 2.5 Scotland has strong economic foundations. Across a range of key economic indicators, Scotland is wealthy and productive. Performance relative to the UK as a whole, and its nations and regions, is strong.
- 2.6 Even excluding North Sea oil and gas, output per head in Scotland was the third highest of the UK countries and regions in 2012 – behind only London and the South East⁵. With a geographic share of North Sea oil and gas output, it is estimated that Scotland would have the 14th highest level of GDP per capita in the OECD in 2012, and would be ranked four places above the UK⁶.

5 Office for National Statistics (ONS), *Regional Gross Value Added (Income Approach)*, December 2013. http://www.ons.gov.uk/ons/dcp171778_345191.pdf

6 Scottish Government, *Scotland's International GDP per Capita Ranking – 2012*. 11 March 2014. <http://www.scotland.gov.uk/Topics/Economy/Publications/GDP-Per-Capita>.

- 2.7 In Scotland, productivity (measured as output per hour worked) was estimated to be 101.4 per cent of UK levels in 2012⁷. When compared against the other regions and nations of the UK, Scotland has the third highest level of productivity behind only London and the South East⁸.
- 2.8 It is estimated that, with a geographic share of oil and gas, Scotland has been in a stronger fiscal position than the UK in four of the last five years⁹. On average, over the past five years, per capita public sector revenues in Scotland have been higher than in the UK. Public spending in Scotland as a share of GDP was lower than in the UK.
- 2.9 As we demonstrate in Chapter 6, the amount spent in Scotland on ‘social protection’, which includes pensions and other welfare spending, is lower as a share of GDP than in the UK as a whole¹⁰ indicating that the resources needed to support a welfare system are readily available to Scotland¹¹.
- 2.10 In terms of labour market performance, the latest statistics – for the period January – March 2014 – show that Scotland’s employment rate was higher, and its unemployment and inactivity rates lower, than in the UK as a whole. Of the 28 countries in the European Union only eight have lower youth unemployment rates than Scotland. The numbers claiming unemployment benefits is reducing and is now back to around the levels experienced pre-recession¹².
- 2.11 Scotland has a skilled population. In recent years, there has been a steady decrease in the percentage of working-age adults with low or no educational qualifications (SCQF Level 4 or below) falling from 16.4 per cent in 2007 to 12.6 per cent in 2013¹³. Scotland compares well internationally¹⁴ in terms of educational levels achieved and performs best of all four nations of the UK with the fewest people with low skills (29.5 per cent compared to 32.4 per cent in England) and the highest number with high skills (34.9 per cent compared to 30.7 per cent in England).

7 Scottish Government, *Labour Productivity – Initial Release 1998-2012*. 23 April 2014.

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/SNAP/expstats/Productivity>.

8 Office for National Statistics (ONS), *Labour Productivity, Q3 2013*, 24 December 2013.

9 Scottish Government, *Government Expenditure and Revenue Scotland 2012-13*, 12 March 2014.

<http://www.scotland.gov.uk/Publications/2014/03/7888>

10 Scottish Government, *Scotland’s Balance Sheet*, April 2013.

<http://www.scotland.gov.uk/Resource/0041/00418420.pdf>

11 In *Scotland’s Balance Sheet* (Scottish Government, April 2013), the analysis assigns Scotland a geographical share of GDP from North Sea oil and gas production.

12 Scottish Government, *Labour Market Brief – May 2014*.

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Labour-Market/AnalyticalPapers/LM-Brief-May>

13 Scottish Government, ‘Skill Profile’ on *The Scottish Government website*.

<http://www.scotland.gov.uk/About/Performance/scotPerforms/indicator/skill>

14 The EU 21 average is calculated as the unweighted mean of the 21 countries that are members of both the European Union and the OECD for which data are available or can be estimated. These 21 countries are Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Slovenia, the Slovak Republic, Spain, Sweden and the United Kingdom.

2.12 Scotland's 'assets' go further than just its people. There is a clear sense of the value of public services, communities and voluntary efforts in Scotland. The direction of the current Scottish Government is based on a National Performance Framework which sets out a single purpose statement and a small number of measurable National Outcomes and Indicators. Within this Framework, local government and their many partners are free to deliver services in a way that best suits their localities. Scottish public services and their third sector and private partners aspire to work collaboratively within networks based on making use of the assets inherent in every community, focusing on the positives. Unlike other parts of the UK, the role of the market and competition is not given priority but is recognised as one part of a much richer mix of public service delivery. The third sector in Scotland is also a significant stakeholder within the context of wider welfare provision.

Summary

2.13 Against the backdrop of these indicators, Scotland is in a positive position regarding affordability of its social security system. The choice facing a future independent Scottish Government is to decide how to use its resources to obtain the best results for its people.

Scotland now and in the future

2.14 A future Scottish welfare system cannot be developed without taking account of how the country's economy and society may change.

Our changing population

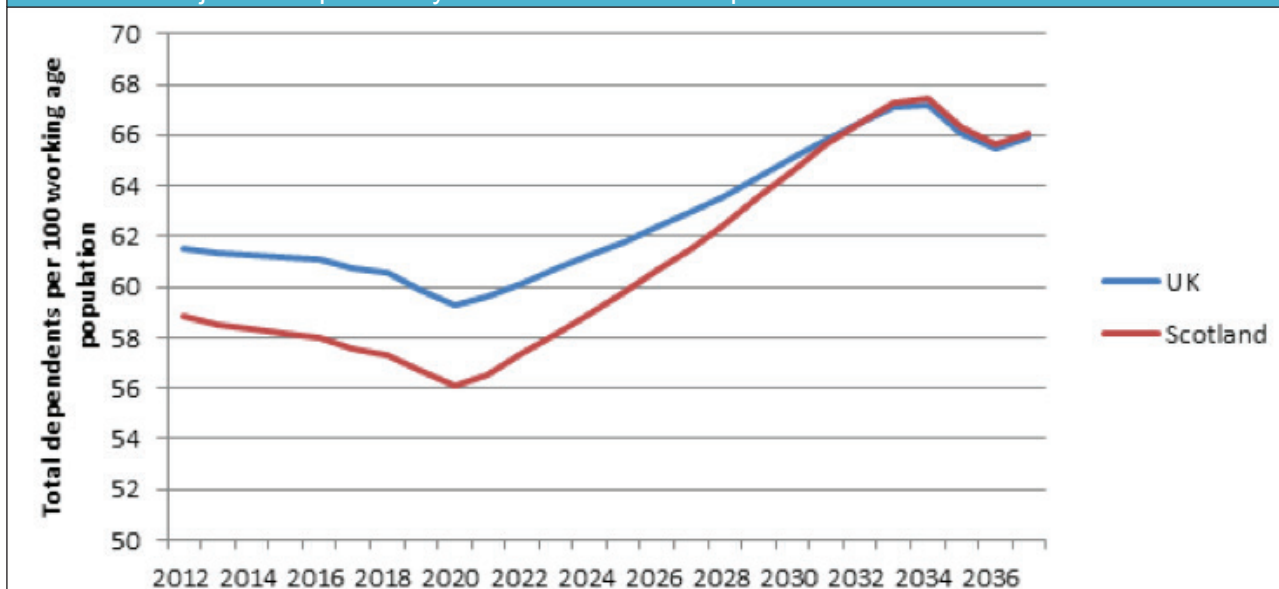
2.15 Demographic changes are affecting the population of the UK and how the population of the UK lives. This has a direct impact on the provision of welfare services and social security benefits.

2.16 Like other developed countries, Scotland's population is aging. Between 2012 and 2037, the number of people of state pension age in Scotland is projected to increase by 27 per cent compared to 31 per cent in the UK. Taking children and pensioners together the dependency ratio in Scotland is projected to remain below that in the UK for nearly 20 years, see Chart 2.1. At the same time the estimated population of Scotland was 5,327,700 in mid-2013, the highest ever. The Scottish population increased by almost 6 per cent over the last ten years, largely due to increases in net migration to Scotland¹⁵.

15 Over 2003 to 2012 General Register Office for Scotland Population Estimates Time Series Data, last updated December 2013.

<http://www.gro-scotland.gov.uk/statistics/theme/population/estimates/mid-year/time-series.html>

Chart 2.1: Projected dependency ratio for children and pensioners 2012 to 2037



Source: ONS 2012 based national population projections.

- 2.17 As the population ages, there is the possibility that disability may become more common. While the numbers reporting a long-term, activity-limiting health problem or disability in the 2011 Census have remained more or less static and in line with England and Wales, Scotland has a higher proportion of people claiming illness and disability benefits than the UK as a whole. One explanation for this could be a possible difference in the severity of ill-health or disability in Scotland and the extent to which it is a barrier to employment.
- 2.18 How people live is also changing. Single person households now account for around 35 per cent of all Scottish households compared to around 14 per cent in 1961. Lone parent families with dependent children make up around 7 per cent of all households in Great Britain in 2011 compared to 2 per cent in early 1960s¹⁶.
- 2.19 With more adults living alone and the potential for more adults requiring assistance with ill-health and disability, the scope to 'share' the costs of living and to offer informal support may be reduced, increasing reliance on Government-provided benefits and services. However if adults of all ages and circumstances are supported to play a full role in the workforce and society, then they will be able to make a contribution to Scotland's prosperity. For example, older people in Scotland already play a significant role in the provision of informal family care.

The changing labour market

- 2.20 Good quality work¹⁷, whether paid or unpaid, is acknowledged as an essential part of a person's wellbeing¹⁸ helping to define an individual's identity, social role and

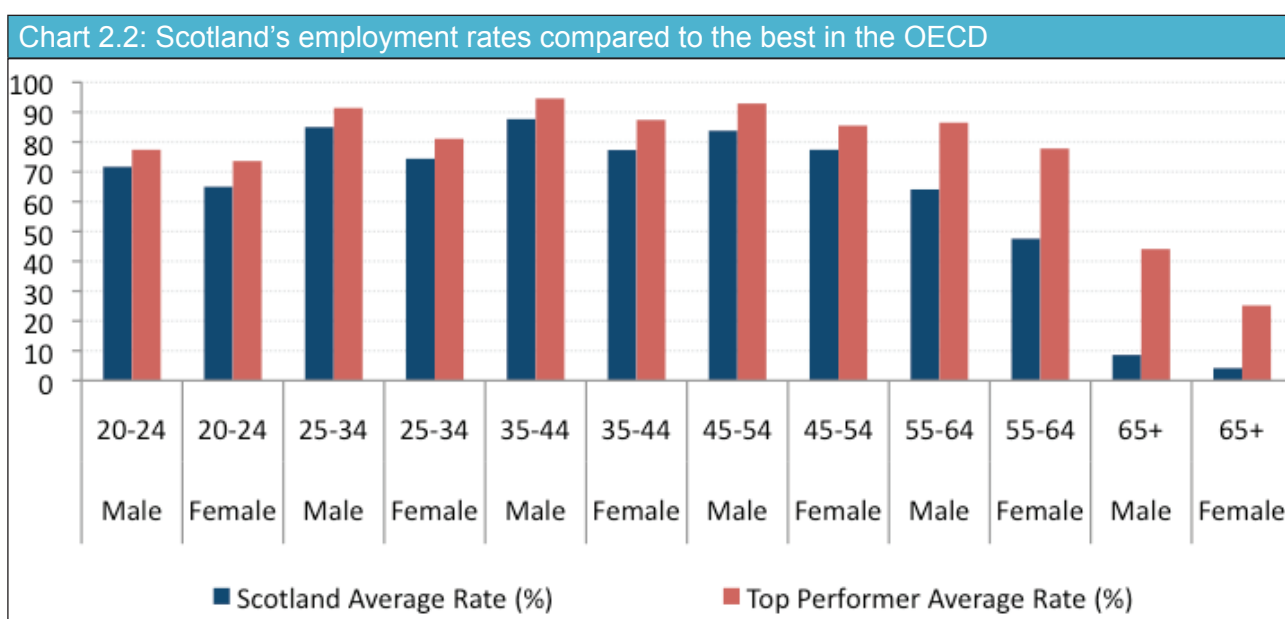
16 I. Macrory, *Measuring National Well-being – Households and Families*. Office of National Statistics (ONS), 26 April 2012. http://www.ons.gov.uk/ons/dcp171766_259965.pdf

17 *Good work* has been defined by many organisations but fundamentally it is about the creation of an infrastructure that brings together the interests of employers and employees in good incomes, skills and progression, work-life balance and health and well-being leading to enhanced productivity and efficiency. See The Work Foundation definition. <http://www.theworkfoundation.com/Research/Workforce-Effectiveness/Good-Work>.

18 Oxfam, *Humankind Index*. <http://policy-practice.oxfam.org.uk/our-work/poverty-in-the-uk/humankind-index>

social status¹⁹ as well as contributing to society. Stable employment of good quality should be the best way out of poverty for the great majority of individuals and their families although that view has come under pressure over the past few years.

- 2.21 Scotland has maintained relatively high levels of employment over the last decade but this pattern is not spread across the population or across the country. Employment rates are lower for women, for older people, for 16-24 year olds and for the disabled.
- 2.22 At every age group the best in the OECD have outperformed Scotland most notably for older workers (see Chart 2.2).



Source: OECD and Scottish Government analysis – analysis based on average performance 2004 to 2012.

The impact of low skills

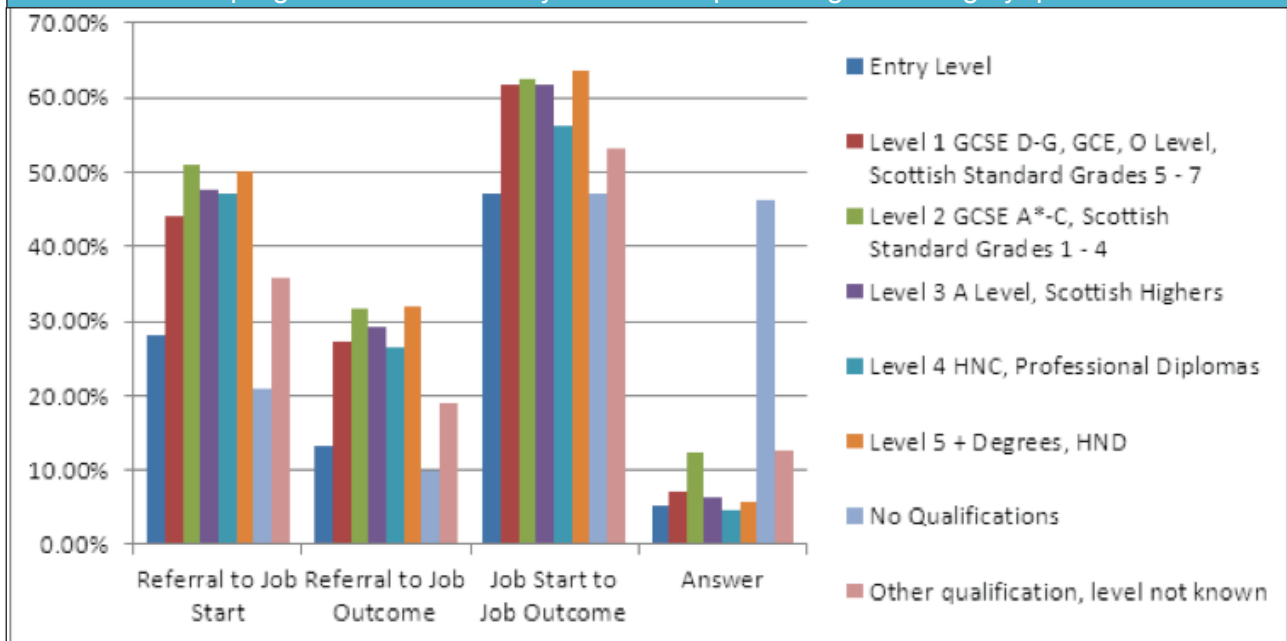
- 2.23 Individuals require the right skills, attitudes and knowledge of the labour market to take up good jobs that offer sufficient work to earn a living. People aged 20-64 in Scotland with degree-level qualifications have a much higher employment rate than those without such qualifications (86.4 per cent vs 72.2 per cent in January to March 2014). For those with limited skills, a low-pay/no-pay cycle is often the result. Recent studies estimated that nearly 5 per cent of the UK workforce was at risk of cycling between low-paid work and unemployment and 5 per cent – or 1.3 million people – were stuck in persistent low pay between 2002 and 2012²⁰.
- 2.24 Evidence presented to the Group suggested strongly that a lack of basic skills – literacy and numeracy – prevent many people getting jobs. A significant percentage of people on the Work Programme in Scotland have either no or very few qualifications; this severely impacts their ability to find work and stay in a job.

19 UCL Institute of Health Equity, *Fair Society Healthy Lives (The Marmot Review)*, 2010. <http://www.instituteofhealthequity.org/projects/fair-society-healthy-lives-the-marmot-review>

20 K. Schmucker, *The Future of the UK Labour Market*. Joseph Rowntree Foundation 2014. <http://www.jrf.org.uk/publications/future-uk-labour-market>

Although the number of working-age people in Scotland in this position has fallen steadily, the risks associated with being poorly-qualified have grown. Chart 2.3 is based on the 43,000 adults enrolled with Working Links, one of the two Work Programme Providers in Scotland.

Chart 2.3: Work programme outcomes by skill level – percentage attaining by qualification level



Source: Working Links analysis of work programme participants.

2.25 The implication is clear: individuals with very few skills will struggle to find work and even when they do, their chances of losing their job are high. In a highly competitive jobs market they will face particular challenges.

III-health and disability

2.26 Some people lacking basic skills may also have a health condition to manage. When people are not working because of a health condition, we know that prolonged time spent on benefits has a detrimental effect on their overall health and wellbeing. This makes re-entering the workplace increasingly difficult²¹. When employment is widely available, people with health conditions are more likely to be able to stay in work. When jobs are scarce, the same people are among the first to lose their jobs. Newly-redundant workers with health problems are less likely to search for work²² and more likely to have difficulty finding a new job²³. Poorly-paid, insecure work fares almost as badly as unemployment in terms of health impacts²⁴.

21 Chief Medical Officer, *Health in Scotland 2009 Time for Change: Annual Report of the Chief Medical Officer*, Scottish Government, 2010. <http://www.scotland.gov.uk/Resource/Doc/330700/0107286.pdf>

22 C. Lindsay & D. Houston, Fit for purpose? Welfare reform and challenges for health and labour market policy in the UK, in *Environment and Planning A*, 43 (3), 2011, pp. 703-721.

23 Analysis from Working Links demonstrates that, of a group of 43,000 individuals, those in good health gained more than double the job starts than those with medical problems.

24 Moynihan, R (2012) *Job insecurity contributes to poor health*, in *BMJ* 2012;345:e5183. <http://www.bmj.com/content/345/bmj.e5183>

2.27 Under half (44.1 per cent) of (self-reported) disabled people aged 16-64 in Scotland were in employment in Jan-Mar 2014. This compared with almost 73.5 per cent of those aged 16-64 as a whole.²⁵ The relatively low level of employment amongst people with a disability compared to the best in the OECD²⁶ demonstrates that there is scope for improvement. Evidence suggests that this improvement will be brought about by concerted efforts to keep people in the workplace if they become disabled, to offer more assistance to help people with a disability into work and to ensure that the workplace adapts to their needs.

Younger workers

- 2.28 The number of young people out of work was increasing before the financial crisis, though the recent recession has made the challenge of youth employment more acute. When young people become unemployed they stay in that position for longer. Sustained unemployment in young people is believed to have particularly detrimental effects. A period of unemployment at an early age can result in reduced wages over a long period. It has been estimated that youth unemployment can reduce an individual's wages by between 13 and 21 per cent by the age of 42²⁷.
- 2.29 Qualifications contribute to employment for 16-24 year olds. Those with degree level qualifications are three times as likely to be in employment as those with no qualifications. However, increasingly, young people find it difficult to obtain work that matches their qualifications and skill level as employers prefer older experienced workers. Over 70 per cent of 16-24 year olds in Scotland were in medium-low or low-skill occupations²⁸. Other young people face long periods of unpaid employment in order to gain work experience. For some groups of young people, including those with disabilities and young carers, the transition from school to work can be particularly difficult²⁹.
- 2.30 When young people do enter work, it is often at the lower end of the jobs market in terms of pay and security. There is a prevalence of zero hours contracts in certain sectors that traditionally act as entry points for young people³⁰. As well as facing difficulties at the bottom, young people can be squeezed at the top, with employers recruiting graduates into jobs that would normally have been taken by those with lower levels of qualifications.

25 Scottish Government, *Labour Market Brief*, 2014.

<http://www.scotland.gov.uk/Topics/Statistics/Browse/Labour-Market/AnalyticalPapers>

26 OECD, *Sickness, Disability and Work: Keeping on Track in the Economic Downturn: Keeping on Track in the Economic Downturn*. Background Paper. OECD, High-Level Forum: Stockholm, 14-15 May 2009. <http://www.oecd.org/employment/emp/42699911.pdf>

27 P. Gregg & E. Tominey, The wage scar from youth unemployment, in *Labour Economics*, 12:4, 2004, p. 487-509.

28 Scottish Centre for Employment Research, *Work, employment, skills and training: Where next for Scotland?*, SCER & ESRC, 2014. http://www.snp.org/sites/default/files/news/file/west_report_final_v7.pdf

29 See e.g. F. Becker & S. Becker, *Young Adult Carers in the UK: Experiences, Needs and Services for Carers aged 16-24*, The Princess Trust for Carers, London, 2008; see also, Joseph Rowntree Foundation, *Young carers' transitions into adulthood - Findings*, 2000.

30 T. MacInnes, et al., *Monitoring Poverty and Social Exclusion*, Joseph Rowntree Foundation, 2013. <http://www.jrf.org.uk/sites/files/jrf/MPSE2013.pdf>

Older workers

- 2.31 Current employment rates amongst older workers are significantly below the best in Europe as shown earlier in Chart 2.2. Men aged 55-64 in Scotland have an employment rate of 64.1 per cent compared to the best performers who reach 86.5 per cent. The equivalent figures for women are 47.6 per cent and 77.8 per cent.
- 2.32 During the 1980s, an expectation developed that older workers should not necessarily remain in the workforce until retirement age. Part of this shift was due to the structural decline in the male employment rate which saw more men fall into inactivity following job loss; in the 1980s, the practice of putting older people onto invalidity benefits as a way of keeping unemployment down was prevalent, particularly amongst workers whose skills had become obsolete as industries closed down. At the same time, workers at the other end of the earnings spectrum began to expect early retirement with a good final salary pension scheme. As outlined later in this Chapter, women often left the labour market before pension age to take on caring roles.
- 2.33 Since then, changing expectations around private pensions, the tightening of conditions for sickness-related benefits, the declining value of both benefits and pensions and changes in legislation around discrimination and retirement age has led to an increasing number of older workers remaining in the workforce balancing paid and unpaid work but there is some way to go to overcome embedded societal practices³¹.

Is the supply of good work shrinking?

- 2.34 The Joseph Rowntree Foundation note that polarisation of the labour market in the UK is continuing and the number of skilled and semi-skilled jobs available in the middle of the labour market is reducing³². This phenomena is summarised by Institute for Public Policy Research who note that:

“There have also been significant shifts in the occupational mix of the workforce, which some have described as polarisation. New technologies tend to complement the work of high-skilled workers, raising their productivity. At the same time, there are many low-skilled jobs that are hard to mechanise. Over the last decade or so, there have been big increases in the number of people in the UK employed as managers and senior officials, professionals and associate professionals or technical workers, but there has also been a sizable increase in the number of people working in personal services. This would appear to bear out the polarisation thesis.”³³

- 2.35 Good work also depends on demand from employers for skills and the ability of employers to pay good wages and provide opportunities for advancement. It also needs a business environment that encourages investment and productivity growth

31 WRVS, *Gold Age Pensioners: Valuing the Socio-Economic Contributions of Older People in the UK*, March 2011. <http://www.goldagepensioners.com/Uploads/PDF/main-report.pdf>

32 Joseph Rowntree Foundation (2014) *The Future of the UK labour market*. <http://www.jrf.org.uk/publications/future-uk-labour-market>

33 T. Dolphin & K. Lawton, *A job for everyone: what should full employment mean in 21st Century Britain?* Institute for Public Policy Research, July 2013. http://www.ippr.org/assets/media/images/media/files/publication/2013/07/a_job_for_everyone_July2013_11002.pdf

to create a labour market containing a range of jobs across the skills spectrum with transition pathways offering the possibility of upwards progression. Changes resulting in the ‘hollowing out’ of the labour market, the prevalence of low-paid jobs and the increasing casualisation of employment mitigate against the availability of secure, sufficiently remunerated employment opportunities for many people. Glasgow Centre of Population Health analysis of this trend encourages us to challenge “prevailing notions of the long-term unemployed and work avoidance...” and to recognise that the nature of work and how it relates to poverty has fundamentally changed in Scotland³⁴.

The availability of work in communities near where people live

- 2.36 Where someone lives has a substantial influence on the probability of them being in work – especially for those with no or low levels of qualifications³⁵. The de-industrialisation of central Scotland during the 1980s and 1990s, and the loss of large numbers of jobs and skills, has had a long-lasting impact on local communities.
- 2.37 Are there generations of people who have never worked? Recent research on entrenched worklessness failed to locate any such families in Glasgow³⁶. Other analysis has also confirmed these findings³⁷. More likely are patterns of poorly-paid work (often temporary) interrupted by spells of unemployment.
- 2.38 Often an improvement in the economy will have limited impact in some communities – the same people in the same areas can face consistent problems in getting jobs even when the economy is faring well³⁸. In areas with the highest levels of worklessness, rates fell during the years of growth in the last decade, but at too modest a pace to reduce the gap in employment rates in comparison with other areas. Employment rates still vary greatly across the country, from 83.2 per cent in Shetland to 60.1 per cent in North Ayrshire³⁹.

Work as a route out of poverty?

- 2.39 The levels of in-work poverty⁴⁰ have been relatively stable as a share of poverty in the early part of the 21st century. However while Scottish poverty rates overall have declined from a high of 21 per cent in 1999-2000 to 14 per cent in 2011-2012, over the same time in-work poverty has marginally declined from 7 per cent to

34 C. Harkins & J. Egan. *The rise of in-work poverty and the changing nature of poverty and work in Scotland: What are the implications for population health?* Glasgow Centre for Population Health, October 2013. http://www.gcph.co.uk/assets/0000/4018/In-work_poverty_FINAL_Oct.pdf

35 A. Green & D. Owen, *The geography of poor skills and access to work*. Joseph Rowntree Foundation, 2006. <http://www.jrf.org.uk/sites/files/jrf/1859354300.pdf>

36 T. Shildrick, et al., *Are ‘cultures of worklessness’ passed down the generations?* Joseph Rowntree Foundation, 13 December 2012. <http://www.jrf.org.uk/publications/cultures-of-worklessness>

37 See e.g. Closer, *What longitudinal studies tell us about intergenerational worklessness*, November 2013. <http://www.closerprogramme.co.uk/wordpress/wp-content/uploads/2013/10/CLOSER-worklessness-briefing-web-version.pdf>

38 C. Lindsay & D. Houston, 2011.

39 Scottish Government, *Local Area Labour Market Statistics in Scotland – Statistics from the Annual Population Survey 2013 May 2014*. <http://www.scotland.gov.uk/Publications/2014/05/4201>

40 Defined as individuals living in households where the household income is below the poverty threshold despite one member of the household working either full or part-time. The poverty threshold is defined as under 60 per cent of the average household income (before housing costs).

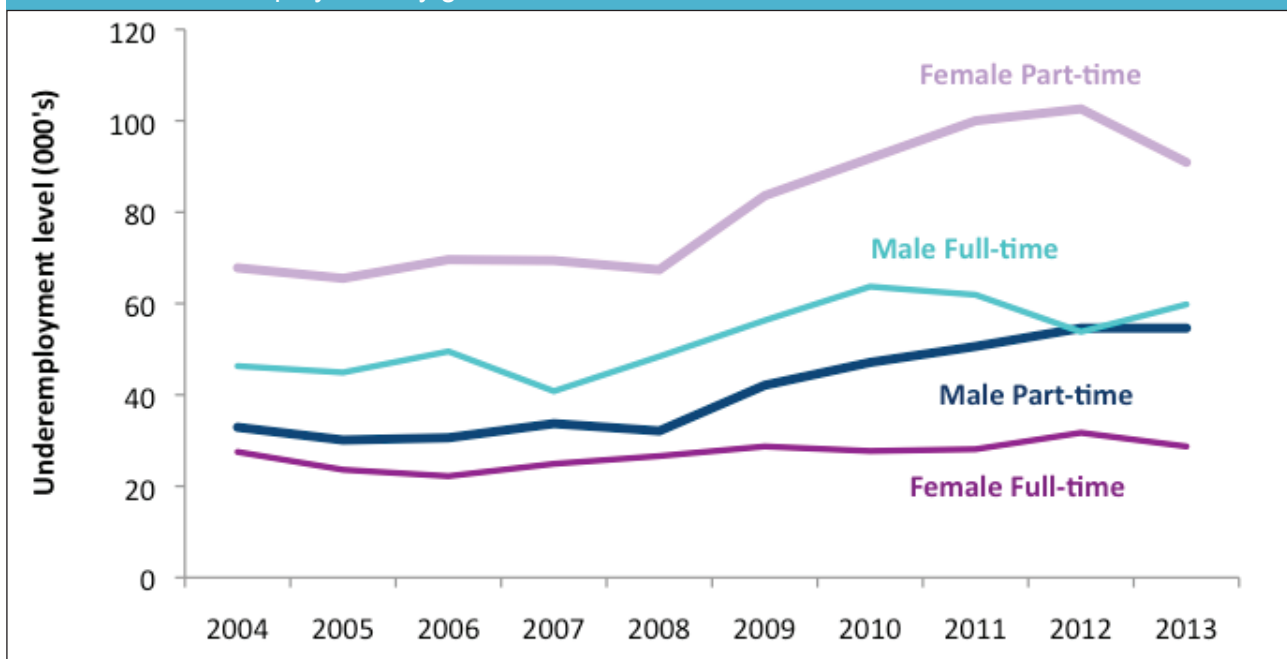
6 per cent⁴¹. Approximately 40 per cent of poor people live in households with at least one member in work. Poverty is not evenly spread across the population. For example, households with disabled people and people from minority ethnic groups are more likely to be in poverty.

2.40 Why does paid work not offer a guaranteed route out of poverty? Partly the answer lies in the work status of other members of the household, but it also lies partly in the terms and conditions of the job itself, which is crucial. This includes:

- how much the job pays;
- the hours available to the individual and others in their household;
- job security/flexibility, especially when things go wrong outside work;
- the ability to progress and be promoted.

2.41 Of concern is the growth in underemployment: that is, workers unable to obtain the hours they would wish. This has risen significantly over the course of the recession leaving individuals in employment but more likely to be collecting in-work benefits due to low earnings. The number of underemployed people has risen by 80,000 since 2008. This is particularly an issue for women working part-time as Chart 2.4 shows.

Chart 2.4: Underemployment by gender, Scotland



Source: Annual Population Survey, January-December 2013, ONS.

2.42 Even with the addition of tax credits, in-work poverty is still widespread. The recently published *Child Poverty Strategy for Scotland*⁴² shows that over half of children in poverty are living in households where at least one person is working. Child poverty in Scotland is predicted to rise by 2020 as a result of welfare reform.

41 Scottish Government, *Poverty and Income Inequality in Scotland 2011-12*, 13 June 2013. <http://www.scotland.gov.uk/Resource/0042/00424793.pdf>

42 Scottish Government, *Child Poverty Strategy for Scotland - Our Approach - 2014 to 2017*. Scottish Government, 10 March 2014. <http://www.scotland.gov.uk/Publications/2014/03/5304>

- 2.43 Scotland has made good progress in the voluntary adoption of the Living Wage by employers. Yet, the number of Scots earning below this level has grown. While more employers can be encouraged to pay the Living Wage as the economy recovers, others who are unable to do so can still take steps to reduce the risk of in-work poverty for example by moving staff onto permanent contracts as trading conditions allow – which can also make a positive difference to staff turnover.
- 2.44 Research in 2012 examining payment of the Living Wage across the UK showed that 18 per cent of earners in Scotland earned below the Living Wage compared to a UK average of 20 per cent. Only the South East and London performed better⁴³.
- 2.45 Finally we note that while Scotland is somewhat less unequal than the UK as a whole, it is still more unequal than many other OECD countries. The Fiscal Commission Working Group⁴⁴ was clear about the impact of the growing gap between rich and poor. It said “Such patterns of inequality will continue to have a negative impact on growth and prosperity in the long-term”⁴⁵.

Balancing work and care

- 2.46 Unpaid care contributes significantly to the economy by providing support that would otherwise need to be provided by the State. However caring for children or for someone with a long-term illness or disability has a significant impact on the ability of households to work and the extent to which they need help from the welfare system.
- 2.47 There are an estimated 657,000 unpaid adult carers in Scotland^{46,47}, 62 per cent of whom are women⁴⁸ and over half of whom are of working age. Three in five people will become carers at some point in their lives⁴⁹ and may be reliant on the benefits system. Carers, particularly women, are increasingly likely to give up work at the peak of their career causing immediate detriment to business and long-term issues of poverty as they find it difficult to return to the workplace and to build up adequate pensions.

43 Markit Group Limited, *Living Wage Research for KPMG – Current Trends in Household Finances and Structural Analysis of Hourly Wages*. October 2012. http://www.kpmg.com/UK/en/IssuesAndInsights/ArticlesPublications/Documents/PDF/Who%20We%20Are/Living_Wage_Research_October_2012.pdf

44 The Fiscal Commission Working Group is a sub-group of the Council of Economic Advisers which is helping to shape the development of a robust fiscal and macroeconomic framework for an independent Scotland.

45 Scottish Government, *Fiscal Commission Working Group, First Report – Macroeconomic Framework*, 2013. <http://www.scotland.gov.uk/Resource/0041/00414291.pdf>

46 F. Stewart and E. Patterson, *Caring in Scotland: Analysis of Existing Data Sources on Unpaid Carers in Scotland*. Scottish Government, 2010. <http://www.scotland.gov.uk/Publications/2010/07/23163626/0>

47 The definition of unpaid carer used in this research is broadly in line with the legal definition, “Someone who provides substantial amounts of care on a regular basis for either an adult or a child, where that adult or child receives, or is eligible to receive, support services under the Social Work (Scotland) Act 1968 (section 12AA) or the Children’s (Scotland) Act 1995 (Section 24)”.

48 Equality and Human rights Commission (2010) *Equality, Human Rights and Good Relations in 2010*. <http://www.equalityhumanrights.com/about-us/our-work/key-projects/how-fair-is-britain>

49 Carers Scotland, *Submission from Carers Scotland to the Scottish Parliament Finance Committee Demographic Change and Ageing Population Inquiry*, Scottish Parliament, 2012. http://www.scottish.parliament.uk/S4_FinanceCommittee/Inquiries/Carers_Scotland.pdf

- 2.48 Underemployment and high levels of part-time employment amongst carers reflect the challenges that families face in balancing care with paid work and what can be a lack of support from social and other services⁵⁰. Some analysts argue that investment in replacement care to enable carers to take up work or better paid work would bring economic benefits⁵¹. Earnings disregards within the current benefits system can act to disincentivise work amongst carers⁵². Increasingly, the notion of ‘sandwich caring’ is being identified by organisations working with unpaid carers – balancing work and sometimes multiple caring responsibilities is a significant challenge and raises specific policy challenges for wider welfare policy such as childcare and social care as well as for a social security system⁵³.
- 2.49 Lone parents in particular find it difficult to combine work and parenting. According to a recent European study, 53 per cent of mothers across Europe who do not work or work part-time, do so because they consider childcare services too expensive. In the UK, however, the figure is 73 per cent⁵⁴.
- 2.50 Scottish parents face some of the highest childcare costs in Europe, deterring many parents from returning to employment or restricting the hours they can work, leaving them with low incomes and a reliance on welfare top-ups.
- 2.51 Despite spending more than the OECD average on family benefits, the UK does not compare well to other countries on issues of female employment, children enrolled in childcare or equal pay. The UK supports families primarily through cash transfers to households to enable them to purchase services. This approach does little to control prices and can create a complex mosaic of variable services that carers and parents must navigate. An alternative approach is found in the Nordic countries who make greater use of universal public services such as childcare, day-care and home help assisting women in particular to combine work and family life.

Summary

- 2.52 In the future, Scotland’s demographic profile will alter, its labour market will change and balancing care and work will become increasingly important. As an independent country, Scotland rather than the UK, would have to address these matters.
- 2.53 Ensuring that all adults who can work have the ability to find and keep good jobs will be crucial. This means offering support to those groups that face particular barriers such as younger or older workers, those who face skill or health challenges, people living in areas with little work available, those facing discrimination and the increasing numbers balancing unpaid caring and work. Breaking out of the

50 National Carer Organisations, *Submission to the Expert Group on Welfare Reform*, December 2013. <http://www.scotland.gov.uk/Resource/0044/00441905.pdf>

51 NIHR School for Social Care Research, *Overcoming barriers: Unpaid Care and Employment in England – Research Findings*. http://www.lse.ac.uk/LSEHealthAndSocialCare/pdf/Findings_10_carers-employment_web.pdf

52 National Carer Organisations, 2013, p.5.

53 Carers UK, *Sandwich Caring*, 29 November 2012. <http://www.carersuk.org/36-for-professionals/report/130-sandwich-caring>

54 European Commission, Q&A: *Report on Childcare provision in the member states and study on the gender pension gap* European Commission Memo, Brussels, 3 June 2013. http://europa.eu/rapid/press-release_MEMO-13-490_en.htm

'low-pay no-pay' cycle is essential. Individuals must be equipped with the right skills and opportunities to obtain and sustain good employment.

- 2.54 Even more important is to ensure that future generations do not find themselves in this situation. Investment in children and young people through childcare, education and training, for example, will help create a skilled workforce for the future.
- 2.55 This can only be done in conjunction with wider economic development that creates good jobs. Good work depends on demand from employers for skills and the ability of employers to pay good wages and provide opportunities for advancement. It also needs a business environment that encourages investment and productivity growth to create a labour market containing a range of jobs with progression prospects.
- 2.56 Supporting individuals as they move from one phase of their lives to another, from unemployment to employment, is key to a modern social security system for Scotland. Such a system should recognise society is changing, with caring and employment responsibilities shared amongst the family, and recognise the changing role of women and their contribution to the economy and society. Current inequalities in employment, rates of poverty and income inequalities and the costs of caring, suggest that what Scotland currently has fails to adequately offer this support.

The current benefits system

2.57 This section looks at the workings of the current benefits system. We start off with a brief history to lead us to where we are in Scotland – a fuller description is provided in Annex B – and then consider various aspects of how people ‘move through’ the system including assessment and programmes designed to help them enter employment and stay in work. We also consider issues of complexity, culture and attitudes.

The development of a UK welfare state

2.58 A UK system of social security can trace its roots back over a century. Our present system is rooted in the 1942 Beveridge Report and its proposal for a scheme of social insurance against the *‘interruptions and destruction of earning power’*. The scheme was based on all working people paying weekly contributions from their earnings in return for a low flat-rate benefit. Beveridge did not expect his system to completely replace the need for self-help through taking employment or saving.

2.59 This scheme suited the needs of the population at the time. The depression of the 1930s and mass unemployment and poverty were still in people’s minds and those in government wished to avoid a re-occurrence of those conditions. Following the Second World War, the population were accustomed to Government taking a much more interventionist approach in people’s lives and organising a wider range of services, so extending the reach of the post-war Government was acceptable.

2.60 Beveridge’s scheme was based on a society where the two parent/one earner household was common as was the notion of the ‘male breadwinner model’ with very high levels of male employment and wages geared towards supporting a family. However quite quickly this premise was challenged as women moved into the workforce in increasing numbers, full employment ceased to be an overarching goal, lone parent family numbers increased and life expectancy increased.

2.61 Yet Governments have reacted to these changes mainly by making adjustments to individual benefits, tightening up conditionality and ensuring that benefit levels were controlled. The most significant changes to the benefits system over the last decades have been the abolition of many elements of contribution, the substitution of housing benefit for housing provision, the use of incapacity benefits as a substitute for unemployment benefit and, most recently, the increasing focus on detailed processes of assessment, labour market activation and the increased use of sanctions.

The assessment process: what isn’t working?

2.62 Delivery can sit across a maze of partnerships between the public, private and voluntary sectors. So how does the current system operate? Our evidence suggests that a great number of people are involved in supporting a variety of individuals: from those who have lost their job, to those looking for work for the first time; from the young to the old; from those who are well to those dealing with a number of physical challenges or mental health issues. They are dedicated, professional and work hard at what they do, often in demanding circumstances. It is right that we recognise their skill and dedication wherever they are and whatever they do. It is important that we acknowledge that the overwhelming majority of them do make a significant difference to the lives of people across Scotland.

2.63 There is good evidence, however, to suggest that the current system isn't working for a large number of people. The reasons are varied but, below, we set out the main difficulties with the current arrangements. Depending on their circumstances people can apply for many different benefits that each have their own thresholds, rules, payment periods, forms and decision-making processes⁵⁵. This complexity increases the risk of error and creates opportunities for fraud⁵⁶. The multiplicity of benefits has another important effect. When someone enters work, the combined rate at which they lose benefits is often high and unpredictable and the trigger point for benefit reduction comes too early. As a result, the incentive for an individual to take a job may not be strong, although many people do move into jobs even when they find themselves earning only a few pounds more than when unemployed.

The assessment process

2.64 In the current system there is little focus on assessing the challenges that people face not only in finding paid work, but in achieving other goals/outcomes designed to help them entering employment, for example training, learning, and volunteering. In relation to unemployment benefits, for example, the support received from the State is principally determined by length of claim, rather than position of the individual and what they need to help them to find work⁵⁷. This can often mean that the support people need arrives too late, although it is intended that Universal Credit will change this.

2.65 The current Work Capability Assessment appears not to be fit for purpose. We agree with the Welfare Reform Committee of the Scottish Parliament which took the view that:

- Treatment of individuals is not respectful.
- Assessment descriptors do not take sufficient account of fluctuating conditions.
- At the other end of the spectrum, individuals with long-term and unchanging conditions are subject to unnecessary reassessment.
- Assessments are undertaken by those without the knowledge and experience required to understand individual conditions.
- Decisions on eligibility for Employment and Support Allowance (ESA) are not then communicated effectively and in a manner appropriate to the needs of individuals⁵⁸.

2.66 Citizens Advice Scotland highlight that ESA is by far the biggest issue dealt with in Scottish bureaux, making up over a quarter (27 per cent) of all work. It has been increasing as a proportion of work carried out by bureaux with a 68 per cent increase in cases in two years predicted. A third of this work consists of appeals against benefit decisions⁵⁹.

55 P. Spicker, *How social security works: An introduction to benefits in Britain*. Policy Press, Bristol, 2011

56 D. Martin, *Benefit simplification: How, and Why, It must be done*, Centre for Policy Studies, 2009.

57 E. Holmes, *Personalised Welfare: Rethinking employment support and Jobcentres*, M. Oakley (Ed.) Policy Exchange, London, 2011. http://www.policyexchange.org.uk/images/publications/personalised_welfare_-_sep_11.pdf

58 Scottish Parliament Welfare Reform Committee, *letter to UK Secretary of State for Work and Pensions*, 21 March 2014. http://www.scottish.parliament.uk/S4_Welfare_Reform_Committee/20140321_MM-IDS_Employment_Support_Allowance.pdf

59 Citizens Advice Scotland, *Response to the Work and Pensions Select Committee: Employment and Support Allowance and Work Capability Assessment, March 2014*. <http://www.cas.org.uk/system/files/publications/CAS%20response%20WP%20Sel%20Ctee%20ESA%20and%20WCA%20FINAL.pdf>

- 2.67 There are also concerns with the assessment process for Personal Independence Payment, primarily the criteria being used to assess disability, and the cost saving objective behind this. As Scope highlight, the assessment primarily looks at an individual's condition, particularly the health or medical condition, and doesn't look at the fuller picture and what the additional cost might be of being a disabled person⁶⁰. Inclusion Scotland believes this runs the risks of a 'tick-box' approach to assessments which fails to take account of the specific circumstances of individual applicants⁶¹.
- 2.68 The problems with private contractors are also evident in the delivery of PIP assessments. The National Audit Office highlight that people are experiencing long delays to benefit decisions, due to a backlog of assessments with providers. By October 2013, there were 92,000 people whose claims were outstanding with assessment providers⁶².

The Work Programme

- 2.69 The Work Programme – the UK Government's scheme designed to help the long-term unemployed back to work – is delivered by a series of 18 'prime contractors' working for the UK Government and hundreds of smaller sub-contractors. At present Work Programme entry is prescribed for young persons aged 18-24 when they have been unemployed for nine months. It is twelve months for those over 25. In contrast, almost 60 per cent of those claiming Jobseeker's Allowance stop claiming within three months and almost 80 per cent within six months⁶³.
- 2.70 A review of the Work Programme in November 2012⁶⁴ found that just 3.5 per cent of people on the scheme had found a job lasting at least six months. The latest figures show an improvement but confirm that while the Work Programme is working better for the more employable, it continues to struggle for the more disadvantaged⁶⁵. Analysis for DWP⁶⁶ notes that prime contractors have been reluctant to invest resources in those further away from the job market and inclined to pass on the risk of such clients to their sub-contractors. DWP also noted that as referrals were higher than originally anticipated due to the recession, individual sessions that were intended to tailor support to help people back into work were replaced with more general support and online help.

60 Scope, *The Future of PIP: a social model-based approach*, October 2011. http://www.scope.org.uk/Scope/media/Documents/Publication%20Directory/The-future-of-PIP-a-social-model-based-approach_1.pdf?ext=.pdf

61 Inclusion Scotland, *Submission to Department for Work & Pensions: Consultation on the PIP assessment Moving around activity*, 5 August 2013. <http://www.inclusionscotland.org/documents/InclusionScotlandresponsetoPIPconsultationAugust2013.doc>

62 National Audit Office, *Personal Independence Payment: Early Progress*, 27 February 2014. <http://www.nao.org.uk/report/personal-independence-payments-pip/>

63 Department for Work and Pensions (DWP), *Work Programme: Equality Impact Assessment: Employment Group*, October 2011. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220250/eia-work-programme.pdf

64 http://stats.cesi.org.uk/website_documents/initial_WP_Performance_InclusionComment.pdf

65 <http://www.cesi.org.uk/responses/dwp-work-programme-how-it-performing-1>

66 http://www.cesi.org.uk/sites/default/files/publications/WPevaluation_implementation.pdf

2.71 While Work Programme providers are paid on the basis of sustained employment, this can be comprised of multiple short-term jobs. This means there can still be a lack of personalised support for low-skilled people meaning that individuals move between multiple low-paid work but fail to find a way of improving their skills and ultimately their long-term employability.

Conditionality and sanctions

- 2.72 Whilst there is a general acceptance that receiving benefits will inevitably imply some form of conditionality, there is concern about how this is being implemented and the increase in the application of sanctions for non-compliance. There is widespread concern that the only form of conditionality being imposed is through a stringent sanctions regime, with little or no investment in incentives to change behaviour. Much of the criticism from our Call for Evidence focused on the cumbersome and punitive nature of this new process. Individuals, particularly in rural areas, mentioned challenges in making regular meetings with advisers in Jobcentre Plus. There was a general feeling that having to do a set amount of weekly job searching may not be the most useful activity, especially when local employers were not recruiting. Moreover, circumstances may change at short notice: childcare arrangements, access to transport, or recurrence of a health condition.
- 2.73 The Scottish Government recently looked at the potential impacts of benefit sanctions on individuals and households⁶⁷. It found that those who face sanctions are often unable to comply with conditions rather than unwilling due to inadequate communication or limited awareness of sanction rules and consequences. Those mostly at risk of being sanctioned include the more vulnerable: people that lack work experience, those with health problems, lone parents, those who are homeless and care leavers. Young people tend to receive a higher proportion of sanctions compared to older age groups.
- 2.74 The current sanctions regime is particularly problematic for those with more complex needs who have been found ineligible for ESA.

“...claimants struggle to cope with the harsher conditionality of the JSA regime, which is often not appropriate for the needs of clients with disabilities and health conditions. In some cases adjustments may be made to a claimant’s Jobseeker’s Agreement or Claimant Commitment, but bureaux evidence suggests this is not happening consistently.” Citizens Advice Scotland (response to the Work and Pensions Select Committee: Employment and Support Allowance and Work Capability Assessment)

⁶⁷ Scottish Government, *The potential impacts of benefit sanctions on individuals and households*, December 2013. <http://www.scotland.gov.uk/Resource/0044/00440885.pdf>

- 2.75 Even for those in receipt of ESA, there are concerns that the sanctions regime currently does not take full account of their complex circumstances and is based on “poor decision making”⁶⁸. The impact on an individual can be serious, as outlined by recent research published by Scottish Association for Mental Health⁶⁹.
- 2.76 The early evidence around the potential impacts of sanctions is mixed. In the short-term, unemployed people who are sanctioned may move closer to work or find a job when the jobs market is performing well. However, they do not tend to stay in such jobs which are likely to be low-paid and fail to match the individual’s skills. There are also potentially negative impacts for employers. Research undertaken on behalf of DWP found that some employers reported concern around taking poor-quality candidates who are ‘forced’ to apply for and take jobs they do not want. Employers want motivated people suited to the job, not people who feel like they have been conscripted.

A complex landscape

- 2.77 Whilst organisations across Scotland work in partnership where they can, the journey of support for individuals can be complicated. It is not uncommon for the same person to have to deal with national work programmes, EU funded programmes, local authority employability initiatives, private sector organisations, public sector bodies, third sector organisations, a Jobcentre Plus adviser and staff in local Skills Development Scotland offices. This split between services can create duplication, and barriers for individuals: for example those on the Work Programme have no access to Scottish Government funded skills provision. The picture is just as complex for employers.
- 2.78 Individual experiences of the benefits system reflect this complexity. At a workshop arranged by Inclusion Scotland in February, we heard that one unpopular aspect of the current system was having to deal with a lot of different offices. Dealing with the benefits system is only one part of this complexity for people with disabilities. Undergoing a range of assessments for passported benefits and for social care creates further bureaucracy which hampers people’s ability to achieve work or personal goals.

“.. the way it works is that there is a letter from Belfast that goes to Aberdeen and that then gets sent to Glasgow. Who’s processing it?”

“There should be just the one office that people work through. It’s too confusing when there are different offices that you have to phone”.

68 Child Poverty Action Group, *ESA and sanctions – more hard times ahead*, Issue 232, February 2013. <http://www.cpag.org.uk/content/esa-and-sanctions-%E2%80%93-more-hard-times-ahead>

69 SAMH, *Worried Sick: Experiences of Poverty and Mental Health across Scotland*, March 2014, p.10. http://www.samh.org.uk/media/417248/deprived_communities_report.pdf

Culture

- 2.79 The relationship between those making a claim for benefits and those involved in the assessment process is positive for many, but others unfortunately encounter a different experience. Many respondents argued that the introduction of the private sector has clearly changed the dynamic as well.

“Many voluntary organisations spoke of the degrading and bullying way in which benefit claimants are currently treated by DWP office and Jobcentre staff.”

The Coalition of Care and Support Providers

“The performance of organisations such as ATOS and G4S have shown that a private sector focus on targets and profit can result in inadequate consideration being given to the rights and dignity of the claimant.”

Capability Scotland (Expert Working Group’s first Call for Evidence)

- 2.80 DWP’s own research⁷⁰ shows that for those in receipt of unemployment benefits, one of the biggest sources of disappointment was DWP’s failure to carry out agreed actions. Individuals who felt DWP could be trusted to carry out procedures correctly and to inform them about other possible entitlements were more likely to feel ‘very satisfied’ with the service, while those who did not trust DWP in these respects were not only less likely to say they were ‘very satisfied’, but more inclined to be disappointed.

Is there still public support for a comprehensive benefits system?

- 2.81 Over the last 10 years attitudes to benefits have changed. Researchers suggest that while the media have had an impact, the loss of reciprocity in the system is a more fundamental change.

“In recent years the UK welfare system has become steadily more means-tested and less contributory. This has had the effect of undermining the sense of reciprocity that was at its heart and still underpins many systems around the world. It seems likely that renewing this reciprocal deal is a necessary step if the welfare system is to reverse recent trends and earn greater public support in the future.”

Source: generation strains a Demos and Ipsos MORI report on changing attitudes to welfare (2013)

⁷⁰ N. Howat et al., *DWP claimant service and experience survey 2012*, Research Report, Department for Work and Pensions, London, 2013. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207470/rrep831.pdf

- 2.82 Our research with a range of people across Scotland suggests that there are a clear set of ideas from people about the current benefits system:
- The system should be about positive support into work accompanied by the provision of a basic standard of living.
 - This should be achieved by the provision of services rather than cash and the use of flat rate benefits and means-testing.
 - Benefits should not rise in good times (Government resources should be used to enhance services) nor should they fall in bad times.
 - There was little support for a contributory system in payment terms but an understanding that all should contribute through their activities and create a sense of reciprocity in that way.
- 2.83 In one area there is a high level of public misunderstanding. Scottish people are still of the opinion that there is a high level of benefit fraud with up to 75 per cent agreeing at least slightly that large numbers falsely claim benefits⁷¹, even though official data suggests that only 0.7 per cent of total benefit expenditure is overpaid due to fraud.

Summary

- 2.84 What Scotland has is a system, developed over time, that is now too complex and too remote; it can be impersonal, and can work against the needs of citizens for support. It is increasingly losing the trust of those involved.
- 2.85 Our discussions highlighted the existence of a far more nuanced view about benefits than typically portrayed. The Scottish public recognises the importance of having a supportive benefits system for when life goes wrong, but equally expects that all adults will contribute to that system and use it as a stepping stone to progress in their lives. They express some concern that the system is being defrauded but they are not looking for the dismantling of the system in response. In this respect there is a difference between the UK and the Scottish public; it would seem that there is still a stronger level of support in Scotland for an effective benefits system.

What lessons can Scotland learn from other countries?

- 2.86 There are certain common terms that tend to feature in most discussions about social security. These are:
- Universal – where the only criteria to be eligible for benefits relates to your citizenship or residence or other qualifying criteria such as age.
 - Contributory – where the support you receive is based on the amount you've paid in.
 - Means-tested – where the support you receive is based on other factors, usually the amount you are earning and any savings.
- 2.87 Different models of social security (and welfare states more generally) have

71 Scottish Government analysis of Scottish Social Attitudes Survey 2013. <http://whatscotlandthinks.org/questions/do-you-agree-or-disagree-that-large-numbers-falsely-claim-benefits#table>

developed based on these ideas⁷². A fuller description of some of these is set out in Annex D. The best known is perhaps the Nordic Model which is based on the idea of universalism. It provides all citizens with high quality social security underpinned by a clear commitment to full employment with good wages for women as well as men. To facilitate this, the State provides comprehensive childcare and social services (e.g. for the elderly). These systems are funded from general taxation, which consequently tends to be higher.

- 2.88 There are other models. The Liberal Model provides safety net levels of means-tested benefits to encourage working while relying on the market for the provision of many services. The UK is usually regarded as operating this approach. Benefits tend to be based on contributions in the Continental Model. While these are generous for those in work or who have recently become unemployed, there is little support for others.
- 2.89 All of the ideal model types are, to a greater or lesser extent, hybrids as they contain varying elements of social assistance (the provision of a safety net through the benefits system, such as Income Support) and social insurance (replacing income that you may have lost due to, for example, unemployment). This tells us that there is no one ideal model type for Scotland to follow. Instead each country finds its own unique approach.
- 2.90 Attempting to transplant an approach which works in one country into an independent Scotland will, more than likely, fail. Approaches to social security vary considerably from country to country and are shaped by a whole range of factors, from history to economics to culture. Social security changes over time as society moves on and welfare systems vary widely, with certain benefits being means-tested, some being provided to everyone and others only to those who have made a certain level of contribution.
- 2.91 In a think-piece for SCVO⁷³, designed to contribute to its thinking on the future of welfare and tackling unemployment, this variety was summed up well by the report's author.

“Welfare systems have been designed with various aims. They share risks and costs across our lives, providing a level of income replacement at times of unemployment, sickness and in retirement. They provide support to reflect some of the extra costs of bringing up children or living with a disability. They provide services as well as money and combine elements of social insurance based on contributions previously paid with targeted social assistance for those with poorer contribution records. In some countries, contributions from employers and trade unions combine with those from employees and other taxpayers.”

72 G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Princeton University Press, 1990

73 J. McCormick, *Welfare in Working Order: Points and principles for the Scottish debate*, Scottish Council for Voluntary Organisations (SCVO), 10 January 2013. <http://www.scotland.gov.uk/Resource/0044/00441911.pdf>

Conclusion

2.92 The conclusion we have reached, based on our analysis of the evidence, is that an independent Scotland needs to find its own path. That path must be one which:

- suits the needs of the people of Scotland and how Scotland will change in the future;
- builds on explicit and agreed values; and
- commands sustained and widespread public support.

2.93 We believe that to establish a Scottish model we need to consider three 'P's – Purpose, Principles and Partners. In Chapter 3 we use this as the basis for developing our Scottish model.

Chapter 3

Social Security: Principles and Purpose Fit for Scotland's Future

- 3.1 We believe that an independent Scotland needs to avoid framing any discussion about its future social security system in terms of single models: for example pure universalism or a contributory-based system or a means-tested approach. An effective social security system will need to contain elements of each. We acknowledge that there are a range of views on the extent to which these three approaches should feature and that it is for an independent Scotland to decide and build the approach which works best.
- 3.2 There are three policy objectives which are held in tension in most attempts to build an effective social security system. These are the desire for the system to be equally 'fair', 'simple' and 'personal'. Trade-offs between these three objectives are inevitable, even where people agree on the meanings of the words.

“Non-means-tested support is simpler, easier to administer and does not suffer the stigma often attached to means-tested support.” Scottish Campaign on Welfare Reform: Manifesto for Change

“We recommend that any future system mirrors the current arrangement in that some services and benefits are means-tested and that some are universal.”
ENABLE Scotland

- 3.3 To illustrate, if a person-centred approach to the assessment of benefits is pursued, a principle advocated by, among others, the Health and Social Care Alliance Scotland, this has a greater chance of producing a fair outcome for the individual but it may take more time and, by its nature, be detailed and complex.
- 3.4 What is clear is that independence provides Scotland with the opportunity to design a social security system afresh. That should be the starting point for the first Government in an independent Scotland. Politicians and policy-makers should understand at the outset that there will be trade-offs, such as those illustrated above, which require debate and discussion. To ensure that those trade-offs are recognised and addressed, a clear purpose and associated principles for a new social security system is essential.
- 3.5 This Chapter therefore sets out three important 'P's: a Purpose; a set of guiding Principles that flow from that Purpose; and the Partners who will have the greatest role in designing and delivering Scotland's new social security system. We also propose an explicit Partnership to embed our approach. Finally, we set out our vision of how social security should, and could, be delivered and integrated in a wider social investment-led policy framework for Scotland.

The Purpose

- 3.6 A system of welfare provides general assistance, help and support to individuals and families in a variety of different ways. Policies on health, childcare, education, employment, pensions, housing and even planning can all be said to have an element of welfare or wellbeing within them. An essential feature of any welfare system are the associated programmes of social security. These tend to take the form of cash payments from the State to individuals and families to meet specific needs, such as illness, disability, unemployment and caring.

“The purpose and principles of a welfare system...need to be underpinned by an appreciation that the welfare system benefits everyone in society.”

The Poverty Truth Commission

- 3.7 Irrespective of whether we talk about welfare (in the broad sense) or social security (in the narrow sense) almost everyone receives support from the State at some point in their life.
- 3.8 Families receive support in a variety of ways for their children, primarily in the form of cash payments from the State such as Child Benefit. For some, that support can even begin before a child is born with some expectant mothers entitled to free weekly vouchers for fresh fruit and vegetables. As children grow, if their parents are in work they may be entitled to vouchers or tax breaks to help manage the costs of childcare. From August 2014, Scotland is extending funded early learning and childcare from 475 hours to 600 hours a year for all three and four year olds and two year olds who are looked after, the subject of a kinship care order or a child with a parent appointed guardian, and two year olds with a parent in receipt of one or more qualifying out-of-work benefits.
- 3.9 Child Tax Credit can be claimed whether or not a parent is in work and, where they don't work, help with the costs of raising a child is available, especially for lone parents. Education Maintenance Allowance is an interesting but uncommon example of a cash benefit (in the widest sense) paid by a devolved Government to low-income families to encourage young people to stay on in education.
- 3.10 As children become adults, leave formal education and move into employment, Working Tax Credit can help boost their wages if they are in low paid work. If an individual cannot find work, a variety of cash benefits and State services are on offer to help find a job, with further support often available from local authorities or other devolved services to help meet the everyday costs of living. If someone is not able to work, falls ill, is disabled or helps to care for someone else, then there are a range of caring and disability benefits available. On retirement, the State will pay a pension and, in certain circumstances, top it up to a minimum level. In old age, people receive extra money to help with the costs of heating their home and those aged 75 and over also qualify for a free TV licence.
- 3.11 But while many countries will seek to support their citizens in similar ways, the question we have asked is what part does a 'good' system of social security play? What should its distinctive role or purpose be?

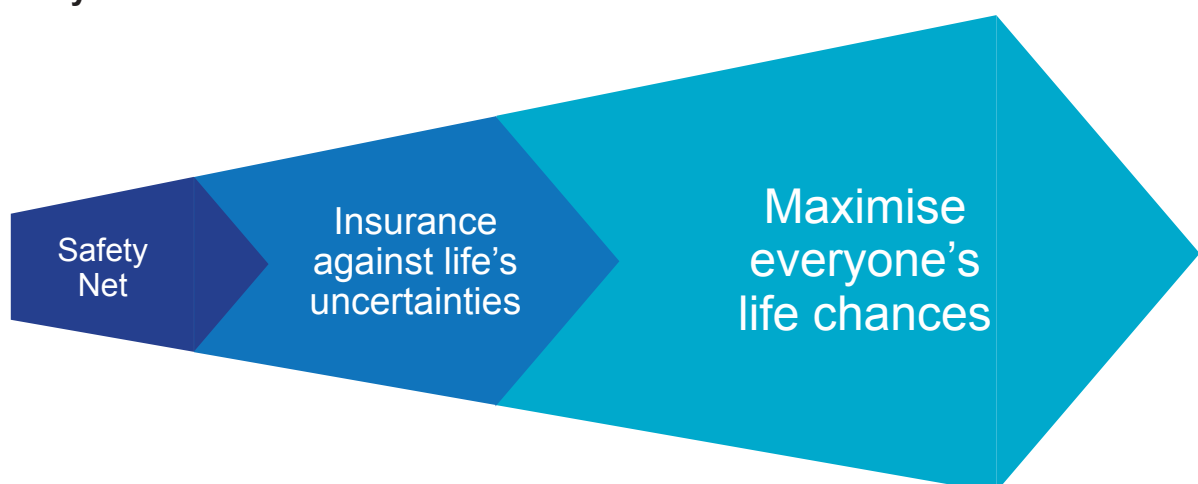
- 3.12 Life often intervenes at unexpected times with unpredictable consequences. If a company goes out of business, the employees lose their jobs. Family relationships can break down, with consequences for both partners and any children which are hard to predict. Individuals can fall ill leaving them and their families to cope with unforeseen consequences. The risk of poverty once associated with being out-of-work is now a real issue for many people in work.
- 3.13 A good social security system can provide protection when things go wrong and, in the most difficult circumstances, **a safety net**. So it appears to us that a safety net through which individuals cannot fall and **insurance against life events** should be two purposes of the social security system in an independent Scotland.

“We strongly believe that the purpose of a benefits system to act as a ‘safety net’ is central. Individuals who cannot support themselves need to know that there is a reliable and effective system for them to use when needed, whether it is time-limited support or lifelong help.” Downs Syndrome Scotland

- 3.14 But social security should be so much more than simply a system of support. We also believe its third purpose should be to **maximise the life chances of every individual** – to provide a springboard as well as a safety net. We know the transformational effect which improving the life chances of children can have, both for their future lives and those of their families. We see social security as having a role to play in helping to ensure that anyone can overcome difficult circumstances in their life and reach their potential.

“A good social security system can prevent problems and costs arising in other areas, for example by helping to avoid destitution, homelessness and worsening physical and mental health.”
Citizens Advice Scotland

- 3.15 **We recommend that the Purpose for an independent Scotland’s social security system must be to provide a safety net through which individuals cannot fall, insurance against life events, and to maximise the life chances of every individual.**



Principles of a social security system in an independent Scotland

3.16 Our second ‘P’ involves the principles which would underpin the social security system in an independent Scotland. These principles represent the tests against which any new policies, or changes to existing or inherited policies, should be proofed. They are grouped under our three overarching principles – that the system should be fair, personal and simple:

Fair

- 1) Treat people with **dignity** and **respect**.
- 2) Build trust and support by being **transparent**.
- 3) Be **responsive** to how an independent Scotland, its society, economy and people change.
- 4) Be **sustainable** in the long term.

Personal

- 5) **Empower** people to take control over their circumstances.
- 6) Offer **choice** as to how benefits and services are delivered.
- 7) Build on the **assets** of individuals, families and communities.
- 8) Promote **work** as a realistic goal for anyone who can and provide effective **support** for those who are prevented from working.

Simple

- 9) Support **integration** of benefits and services where this makes sense.

3.17 Some individuals may need very little support while others need assistance from the moment they are born. Most people live within these two extremes, and the right support at the right time can make a huge difference. But most of all people want to be in charge of their own lives. This is why **empowering** individuals is such a vital principle in the system we propose. Closely allied to this is the principle of **choice** which also enables individuals to take greater responsibility and control in their own lives by identifying a course of action that is right for them.

“We believe that the key principles of any Scottish benefits system should... support citizenship and participation, rather than promote and perpetuate marginalisation and exclusion.” Inclusion Scotland

3.18 Traditionally, Government has shifted resources from one place to another in an attempt to achieve certain outcomes – reduce poverty or increase employment for example. A problem is identified, a ‘solution’ is developed and then a new policy or service is introduced. At times the solution isn’t particularly novel or unique; at times it could have unintended consequences which can exacerbate the problem.

- 3.19 But there is another way. As the Poverty Alliance and others have pointed out⁷⁴, for many years those working at grassroots level have talked of the need to concentrate more on the capabilities that individuals and communities have – their potential – and less on what they do not have. This approach has come to be known as **assets-based**, where the emphasis is on bringing services to, and developing services with, people and fitting those services to their needs, not the other way around.

“A future benefits system should focus on what people can do and work towards maximising their skills and strengths, not diminishing their ability and confidence.”

Downs Syndrome Scotland

“A better system would start with a broader conception of the capabilities that underpin a good life and it would be more sensitive to providing the right support and incentives necessary for self development and stronger communities”

Scottish Campaign for a Fair Society and The Centre for Welfare Reform

- 3.20 As we showed earlier, it is almost impossible to remain untouched by the current system of welfare. It is a source of significant regret, therefore, that the current debate has become bound up with stereotypes of ‘scroungers’ and ‘skivers’. The reality is actually quite different: a report from the IFS estimated that over an 18-year period, 48 per cent of the British population had received a means-tested benefit⁷⁵. Not only are many of us the recipients of help from the State, the Ipsos MORI report we commissioned to look at public attitudes found that there is some support from the public for early intervention spend. As their report states:

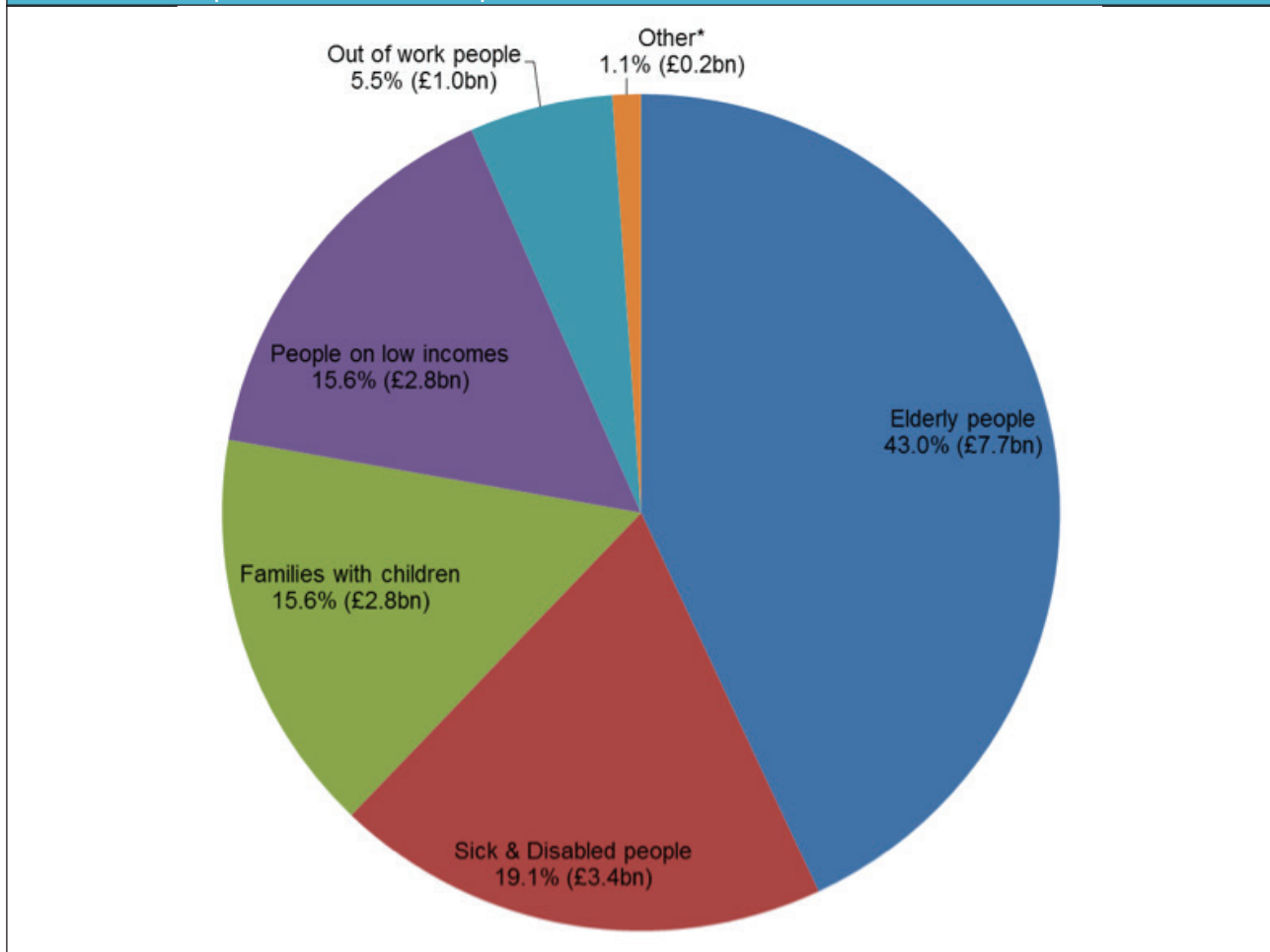
“The dominant theme was that the ideal benefits system should focus not on money, but on providing support, advice, encouragement, motivation and practical help.”

- 3.21 Over half of the spending on benefits expenditure goes to people aged 60 or over – a component of spending that benefits all of society in old age – and the remainder spread reasonably equally between families with children, people on low incomes and the sick and disabled. People who are able to look for work in Scotland receive very little of the current benefits bill. This is illustrated in Chart 3.

74 See e.g. The Poverty Alliance, *Scottish Anti Poverty Review*, Issue 14, Winter 2011/2012. http://povertyalliance.org/userfiles/files/SAPR_14_Winter1112_FINAL.pdf. Christie Commission, Commission on the Future Delivery of Public Services, Scottish Government, 2011. <http://www.scotland.gov.uk/Resource/Doc/352649/0118638.pdf>

75 B. Roantree & J. Shaw, *The Case for Taking a Life-Cycle Perspective: Inequality, Redistribution, and Tax and Benefit Reforms*, IFS Report R92, Institute for Fiscal Studies, March 2014. <http://www.ifs.org.uk/comms/r92.pdf>

Chart 3.1: Composition of benefit expenditure in Scotland, 2012-13



Source: Scottish Government calculations based on methodology highlighted in this report.

Note: Benefits included in the 'Other' category: Bereavement benefits and other small benefits such as cold weather payments etc.

3.22 We firmly believe that the tone of the conversation, as does the culture that allows it to spread, needs to change. The overwhelming view of those who were part of this process was that the stigmatisation of individuals 'on benefits' must stop. We agree. That is why **dignity** and **respect** must be an important principle for our system. Social security should be regarded across society as a vital component of a fair and prosperous country that values its people across their lives.

"The active creation and maintenance of the false division between 'we the people', the taxpayers, the givers, in contrast to 'them, the poor, the benefit-dependent', the takers, has not only stigmatised its receipt and depressed take-up by many entitled to benefits. It also very effectively reduces attention to and support for more positive changes by shifting attention from problems of structure and agency in the labour market to the alleged failures of individuals." Professor Adrian Sinfield

"My dad said they used to sit down and they would go through for half an hour and look at all the jobs and they would help you get a job a back into work and stuff. See nowadays they don't even do that, you're in five minutes, you fill in a wee form and they send you away." Expert Working Group Focus Group Participant

- 3.23 A system which seeks to re-establish and maintain dignity as well as respect for individuals must also be trusted and supported by the public. It must be responsive to change, adjusting priorities and resources in good times and in bad but with a long-term view in mind. That is why **transparency** and **responsiveness** are crucial.
- 3.24 Bringing together devolved and reserved services after independence would allow major steps forward to be taken in re-designing what is a fragmented landscape into a more **integrated** and holistic system.
- 3.25 We firmly believe that work should be the best route out of poverty for anyone who can realistically be expected to work. As we discuss elsewhere in our Report, the reality for many people today, however, is that a job no longer guarantees a route out of poverty. So a job, with proper reward, where this is a realistic goal is a necessary part of our system, as must be support for those for whom work will never be a realistic long-term prospect and for those for whom work has not yet acted as a route out of poverty. This does not mean that they have nothing to contribute. Our system should recognise and support other valuable contributions to society other than paid work.

“There has to be a fundamental shift to the understanding that, due to mental and physical health, some in our society will not be able to work a full time job and, instead of being stigmatised and impoverished, they should be supported to live a meaningful and rewarding life where the vital community work many of them do is rewarded.”
Poverty Truth Commission

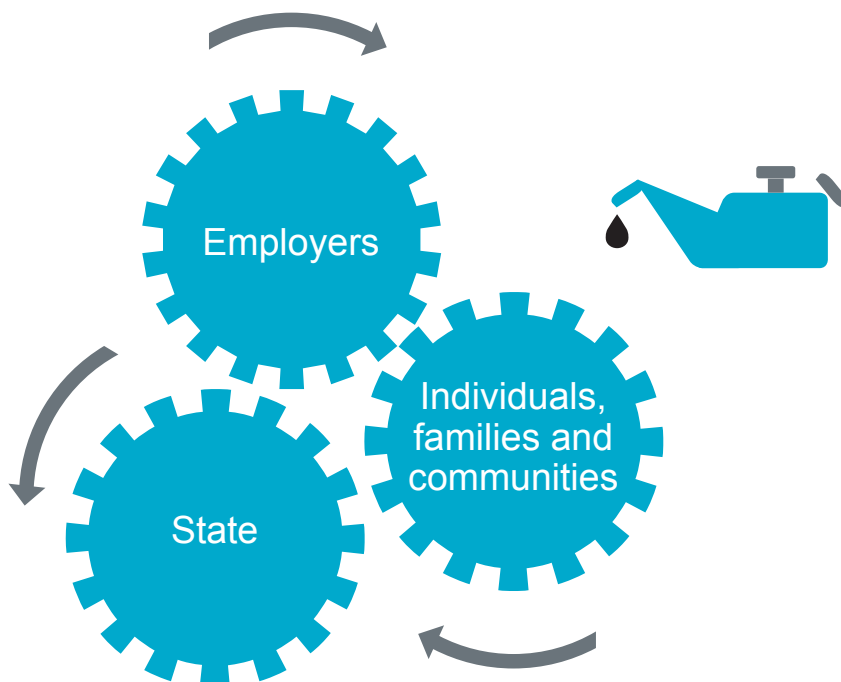
- 3.26 Finally, a short-term focus on specific benefit levels fails to recognise that the most effective way to maintain control over costs is to apply our Principles over the long-term in order to reduce demand for social security. A discussion on welfare expenditure is often couched in terms of whether or not it is affordable. We believe the right question is whether or not spending on social security is **sustainable**.

“Ultimately, the costs of maintaining working-age welfare system should be traded off against its benefits. Avoiding mass unemployment and ensuring adequate incomes for those of working-age can enhance the health of the whole population and contribute to narrowing health inequalities. If those who want to work are able to secure decent work relatively easily, their health now and in the future is likely to be better, and the costs to the health system lower.”
NHS Health Scotland

- 3.27 Having established our Purpose and Principles, we now turn to the matter of the Partners with the greatest stake in the success of Scotland’s new social security system, and who each have a role to play in its delivery.

A Social Security Partnership for Scotland

- 3.28 Quite often the first port of call when someone needs help will be a family member or a friend or a neighbour. Care and support might also be found from voluntary groups working locally or networks of people who have experienced similar issues. It therefore isn't enough to consider people in isolation – **individuals, their families and communities** need to be viewed together. Understanding how these interact will be a crucial element in building a new social security system.
- 3.29 There are others who have a significant influence in how people live. The **State** sets policy on welfare, health, housing education and skills. It provides resources through the social security system, regulates the labour market and creates the environment in which employers can establish and grow their businesses and recruit people. The State levies taxes, prescribes levels for minimum wages and provides tax relief to those on low incomes. It provides protection at home and abroad and it sets the broader economic context within which everyone lives and works.
- 3.30 Employers are an essential part of creating social wellbeing. **Employers**, through the jobs they create, provide the means through which most households acquire the majority of their income. They have a responsibility to provide a safe place to work and pay wages. Where necessary, they provide training to allow their employees to do the job for which they are recruited or to improve their skills more generally. Policies which influence where and when people work and how work is organised are common in the workplace. Although membership has fallen in recent decades, trade unions remain a key social partner with a stake in improving the pay, conditions and skills of their members. How employers understand and respond to the changes in society and in our population is important.



- 3.31 This illustration serves to highlight a key point. Each of these Partners, our third ‘P’, relies on the other to a greater or lesser extent:
- **Individuals, their families and their communities** need support from the State to reach their full potential. They call on the State during periods of transition and adjustment, and it in turn provides a safety net when people can’t work. Individuals need employers to provide work that pays and the State and/or Employers to invest in skills to enable them to secure employment, including in new and emerging industries.
 - **Employers** need individuals that are prepared for work and able to learn new things. They also need the State to provide an economic backdrop and investment in infrastructure, such as the transport network, that enables their businesses to grow.
 - The **State** needs employers to create good jobs to minimise in-work benefits and maximise tax revenues. It expects individuals to actively seek work, to develop new skills and to provide care and support for each other.
- 3.32 But that sense of reciprocity has not been developed or exploited as much as it should, either for the benefit of this generation or the next. Although it might not be recognised in these terms, together these Partners form a powerful economic and social dynamic. Our Call for Evidence suggested that there was a lack of trust within the existing system and that roles of each of the Partners was not clear.
- 3.33 We have therefore concluded that the role of each Partner should be explicitly framed in terms of a Social Security Partnership. This sits alongside our Purpose and Principles, and sets out the legitimate expectations each Partner should have of the other. The policy options we set out in Chapter 4 will therefore need to meet the Purpose, align with our Principles and be in tune with the Partnership. **The Partnership we recommend is set out on page 36.**

A draft Social Security Partnership for Scotland

I. Where work is available, the job on offer is considered to be an appropriate job for you and you are able to work, then it is legitimate for the State to expect you to take up that offer of work if you are claiming social security for being out-of-work. In return, the State will provide you with support to find jobs suited to you including, where necessary, training and skill development, and it will work with employers to improve the quality of employment where appropriate to help you progress.

II. Where work is not available you will receive financial benefits from the State, and you will be expected to undertake some form of positive activity aimed at preparing you for work. This might be learning new skills or getting involved in a community project.

III. Where you are not ready to work because of your individual or family circumstances, the State will adopt a common sense approach to prepare you for a return to work at the right time.

IV. You may not be required to seek work immediately. Such situations would include lone parents of young children not yet at school who do not yet have access to affordable, good quality childcare, unpaid carers or disabled people who are unable to work now but who hope to get a job in the future. In these situations, the new social security system will provide financial benefits as well as offering support with training, learning new skills and job search.

V. Where you are required to look for work, the system will take a proportionate approach. For example, an unemployed person may be expected to look for work for part of the week, in combination with part-time study or voluntary work. These are recognised as valuable activities which help improve an individual's job prospects. In particular, volunteering will be encouraged rather than approached with suspicion or coercion.

VI. The State will recognise that, for people who experience complex and multiple problems (for example addictions, domestic abuse, mental health issues) living a stable life and getting closer to the jobs market over a longer period of time are alternative and legitimate goals. Where you are unable to work, the system will support you to live with dignity.

VII. The social security system will be based on positive conditionality with expectations on individuals and the State. Individuals will take active steps towards the jobs market. The State will provide incentives along the way and will proof all policies to ensure that they do not inadvertently disadvantage people in need of social security.

VIII. Government will pursue infrastructure, investment and skills policies that create a context within which business can flourish. Businesses will uphold employment rights and move towards paying the Living Wage and be supported to help raise productivity to enable higher pay. Businesses should also pursue recruitment strategies which provide those with and without experience with an equal chance of being interviewed for an entry level job and provide job-specific training and opportunities to progress in the organisation, which Government will support through its education and skills policies. Businesses should also be supported to keep people in work when ill-health or disability occur.

Social security as part of a new approach: social investment-led policies for an independent Scotland

- 3.34 Social security helps people manage their daily lives, can be designed to provide significant support when they face life-changing events and help in times of real need. It provides a sense of security. This approach to social security – as something to be considered over a lifetime – has been likened by some to a journey on a bus. When an individual or a family need help, they choose or are supported onto the bus and take it to their preferred destination. But this mode of transport can be responsive and personalised: it can anticipate what people need and help them move towards it. It can engage other people and other routes that work together for the best outcomes. It is there when it's needed. At a very basic level this can be described as social investment.
- 3.35 As a Group we discussed the ideas behind social investment in some detail and we had the advantage of Members with expert knowledge in this area. Social investment is about investing in people. It promotes policies designed to strengthen people's skills and capacities and support them to participate fully in employment and in their social life⁷⁶. Social investment stresses prevention rather than cure, by reducing the need for social security. That way, when people do need support, society can afford to help. Investing in children and young people to increase their opportunities in later life are crucial. We are attracted to the longer-term focus that social investment brings, namely that it is an investment across a person's life that is designed at all stages to promote equality, fairness and social cohesion. The knock-on effects to society would be felt through better outcomes for people, families and communities as well as giving people a greater stake in issues that affect their lives.
- 3.36 Affordable quality childcare and education, training and job-search assistance, housing support, social care and accessible healthcare are all policy areas which could be seen to have a strong social investment dimension. We go on to discuss some of the policy implications from adopting a social investment approach in Chapter 4. The social investment approach ties in with the Principles we have identified earlier as being at the heart of how any new Scottish social security system should be brought forward. This is a journey which Scotland has already embarked upon and its social security system should be viewed as part of the development of a social investment approach to public policy in an independent Scotland. Clearly these outcomes would need to be measured over time.
- 3.37 Following the path of social investment means that another important factor – equality of opportunity – can be firmly embedded into the social security system from the outset.

"...we agree with the argument that a benefits system is in fact a form of social investment. Indeed it enables people with Down's syndrome to take an active part in the life of their community locally and, by supporting people in need, such a system also has the potential to tackle major concerns like inequalities in today's society."
Down's Syndrome Scotland

⁷⁶ European Commission, *Social Investment: Commission urges Member States to focus on growth and social cohesion*, 20 February 2013. <http://ec.europa.eu/social/main.jsp?langId=en&catId=1044&newsId=1807&furtherNews=yes>

“Scotland’s social security system should be one based on social investment in the future of Scotland and seen as a positive way of supporting and promoting policies and outcomes which enable all to flourish, going further than simply providing a ‘safety net’ to meet basic needs. The system should have a critical role to play in supporting children to have happy and enriching childhoods and to enjoy the strongest possible start in life. To make sure that Scotland is a successful and sustainable nation, the benefits system should enable every family to give their children meaningful opportunities and the full range of resources they need to learn, thrive and develop to their best potential.” Save The Children Scotland

The case for a rights-based approach

- 3.38 In closing this Chapter, we should note that a number of respondents to our Call for Evidence were in favour of adopting a ‘rights-based’ approach to welfare in its broadest sense.
- 3.39 Rights-based approaches can be seen to both embed a series of enforceable rights that subsequent Governments cannot alter and give the courts significant powers to require their observance. This approach has its merits but is not without its critics.
- 3.40 Some respondents to our Call for Evidence have presented very specific proposals on adopting a set of rights. For example, Citizens Advice Scotland suggests that the starting point for these should be the aims of the International Covenant on Economic, Social and Cultural Rights 1966. Both One Parent Families Scotland and Save the Children believe that having respect for human rights should be the cornerstone of welfare reform. SCVO, amongst others, believe ‘human rights principles’ are central to a Scottish approach to welfare.
- 3.41 The discussion on adopting a ‘rights-based’ approach is an active one. We note that *Scotland’s Future* makes some commitments towards a written constitution. Whether an independent Scotland should adopt a written constitution would be part of a much wider discussion between the citizens of Scotland following a vote for independence. We expect that Governments in an independent Scotland will wish to look closely at this subject.

Summary

- 3.42 We propose that Scotland’s social security system should have a three-fold Purpose:
- To maximise the life chances of every individual.
 - To provide insurance against life events.
 - To establish safety nets through which individuals cannot fall.

3.43 Policies should be tested against the following Principles:

Fair

- Dignity and respect.
- Transparency.
- Responsiveness.
- Sustainability.

Personal

- Empowerment.
- Choice.
- Assets-based.
- Promotion of work.
- Support for those who are prevented from working.

Simple

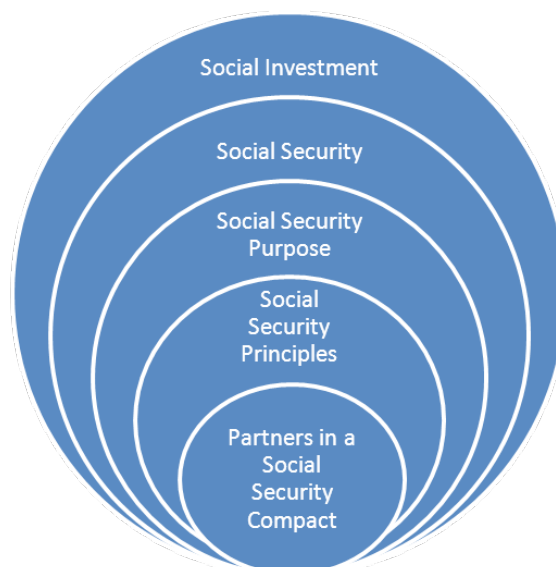
- Integration.

3.44 There are three Partners which, together, have a stake in a Scottish social security system succeeding. They are:

- Individuals, their families and their communities.
- Employers.
- The State.

3.45 These Partners rely on each other to a certain extent and other important contributors, such as trades unions. They require ‘something’ from each of the others for the system to work. We suggest that these legitimate expectations are set out in a Social Security Partnership.

3.46 Finally, the social security system should be part of a wider approach to social investment in an independent Scotland. This is illustrated below:



Chapter 4

Social Investment-Led Social Security Policies

Introduction

- 4.1 In Chapter 3 we set out the Principles which we believe should be at the heart of any new social security system for an independent Scotland. Our remit invites us to set out the type of policy propositions for working-age benefits which would align with these Principles. We have been asked to do that in broad terms rather than design a comprehensive blueprint for a new social security system in an independent Scotland. We were also invited, where we believed this would provide important context to our recommendations, to provide views on other policy areas which the first Government of an independent Scotland may need to consider in order to achieve its policy outcomes for working-age benefits, and we have done so.
- 4.2 We have put forward a number of options for how policies could develop. These are designed to illustrate the choices open to Ministers in the first Government of an independent Scotland and beyond, rather than prescribe what an independent Scotland 'must' or 'should' do. What we say in these sections of our Report is designed to stimulate further discussion and debate. We would encourage as many people as possible to engage in that. We have deliberately set out our policy propositions to look at what is possible in the short, medium and long term.
- 4.3 In Chapter 3 we set out the case for embedding social security within a broader approach of social investment. This would take Scotland in an exciting new direction but only if it rises to the challenge of delivering policies that are different, that will make a lasting difference, and that remain true to the Purpose and Principles that underpin the approach. We believe that Scotland should not shrink from being visionary, which is why we have considered a range of radical ideas. Equally, some small short-term changes to the system Scotland inherits would, as an interim step, make it feel significantly different for a great number of individuals.
- 4.4 We recognise others will have an equally valid, but different, vision. While we may differ in our approaches, we can all agree that doing nothing is not an option. Scotland would quickly need to start to re-build trust and confidence in a system which many feel is broken. As it does so, the ambition of achieving a modern and integrated social security system should be possible. While some of the ideas which we present might seem impractical now, their time may come in the future.
- 4.5 While we believe a degree of urgency in making changes is important, the challenges we set out in Chapter 2 require the first Government of an independent Scotland to take some time at the outset to plan its approach over the short, medium and long term. For example, integrating reserved and devolved policies, changing culture, and building new partnerships are all significant tasks in their own right and will not be achieved overnight.

- 4.6 Our Purpose and Principles provide a guide on how to create a system of social security that fits within a broader social investment model. Our policy proposals vary in specificity but that is reflective of the fact that Scotland will inherit a UK welfare system in a state of transition and that, in line with our first report, a short period of shared administration for delivery of benefit payments will be needed. It also reflects the need to intervene swiftly in some areas to better support key groups in our society.

Starting reform immediately: actions for the short term

- 4.7 We believe that meaningful progress on implementing all of our short-term recommendations should be made by the first Government of an independent Scotland within the first term of the first Parliament.
- 4.8 Before we outline our agenda for change, we believe it is important that people have certainty in the early years of independence while the system is being transformed. In line with our first Report, on independence **we recommend that people should continue to receive the benefits and tax credits they are currently entitled to.**
- 4.9 Where opportunities exist for immediate improvement then the first Government should grasp them. **In terms of the level of benefits, we recommend that the first Government of an independent Scotland re-establishes the link between benefit levels and the cost of living, with those benefits and tax credits currently subject to the 1 per cent cap instead increased by the Consumer Prices Index of inflation (CPI).** Currently the Carer's Allowance is the lowest income replacement benefit at £61.35 per week. This compares to Jobseeker's Allowance for those aged 25 and over of £72.40. We have concluded that this unacceptable anomaly in the system should be tackled as soon as possible. **We recommend that Carer's Allowance should be increased and paid at the same rate as Jobseeker's Allowance.**
- 4.10 In addition, we see no need for a cap on the amount of money which should form part of the social security budget. Our recommendations are designed to create a more sustainable system, and if implemented, would negate the need to establish a separate welfare cap. The current welfare cap on AME expenditure should be abolished. Instead **we recommend that independent Scottish Governments should report twice during their term of office to the Parliament on the social security budget,** outlining what resources are being spent, on whom, how the budget has fallen or risen, the factors which have contributed to this and any action it believes it needs to take to control expenditure in the future.
- 4.11 Re-establishing trust and confidence is the most urgent priority. We have been overwhelmed, but not surprised, by the enthusiasm for change and the commitment to improvement from people working in the public, private and voluntary sectors. One of the early tasks for the first Government in an independent Scotland will be to embrace and harness that goodwill, energy and commitment.

“Employers, the state, the third sector and other key stakeholders need to move beyond the political sphere to create a joint approach to reshaping services. Creating a new benefits system requires will, leadership and to move beyond traditional dividing lines.” SCVO

“The most important consideration in building and maintaining widespread public support for the social security system is ensuring that all citizens have a meaningful stake in the system from the cradle to the grave and can expect to be able to draw from the system with dignity when they need support for themselves and their families.” Public & Commercial Services Union

- 4.12 To make this happen, **we recommend that the Scottish Government establishes a National Convention on Social Security in 2015. Its membership would be drawn from employers, citizens, faith groups, trade unions and voluntary organisations amongst others.** The Convention’s task would be to consider our proposed Social Security Partnership (set out in Chapter 3) and agree its terms, examining closely the issues which lie behind it and providing its views on any changes to what we suggest. Together with our Purpose and Principles, this would establish the foundation from which a new system would be built, based on co-production, and setting the standard for meaningful engagement and participation across society.

A draft National Convention on Social Security

Purpose

To bring together all parties involved in the development and implementation of a social security system in an independent Scotland, with the aim of considering how trust in the system can be re-established and maintained.

Task

It will do this by considering our proposed Social Partnership, agree its terms, consider potential issues in its implementation, and effective solutions to these. It will provide a ‘state of the nation’ report to the Parliament on these matters.

Membership

A broad and wide-ranging membership, designed to cover a wide range of interests, from across the public, private and third sector, and to include individual citizens.

Timing

This would be established in 2015 with a view to publishing its report before the first elections to the Parliament of an independent Scotland.

A new integrated working-age benefit: the Social Security Allowance

- 4.13 We examined the main elements of Universal Credit (UC), and the policies that support it. A very limited roll-out of Universal Credit has already begun in Scotland and an independent Scotland would inherit a mix of social security systems. Overall we do not accept UC as the best model for Scotland although we did find aspects that we supported, and which provide a potential template to consider. For example, an independent Scotland should have an ambition to integrate and simplify certain benefits, if this can be achieved technically and in an affordable way.

“We support the White Paper proposal to halt the roll out of universal credit. There are nevertheless, some aspects which we think ought to be retained in any new system. One such area is the creation of a unified in and out of work system. Many single parents cycle in and out of work due to multiple barriers they face in accessing sustainable employment. The financial and practical difficulties of moving back and forth between tax credits and out of work benefits are well known. It is for this reason that we support the idea of an integrated system.” One Parent Families Scotland

- 4.14 **We recommend that an independent Scotland should consider implementing a new unified working-age benefit, which we have called the ‘Social Security Allowance’ or SSA.** The SSA would initially integrate the benefits which the UK Government has identified as being brought into UC, with the exception of Housing Benefit. But, in the light of the many points of view expressed to us, we recommend that there be important differences in the way the SSA works compared with UC. We also suggest that a future Scottish Government should consider whether those working-age benefits due to be left outside UC should be brought into the SSA (the most important of these are the contributory forms of Jobseeker’s Allowance and Employment and Support Allowance and Carer’s Allowance) in order to reduce further the artificial boundaries between different benefits.
- 4.15 In line with our Principles on personalisation, those in receipt of the SSA should:
- be able to apply in a variety of ways;
 - decide how often to receive the SSA; and
 - choose who within the household receives the SSA payment.
- 4.16 Application could be online, face-to-face or by phone. Scotland is perhaps the most geographically diverse country of all the UK nations. An independent Scotland should therefore embrace the fullest possible range of digital technology, including applying on mobile devices or other popular communication methods. Scotland should also challenge the norms which sit behind, for example, a face-to-face discussion, and look to innovate: for example video technology enables a conversation to take place in person between two individuals at different ends of the country.

- 4.17 At the moment benefits can be paid either weekly, fortnightly or monthly but this varies depending on the benefit. Sometimes the benefit itself comes with a choice⁷⁷. **We recommend allowing the household to choose how often to receive the SSA across a month. We also recommend extending that choice to who receives the SSA, but with a default that this would go to the main carer (where this is relevant) not the main earner to ensure that women are not disadvantaged by the arrangements.**
- 4.18 In many areas of this Report we advocate a shift towards a more localised and personalised system, underpinned by a national framework of minimum standards and expected outcomes. The way Housing Benefit is currently delivered by local authorities, alongside the Council Tax Reduction Scheme, the Scottish Welfare Fund and water charges, fits well with what we propose. Clearly, as a new delivery system evolves, the arrangements for Housing Benefit delivery may evolve too, but for now **we recommend that we should start from where we are at present and keep Housing Benefit out of the SSA.** This provides the maximum possible flexibility to future Scottish Governments in terms of reforming the housing system as a whole rather than in parts.

The reform of disability benefits

- 4.19 On independence, some people in Scotland will have already been re-assessed for Personal Independence Payment (PIP) the replacement for Disability Living Allowance (DLA). Others will still be claiming DLA. In the short term, on independence **we recommend that the Scottish Government undertakes a detailed consideration of how an independent Scotland – as it brings together services which are reserved and devolved – should support individuals with a disability or illness, and those who care for them.** It may wish to establish an independent group to carry out such a review.
- 4.20 The review should take an explicit look at resolving two principles which are often in tension: compensating people for the higher costs often associated with being disabled or sick, while also rewarding steps back to work (and capacity for work). It should look at the financial and structural barriers to working, training and learning such as earnings limits and study restrictions for carers, and address the interactions with other benefits and the state pension where significant financial loss results. It should also consider the case for extending winter fuel payments to carers that share a home with the person they care for.
- 4.21 The review should commence at the beginning of 2015 and deliver final recommendations by Spring 2016. These would be available in time for the elections to the first Parliament of an independent Scotland. **We recommend that the review is asked to come up with detailed recommendations for replacing DLA and PIP with a new social security benefit for disabled people.** These recommendations would cover, amongst other things:
- the criteria and levels of support which should be available;
 - eligibility; and
 - the choices open to Government for funding any new social security entitlements.

⁷⁷ Gov.UK, *How and when your benefits are paid*, 20 May 2014.
<https://www.gov.uk/how-to-have-your-benefits-paid>

4.22 We believe this should be the first step in a more thorough and strategic reconsideration of how individuals are best supported in an independent Scotland. We say more about this later in Chapter 4. We also set our far-reaching proposals for assessment in Chapter 5.

A proper reward for work

4.23 One of the core Principles of the system will be to promote work. Work was a constant source of debate in our discussions. What is ‘good work’? Should everyone be expected to work? What happens when work isn’t available? What are the alternatives to work that we should value? What was clear to us is that most people want to work and with the right support and opportunity, work was the best option for the majority.

4.24 The increasing prevalence of low-paid work, underemployment and its interaction with the current benefits system was a common feature of discussions and the evidence we heard. Support for those on low-pay is partly given through tax credits. Working Tax Credit (WTC) is available to low-income working households, while Child Tax Credit (CTC) is available to all low-income households with children whether or not they work. Expenditure on WTC and CTC in Scotland was £2.2 billion in 2012-13⁷⁸. Their introduction has been identified as a major factor in the reduction of child poverty in the decade from 1998 with Scotland recording some of the greatest reductions in the UK⁷⁹. The situation has now changed. Living standards have fallen significantly since the financial crisis and many are concerned that large parts of the tax credits system are effectively subsidising employers offering low pay.

“Currently, public interest focuses on the role of social security in relation to individual recipients but a significant amount of spending supports business, subsidising low wages through tax credits...” One Parent Families Scotland

4.25 Governments in an independent Scotland would have a number of policy levers to support people in low-paid work. That help is clearly needed. When adjusted for CPI inflation, median hourly earnings have fallen 7.5 per cent since April 2009⁸⁰. These levers would include setting a National Minimum Wage, examining the role of WTC and considering the basic personal allowance in the tax system. We believe these policies are not being used to best effect. For example, certain elements of tax credits no longer rise according to the cost of living but have been capped at 1 per cent for three years with eligibility also restricted, reducing support to households with modest incomes. The question for an independent Scotland is: could the social security system be part of a more progressive and comprehensive approach to boosting the income of those earning the least? We believe it can and should.

78 DWP, *Social security expenditure in the United Kingdom, including Scotland*, 24 April 2014. <https://www.gov.uk/government/publications/social-security-expenditure-in-the-united-kingdom-including-scotland>

79 J. Cribb et al., *Living standards, poverty and inequality in the UK: 2012*, IFS Commentary C124, Institute of Fiscal Studies, 2012. <http://www.ifs.org.uk/comms/comm124.pdf>

80 Low Pay Commission, *National Minimum Wage: Low Pay Commission Report 2014*, Secretary of State for Business, Innovation and Skills, March 2014. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/288841/The_National_Minimum_Wage_LPC_Report_2014.pdf

- 4.26 We accept that every business has to strike a balance when it looks to reward those with a stake in its success, be they the owners, the investors, the management team, the customers or the employees. These decisions, however, have consequences for the State: responsibility for dealing with low pay has continued to move from the employer to the State. We believe as a newly-independent country, Scotland has an opportunity to consider what the right balance might be between these competing interests.
- 4.27 The Living Wage has an important role here. The public sector is a major employer in Scotland and the Scottish Government has been leading the way in the adoption of the Living Wage under its pay policy. **We recommend that the first Government of an independent Scotland should complete that journey and have as its goal that all remaining parts of the public sector will pay the Living Wage by the end of the first Parliament of an independent Scotland.**
- 4.28 We also believe the State should play a role in supporting wider uptake of the Living Wage outside the public sector more broadly, and that those employers adopting the Living Wage early could benefit from productivity gains through improved staff morale, increased loyalty and motivation, reduced levels of turnover and better returns on training investment. There are two broad options for an independent Scotland. The first is to offer incentives to firms to pay the Living Wage, currently £7.65. The second is to use statute to increase the National Minimum Wage to the Living Wage at the appropriate time with appropriate incentives. Either would need to be complemented by working with employers to improve employment practice, boost innovation and drive up their demand for skilled workers. This should, in turn, support higher productivity, creating greater capacity to pay the Living Wage.
- 4.29 On the question of incentives, the first Government (working in partnership with employers' representatives and trade unions) could develop policies designed to incentivise private and third sector employers to make a similar move to that which we recommend for the public sector. There are a number of ways in which this could be introduced including incentives through the tax/national insurance systems. The precise mechanism would need careful consideration, as would criteria such as the size of firms subject to such policies. The case for incentives appears to us to be strong, especially as the Low Pay Commission has found that around a quarter of minimum wage workers are not employed in low-paid sectors of the economy. For many of them it may be affordable for wages to rise without adverse impacts on their businesses as a whole. The Commission believes that employers who are not driven by business pressures to pay only the National Minimum Wage should be encouraged to pay more⁸¹.
- 4.30 On the question of raising the National Minimum Wage to the level of the Living Wage by statute, the UK Government has already approved a rise in the National Minimum Wage from the current rate of £6.31 for workers aged 21 and over to £6.50 per hour from October 2014. The Low Pay Commission continues to find that there has been little adverse impact of the National Minimum Wage on employment. In fact, earlier this year the Chancellor said that the "economy can now afford" to sustain a potential rise in the National Minimum Wage to as much as £7 an hour,

81 Low Pay Commission, 2014.

the rate it would now be if it had kept pace with inflation. Even a modest but real increase in the National Minimum Wage would bring it closer to the Living Wage.

- 4.31 The first Government could review the landscape to judge whether the economic and fiscal conditions were right to increase the National Minimum Wage towards the Living Wage. In taking this course of action, we envisage that working in close partnership with both employers' representatives and trade unions will be necessary. We also believe in arriving at any decision, regard should be taken of the necessary conditions for higher increases in the National Minimum Wage as outlined by the Low Pay Commission⁸².
- 4.32 **We recommend that, as soon as the economic and fiscal conditions are right and the factors outlined by the Low Pay Commission are considered to be in place, the National Minimum Wage should begin to rise (in phased amounts) to equal the Living Wage. A clear timetable for full adoption should be set out. This would be accompanied by a clear commitment to monitoring and evaluating the impact of this move on employment levels and hours worked in different sectors and areas of the Scottish economy. We would further recommend that if this was done, the payment of Employers' National Insurance should reduce to help compensate businesses in part.** This would particularly benefit the smallest businesses and directly help with the increase in their wage bill. In Chapter 6 we illustrate the costs/savings which such a policy could generate in terms of a lower Working Tax Credit bill for Government and its effect on tax revenues.
- 4.33 **Alternatively, if the economic and fiscal conditions are not right and/or the factors outlined by the Low Pay Commission are considered not to have been met, we recommend that the Scottish Government should instead introduce policies designed to incentivise the Living Wage.**
- 4.34 Whichever course of action is taken, the Government should undertake the complementary option of working with businesses to improve productivity and demand for skills. As more employers take on responsibility for paying the Living Wage, Governments could take the step of investing some of the savings/additional revenue into a discrete reserve (for example, a 'Social Security Reserve Fund') to be drawn down at times of economic difficulty or used to fund new social security policies which are consistent with the social investment model.

Programmes designed to get individuals, families and communities into work

- 4.35 As Chapter 2 has shown, labour markets differ from place to place. An individual with low levels of skills or a health condition is much more likely to get a job in the South-East of England or in a city like Aberdeen than the same person with the same challenges in Glasgow. The reason is relatively straightforward – there are simply more jobs (and more 'good jobs') in some parts of the country. While top-down national welfare-to-work schemes will work for some, they will fail for many more. The current system of payment-by-results fails to recognise that some labour markets have more jobs than others.

82 Low Pay Commission, *The Future Path of the National Minimum Wage 2014*, 12 March 2014. <https://www.gov.uk/government/publications/the-future-path-of-the-national-minimum-wage-2014>

- 4.36 Given that most labour markets are local, **we recommend that policies and programmes designed to help people find, and stay in, work should be driven by and designed around long-term local labour market challenges.** The current approach encapsulated by the Work Programme would end. Under a broad national framework with appropriate guidance, local and regional groups should be invited to draw up proposals for employment programmes that are intended to get the people they deal with back into work. They would target the barriers that exist locally and build on the elements of previously successful programmes such as Working for Families, as well as promoting innovative new approaches. They would link into local economic development plans to ensure people have the skills that the industries expected to grow will need.
- 4.37 These groups would represent a wide range of interests in their local area, bringing together employers, trades unions, Jobcentres Plus offices, the third sector, training and skills providers, regional bodies in the college sector and others. They would appoint a lead member to manage the programmes they propose and agree a series of outcomes and targets to be achieved over a certain period of time.
- 4.38 **We recommend that instead of only working with people on an individual basis, groups would also be encouraged to develop initiatives within households, local communities and neighbourhoods.** These would link to other local activity designed to promote economic development, business support, regeneration, and education, training and skills. How these initiatives meet some of our key Principles, such as empowerment and using communities' existing assets, would have to be demonstrated.

The agenda for the medium term

4.39 We believe the agenda for the medium term should be twofold:

- To ensure that an independent Scotland begins, or where appropriate continues, the reform of a number of key policies which have the closest connection with the social security system, and can therefore help reduce demand for social security and create a more integrated and responsive approach.
- To put in place processes required to begin the implementation of the Social Security Partnership, thereby helping individuals maximise their potential, in employment where that is appropriate, and within society, where work is not an option.

4.40 Integration and early intervention will be key drivers here. By taking this approach, we can start to embed the social security system within a progressive social investment agenda. The ability to bring together services that were previously split across the reserved and devolved boundaries will be a major asset for an independent Scotland. We considered policies on housing, childcare, caring and employment. We acknowledge that there are many other areas, in particular health and social care, which would be ripe for further consideration by Governments in an independent Scotland. Our recommendations on rolling out the Living Wage will also be important in this respect.

Housing: looking at supply and demand together

4.41 An independent Scotland could take a new and integrated approach to support for housing. As it did so, policies such as the under occupancy charge (also known as the 'Bedroom Tax') would be abolished.

4.42 Up-front investment in the supply of affordable housing has the immediate benefit of increasing housing supply, as well as generating positive economic effects^{83,84}. Over the longer term, this investment also helps to ensure the Housing Benefit bill is sustainable.

4.43 The Scottish Government spends around £400 million a year on capital investment in affordable housing. The investment of successive administrations since devolution, coupled with policies aimed at keeping rent increases in the social rented sector relatively low, have helped to ensure that the cost of Housing Benefit has increased at a much slower rate than that of the rest of the UK. Over the decade to 2010/11, real terms housing benefit expenditure increased in Great Britain to around 50 per cent and in Scotland to around 22 per cent⁸⁵. Therefore, maintaining investment in affordable housing in ways that increase supply and keep rent increases manageable is fundamental to the sustainability of Housing Benefit in the future⁸⁶. In our focus group research, one of the primary requirements as

83 Every £100m of housing investment each year supports around £180m of total economic activity and around 1,300 jobs.

84 Scottish Government, *Improving housing quality*, 22 November 2013. <http://news.scotland.gov.uk/News/Improving-housing-quality-67e.aspx>

85 Scottish Government, *Long-run Trends in the Affordability of Housing Benefit*, 19 November 2013. <http://www.scotland.gov.uk/Resource/0043/00438331.docx>

86 H. Aldridge & P. Kenway, *Referendum Briefing: Housing and Low Income in Scotland*, Joseph Rowntree Foundation, 27 April 2014. <http://www.jrf.org.uk/publications/referendum-briefing-housing-and-low-income-scotland>

expressed by participants was the need “to increase the provision of social housing so there is less need to provide housing benefit for those in expensive, private rented accommodation”.

- 4.44 It is therefore important to consider the private rented sector too. Of the £1.73 billion spent on Housing Benefit in Scotland for the 12 months from December 2012 to November 2013, £0.46 billion was received by landlords in the Private Rented Sector (PRS)⁸⁷. Furthermore, whilst real-terms expenditure in the Scottish social rented sector has grown by 8 per cent (0.8 per cent per annum) over the decade to 2010-11, in the Scottish private rented sector the increase has been a very significant 98 per cent (7 per cent per annum⁸⁸). This rise is due to a mixture of factors including rent levels, a greater number of in-work claimants and the greater importance of the PRS as a tenure more generally. The PRS accounted for around one in 14 of Scottish households in 2001 but this had risen to around one in eight by 2011⁸⁹.
- 4.45 That means the private rented sector plays an important role in the sustainability of Housing Benefit too. We believe it is important to strike the right balance between supporting a well-functioning private rental market, and preventing excessive rental returns to private landlords, for example, that can arise through pressures in the private rental sector in areas of high demand and low supply. We believe, that given the private rented sector receives significant public sector subsidy through Housing Benefit, it is right to ensure value for money on behalf of taxpayers, and this means looking again at what can be done to ensure fairness for tenants and taxpayers, without stigmatising tenants in receipt of housing support, penalising landlords or driving them to leave the market altogether.
- 4.46 This means looking at the nature of tenancies, for example, giving tenants in the private sector longer term tenancies than generally exist at present, as well as building into tenancy agreements that rents should increase in line with inflation but not above it, at least for the duration of a tenancy. Safeguards would need to be built in to ensure landlords (particularly small landlords) could sell properties if they needed too. Such safeguards would need to protect tenants, through reasonable notice periods and possibly other forms of compensation that might help the tenant secure a move. Overall such an approach would contribute to the sustainability of Housing Benefit in the private rented sector, without penalising landlords.

Childcare: ensuring parents can work

- 4.47 We know that lone parents are a group which face a high risk of poverty⁹⁰. Though many lone parents work, low income affects the quality of life that lone parents experience and, in turn, impacts on the choices and daily activities within the household. Welfare reform is impacting heavily on lone parents: many are reporting negative impacts from the Work Capability Assessment process, housing reforms and sanctions. There are often multiple barriers to getting involved, either in the labour market or wider community life, including access to childcare and transport.

87 DWP <https://stat-xplore.dwp.gov.uk/>

88 Scottish Government, 19 November 2013, Long-run Trends in the Affordability of Housing Benefit

89 UK Housing Review 2014, Table 17b. <http://www.ukhousingreview.org.uk/>

90 See e.g. Hardy, F. *Surviving Poverty: The impact of lone parenthood*, Poverty Alliance, 2013. http://povertyalliance.org/userfiles/files/EPIC/Reports/EPIC_Research_Surviving_Poverty2013.pdf

- 4.48 Elsewhere we have recommended policies which are designed to tackle these problems, such as increasing the number of employers paying the Living Wage and overhauling the system of assessing people for benefits. It is clear, however, that the availability of affordable, good quality, and flexible childcare is a barrier for many parents who would like to work or work more hours.

“Affordable access to good quality, integrated early childhood education and care as a universal entitlement and a child’s right, will benefit children, parents and carers, the economy and wider society.” Children in Scotland

- 4.49 An independent Scotland will inherit a mix of policies, designed partly to provide parents with vouchers, tax breaks or tax credits to help pay for the costs of childcare, and partly to provide provision in the form of a number of hours of free pre-school education and care. That system will need reform in order that childcare, tax and social security systems work together to provide one coherent and simple offer to working parents.
- 4.50 In the short term, **we recommend that Governments recognise that a mix of childcare approaches will be needed in the early years of independence. It also makes sense for Child Tax Credit to continue to provide support for childcare as part of the SSA in the short term.** Any expansion in the amount of pre-school childcare offered free at the point of use will be welcomed, but this will need to work in harmony with an approach which allows parents to secure the remaining hours they need, in line with their personal circumstances and needs of their family.
- 4.51 In the medium term, there is a strong case for reform and rationalisation of the way governments support childcare, early education and enables parents to balance work and family life. Currently, parents source their own childcare provision in a sector where there is little control over the price paid. While parents can receive a subsidy towards the cost of childcare, such as tax credits and childcare vouchers, these costs have grown faster than inflation. We believe that switching towards a supply-side approach – where investment is made directly in expanding provision, raising the quality of the workforce and controlling costs – is consistent with our proposals in other areas, such as tackling low pay.
- 4.52 This would bring Scotland closer into line with the approach to childcare in Denmark, for example, where the contribution families above a certain income band have to make to additional childcare could be capped at a much lower level than currently. In addition, improving childcare should be matched with initiatives designed to prepare parents for work. Childcare that is responsive to the particular needs of families with disabled children should not be overlooked. This is especially true for lone parents and others who face challenges in getting back into work. Additionally, the increased availability of public childcare beyond school hours may need to be considered too, and its associated funding.

Supporting those who care for others

- 4.53 We acknowledge the broad consensus which exists in Scotland that carers deserve greater recognition and support for the valuable work they do. We heard that, as a result of caring, individuals were often limited in their opportunities to work and learn, and that experiencing poverty was a genuine risk. Our recommendation on increasing Carer's Allowance would begin to address this.
- 4.54 The issue of earnings disregards linked to particular benefits has been raised through our Call for Evidence and within consultation sessions with disability representatives and unpaid carers. The National Carers Organisations and carers themselves talked about the disincentives which exist when unpaid carers want to get back into work for example when a disabled child goes to school, or the needs of a cared-for person mean that paid work again becomes an option.
- 4.55 We know that carers want to work, but often can't. Aside from the challenges that carers face in accessing the right support to enable them to get back to work, the current benefits system has a number of disincentives which add to these barriers. The current earnings limit within Carer's Allowance means that carers who are able to work and care lose their benefits if they earn anything over £102 per week. This can trap carers in low-paid jobs. For those working in professional occupations, it amounts to just several hours of work a week. This prevents carers from keeping in touch with the workplace and developing skills, or from supplementing low-level benefits. Furthermore, it also acts as a significant barrier to young adult carers who may move from caring whilst in education into an adult caring role without ever being able to enter employment.
- 4.56 There are a number of options which an independent Scottish Government might consider in this regard. Responses to our Call for Evidence suggest introducing an earnings taper for Carer's Allowance, to replace the existing £102 earnings limit.
- 4.57 The National Carers Organisations also highlighted the need to lift the 21-hour study rule for Carer's Allowance which prevents carers from taking up full-time education. This rule is outdated and prevents carers from engaging in education and training alongside their caring role and can limit their ability to stay connected to the skills and knowledge that could let them work alongside caring or to work when caring comes to an end.
- 4.58 Additionally, opportunities to further support flexible working with control of employment law could make a significant difference to families and unpaid carers. These would be the first steps of a more thorough, and strategic, reconsideration of how these individuals are best supported in an independent Scotland. We say more about our person-centred approach in Chapter 5.

Employment: progressive practices for an independent Scotland

- 4.59 *Working Together: Progressive Workplace Policies in Scotland* is an independent review which is looking at ways of strengthening the relationships that exist between trade unions, employers and Government⁹¹. It will make recommendations later this year on:
- opportunities for innovation which would enhance productivity, workplace development, and labour market security, flexibility and resilience;
 - existing good practice, the benefits it delivers, and how they might be more widely adopted and secured; and
 - opportunities to promote collective bargaining, workplace democracy, diversity and equality, including specifically the participation of women.
- 4.60 This may be summed up as: how can work be made ‘better’? which was also a consistent theme of our discussions and the evidence we heard. This Report at Chapter 2 has already identified a number of factors related to ‘the job’ itself which will influence whether work acts as a route out of poverty. **We recommend that these areas are also considered by the *Working Together* review.**
- 4.61 We accept, however, that sometimes employers do not always get what they need either. This issue is already being examined with respect to young people by the current Scottish Government. The *Commission for Developing Scotland’s Young Workforce*⁹² has been tasked with making recommendations to ensure Scotland produces better qualified, work ready and motivated young people with skills relevant to modern employment opportunities, both as the employees and entrepreneurs of the future.
- 4.62 The Commission, chaired by Sir Ian Wood, is looking at other countries with better records of transitioning young people into employment and has found that key to success is:
- a well-developed, highly-valued vocational education and training system which starts in secondary school, offers clear progression routes beyond school and plays a central part in the overall education system; and
 - significant and widespread employer commitment to vocational education and youth employment as part of the development of quality jobs across the economy.
- 4.63 In its interim report, the Commission made a number of recommendations to improve vocational and further education and to integrate it with school education. The final report will include recommendations to enhance employers’ involvement with education and to encourage more employers to recruit young people. The Commission will also make a number of recommendations on equality issues. **We recognise the importance of the Commission’s work in relation to social**

91 Scottish Government, *Workplace policies to be reviewed*, 12 February 2014.

<http://news.scotland.gov.uk/News/Workplace-policies-to-be-reviewed-937.aspx>

92 Scottish Government, *Commission for Developing Scotland’s Young Workforce*, N.D. <http://www.scotland.gov.uk/Topics/Education/edandtrainingforyoungple/commissiondevelopingscotlandsyoungworkforce>

security. We support the direction of travel of the Commission’s work and recommend that it is considered as a matter of priority by the Scottish Government. We welcome the appointment of a new Cabinet Secretary with specific responsibility for implementing the recommendations from Sir Ian Wood’s Commission.

- 4.64 We understand that the Wood Commission may publish its report on or around the time that our Report is being released. We hope its report considers the specific needs and challenges of key groups of young people who face particular challenges to finding and securing good work – this includes young disabled people.

An adequate income for those who cannot work

- 4.65 A consensus was reached towards the end of the last century that the levels of pensioner poverty were unacceptable. Both successive UK and Scottish Governments took action over a sustained period of time to address this situation. A range of policies were implemented across the tax system and the benefits system which combined powerfully with changes to devolved services and the introduction of a number of universal benefits. The impact has been dramatic: in Scotland, pensioner poverty almost halved over the first decade of this century⁹³.
- 4.66 Certain organisations have attempted to define an ‘adequate’ income, based on what members of the public think is enough money to live on⁹⁴. According to these studies, pensioners are judged the least likely to have an income below a ‘minimum income’ and most have incomes well above this threshold. Concerted action on addressing low income does produce results.
- 4.67 Although social investment emphasises the role of work, there are a group of people in receipt of a variety of benefits for whom work will never be the right long-term option and therefore, benefits may be their only source of income. We believe that many of those who are disabled or for those with a long-term illness, and in some cases those who care for them, face similar issues in terms of poverty and hardship.

““People who are disabled and/or living with long term conditions are already far more likely than others to be living in poverty, experiencing debt and be unemployed or in low paid, less secure employment.” Health & Social Care Alliance

“So, the huge knock-on effect of not having disability living allowance, means that disabled people, including people like myself, end up not being able to work, not being able to think about working, or volunteering, or contributing to their communities and end up just stuck at home, with nothing to do, and bored, and actually cost the state much more for example because not only do they lose social participation, but they’re likely to become depressed, more ill, more in need of NHS services.” (Marianne, age 43) – Glasgow Disability Alliance

93 Joseph Rowntree Foundation, *Monitoring Poverty and Social Exclusion in Scotland 2013*, January 2013. <http://www.jrf.org.uk/sites/files/jrf/poverty-exclusion-scotland-summary.pdf>

94 See e.g. The Joseph Rowntree Foundation, Minimum Income Standard. www.jrf.org.uk/mis

4.68 We know that many of those who are disabled or those with a long-term illness, and those who care for them, can face issues of poverty and hardship. On independence, Scotland will be able to look more broadly at the support which is available to these individuals across the tax system, the social security system, from earned income and across social care, health, education, housing and other services. Taking advantage of the opportunities which independence provides, **we recommend that this becomes a strategic priority for an independent Scotland over the medium term.** This would be in line with the approach taken to pensioner poverty, and therefore in a similar way, target the reduction of poverty for those who are disabled or for those with a long-term illness.

A social security system that remains responsive to Scotland's needs

4.69 We have made it clear throughout our Report that social security evolves, and should evolve, in response to how a country and its people change. But change should be by design, not accident.

4.70 To keep the social security system fit for purpose, **we recommend that the system – policy, delivery and legislation – should be reviewed every 10 years, with an interim stocktake every five years, and that this should be done by an independent Social Security Commission.** The Commission, a permanent body established by law, would also provide periodic advice to Government on policy and delivery and have a role in scrutinising draft social security legislation. It would therefore also assume the role which is currently played by the Social Security Advisory Committee⁹⁵ across the UK.

4.71 The precise make-up and composition of the Commission would be for Government to consider, but it should have strong, expert representation from the fields of academia, policy and practice, tax and business. The voice of 'users' must be central to its work and a standing 'User Panel' created.

Social Security Commission

Purpose

A body established by Government to undertake review and advisory functions on social security policy and legislation.

Task

Review the social security system (policy, delivery and legislation) at 10-year intervals, with an interim stocktake every five years. It would also assume the roles currently undertaken by the UK-wide Social Security Advisory Committee.

Membership

Members should be appointed by Government, and should have strong expert representation across a number of relevant fields. The voice of individual users should however be central to its work, and a 'User Panel' created and consulted with fully.

⁹⁵ Social Security Advisory Committee, *About SSAC*, N.D. <http://ssac.independent.gov.uk/about/>

Options for far-reaching reforms over the long term

- 4.72 In the long term, as trust and confidence in the system grows, momentum behind the merits of a further re-thinking might build across civil society. In our discussions, two very different long-term visions were suggested. One would take a highly-individual approach to social security, tying benefits to personal contributions and savings. The idea of personal welfare accounts is an illustration of this approach. The second vision would take a universal approach and abandon means-testing and complexity. The idea of a citizens Basic Income is an illustration of this approach.
- 4.73 Both these approaches are attempting to address the ideal policy objective we identified in Chapter 3, the aim – not easily achieved – that social security should be equally fair, simple and personalised. **If Governments in an independent Scotland wished to explore these ideas, we would recommend that a more detailed and evidence-based examination would be required as a first step.**

An individual approach to welfare

- 4.74 TaxpayerScotland, a body allied to The Taxpayers' Alliance, submitted a detailed paper through our Call for Evidence setting out the case for personal welfare accounts. Their wide-ranging proposal, which considers how individuals and families might also voluntarily 'mutualise' their entitlements, and the implications for the tax system, might appear highly technical at first glance. At its core, however, is a reasonably straightforward idea, namely personalised welfare.
- 4.75 Collective systems of social security – where current tax revenues fund current benefits and pensions – do have some inherent disadvantages. Sometimes, such systems are negatively perceived as transferring money from 'contributors' to an entirely separate group of 'claimants', even though it is clear that this is an incorrect caricature. Another disadvantage is that systems that rely on means-testing can lead to poor incentives for individuals to take personal responsibility for entirely foreseeable life events, such as retirement. The more a system relies upon means-testing to provide assistance, the more these two issues tend to arise.
- 4.76 One way of addressing both disadvantages is to move to a more personalised or individualised welfare system. International experience is mixed, but there is some movement towards personalisation of welfare, at least for the provision for retirement, whether through allowing for tax-efficient savings, or permitting early access to pension pots. However, personalisation of welfare can also be a cover for the gradual reduction of state-provided welfare or insurance benefits, and so can lead to a system which is less redistributive. And some of the main arguments for a collective system of social security are that individuals are not always able to plan suitably for future events, whether through a lack of foresight, through inability to obtain insurance, or simply through having insufficient resources. It is also clear that giving individuals financial incentives to save more can lead to large amounts of 'deadweight', and is usually a highly regressive policy.

- 4.77 The 2014 UK Budget proposed to increase substantially the flexibility with which those with defined contribution pensions can access their savings from age 55 for any purpose. One radical way to extend such a scheme would be to allow people to get early access to their “entitlement” to the basic state pension (in return for receiving lower payments when they did eventually reach the state pension age). Such a proposal would allow people to support themselves and their families in times of need (e.g. during periods of unemployment, when time off for caring is needed, to the unexpected death of a parent/child). However, the design, merits and risks would need to be fully explored. Clear protections would be needed to ensure people could not draw down excessively on future entitlement.
- 4.78 In time, an independent Scotland might wish to explore the feasibility of one of the many schemes which go under the label of personalised or individualised welfare. TaxpayerScotland provides a model, but many other schemes could be possible⁹⁶. If Governments in an independent Scotland wished to explore any of these ideas, we would recommend that it first clarified what it hoped to achieve, given the variety of models that individualisation or personalisation can take. But our view is that this should not be a priority.

A radical alternative: the case for a Citizen’s Basic Income

- 4.79 The case for a Citizen’s Basic Income was prevalent throughout the responses to our Call for Evidence. Our work would have benefited enormously from Ailsa McKay’s expertise in analysing and presenting the case for the Citizen’s Basic Income. In this, as in so many other things, her contribution is greatly missed. In Ailsa’s last report for the Reid Foundation she set out the case for implementing a citizens Income⁹⁷. Almost all of what is set out below is informed by this paper.
- 4.80 Much of the background and support for a Citizen’s Basic Income (CI) comes from issues already discussed including ensuring a welfare system is not the ‘sticking plaster’ for wider problems of low pay, inequality and insecurity. However this is not a new idea⁹⁸.
- 4.81 The Group has already noted the complexity of the current system, with many people unable to understand what benefits they are entitled to. One way of addressing this could be to bring the various benefits and elements of the tax system together into one unified payment to go to every citizen.
- 4.82 As set out in the Reid Foundation paper the citizens Income:

“...is a model which replaces income support benefits (including the state pension but not housing benefit) with a single payment which is made to every citizen. This can be created in a cost-neutral way by converting all existing benefits and a proportion of the personal tax allowance into a citizens’ Income. It would be universal and would bring many benefits.

⁹⁶ We note, for example, the design set out in Lans Bovenberg et al. Efficient Redistribution of Lifetime Income through Welfare Accounts, in *Fiscal Studies*, 33, 1, 2012, pp. 1-37.

⁹⁷ A. McKay & W. Sullivan, *In Place of Anxiety: Social Security for the Common Weal*, Compass, March 2014. <http://reidfoundation.org/wp-content/uploads/2014/03/InPlaceOfAnxiety.pdf>

⁹⁸ Proposed by Thomas More in *Utopia* in 1516.

*This is a way of providing a safety net for all and provide a platform from which people will be incentivised to work in order to have extra income on top of the basic and to save money without penalty.*⁹⁹

- 4.83 The CI would be a tax-free cash transfer made to every citizen of Scotland. This would most likely be via a monthly payment to all citizens. This payment would be set at a standard level with a higher rate for pensioners and a top-up for those with disabilities who experience additional costs of living. Otherwise no distinction would be made between those in or out of work, or on the grounds of gender or marital status. Children as well as adults would be entitled to this payment, albeit the level of payment may differ.
- 4.84 Housing Benefit would be kept separate and be part of an overall housing strategy that aims to build a more affordable and efficient system, gradually shifting subsidy from individuals to the supply of housing.
- 4.85 By having a catch-all payment, the CI would be able to support activity that is currently unpaid such as study, care responsibilities, volunteering and small enterprise start-up, thus recognising the wide range of activities that contribute to society. This aspiration highlights a number of key aspects of the policy
- What level of income would be regarded as ‘sufficient’?
 - How would that level of income be funded?
 - What impact would this payment have on the life choices of individuals?
- 4.86 The issue of sufficiency would be for any Government introducing the CI. The citizens Income Trust suggests an income level based on current benefit levels to begin with. However the Joseph Rowntree Foundation has demonstrated that current benefit levels are inadequate to provide an accepted minimum income standard to most households other than pensioners (assuming they receive all payments they are entitled to)¹⁰⁰. Hence a CI set at this level could leave households without an adequate income if they did not also undertake paid work.
- 4.87 Proponents of a CI point out that if one were to design a system from scratch, it is highly unlikely that it would look like the current system. Savings would come from reducing the complexity of the differing systems of means-testing and reducing the administration associated with it.
- 4.88 Arguments against the CI often focus on the cost of this approach or the impact on the labour market. The Irish Government in their research¹⁰¹ concluded this impact was difficult to assess but was likely to encourage more people into work, but an overall reduction in the number of hours worked. On the question of cost, the Citizen’s Income Trust provide examples which seek to demonstrate that the CI is affordable. Obviously this depends on the level of income set and the interaction with tax rates and tax revenues available. Chapter 5 considers this in more detail.

99 A. MacKay & W. Sullivan, 2014. In Place of Anxiety: Social Security for the Common Weal. <http://www.reidfoundation.org/portolio/inplaceofanxiety/>

100 Scottish Government (2013) Working paper for call for evidence September 2013. <http://www.scotland.gov.uk/Resource/0043/00434499.pdf>

101 Irish Government, *Basic Income: Green Paper*, September 2002. http://www.taoiseach.gov.ie/eng/Publications/Publications_Archive/Publications_for_2002/GreenPaperOnBasicIncome1.pdf

- 4.89 The CI is a radical approach to reform of the benefits and tax system. It is based on a fundamental realignment of the role of the State in relation to the citizen. It offers attractions to those who see it as being a natural function of the State to ensure that everyone has a basic means of living without being reliant on earned income. At the same time it is attractive to those who see it as being a way of limiting the role of the State: once the income has been paid, the State need not provide other benefits or supports.
- 4.90 Opponents mainly focus on the economic and cost arguments rather than any particular moral or philosophical argument. The main negatives are considered to be the disincentive effects for work, the potential negative effects on the economy and competitiveness and the extent to which it actually redistributes fairly. Given this very wide range of views it is likely that the introduction of a CI would be a controversial step and would need careful introduction to gain widespread support.
- 4.91 Introducing a full CI scheme would be such a significant reform that it may be best considered after the early years of independence have passed and the Scottish economy is maturing. For these reasons we would not recommend the introduction of a CI at this time. However it is an option that could be revisited in the future.

Chapter 5

A New Approach: Delivering People-Centred Social Security Services

- 5.1 If the spirit of the Principles and the aims of the Partnership are not followed through in practice then Scotland's new social security system is likely to fail – irrespective of whether or not the policies are the right ones. Delivery 'on the ground' has to feel significantly different with people feeling actively supported and that they are working in partnership with the Government, rather than stigmatised and coerced.

"They shouldn't just be treating us like a number, like our national insurance number. We're human. Everybody's got feelings and we need that confidence."

Expert Working Group Focus Group Participant

"The development of conditionality and sanctions, the declaration that people are 'fit for work' and the Work Programme have greatly added to the complexity, administrative cost of the benefits system." Professor Paul Spicker

- 5.2 In gathering our evidence, we looked at the way an individual's entitlement to social security is assessed and how they are supported. A number of problems were highlighted. The evidence suggests that the Work Programme is at best only working for those facing the least difficulty in getting a job, the Work Capability Assessment is not fit for purpose, and early evidence from the regime of sanctions points to a number of problems. What we currently have is a system, developed over time, which is too complex and too distant from the needs of the citizen. It has increasingly lost the trust of many of the Partners identified in Chapter 3.
- 5.3 In this Chapter, we suggest a different, and more individual, journey for benefits recipients that flows from our framework of Purpose, Principles and Partners. It is consistent with the Partnership, while recognising and addressing the fact that there is no single journey, and that each individual needs to receive and experience the service that is right for them.
- 5.4 An independent Scotland has an opportunity – not least because of its size and strong culture of public service – to develop a system of social security assessment and labour market support that meets the Principles set out in Chapter 3: a system that is flexible in meeting the needs of citizens rather than dogmatically rule-based; a system that embeds innovation and improvement; a system that takes account of the local labour market; and a system that invests in the services and infrastructure that people need to lead resilient and successful lives in the 21st century. So what might this look like in practice?

The short-term priorities

A system of assessment fit for purpose

- 5.5 We begin this section with an excerpt from focus group research which we commissioned at the beginning of 2014¹⁰². We believe it sets the proper tone for our recommendations in this Chapter.

“The same, strong message came through from all of the groups and was the dominant theme throughout all of the discussions: the ideal benefits system should focus not on money, but on providing support, advice, encouragement, motivation and practical help. Clearly money will be involved, but there was a feeling that the current system is too focused on giving - or not giving - people money, rather than giving them the support and help they need to manage better for themselves.”

- 5.6 The first step in delivering a better package of support to individuals must be a better assessment of their skills, needs and circumstances – what individuals can do but also a better understanding of what limits them from reaching their full potential. For some, we recognise that the support they need will be minimal or easily identified, while, for others, it may require input from other individuals and agencies, and take much longer. **We recommend that the approach to assessment is built around the individual with the intention of ‘getting it right first time’.**
- 5.7 We recognise that there is no single ‘customer journey’ that will suit everyone. Peoples’ needs are different and their circumstances can change. An individual will receive what is right for them – agreed and developed with them – which may be very different (in terms of intensity, frequency and type of support) from what their next-door neighbour might receive. We recommend a new approach which has the following features:
- Be proportionate to the circumstances of the individual.
 - Prioritise resources for those most at risk of long-term unemployment.
 - Rejects the approach of the current ‘Jobseeker’s agreement’ and ‘claimant commitment’ in favour of a new partnership approach which gives the individual greater equality in determining the route back into or towards work.
 - Embeds our Social Security Partnership as a fundamental part of Scotland’s new social security system.
 - Provides a dedicated caseworker to help those who need it the most.
 - Continues to provide support for some as they start a new job.

¹⁰² Ipsos MORI (2014) *It’s Not About the Money: Focus Group Research on the Future of the Benefits System in Scotland*.

Early intervention and tailored support

- 5.8 We believe that early intervention and tailored support should be a key part of the route map to creating a new system. **We recommend that early identification and agreement of an individual's needs and goals should be the starting point.** There are a number of international examples where this appears to occur – for example, in Australia, the Government employs a tool called the 'Job Seeker Classification Instrument' to measure an individual's relative difficulty in finding and staying in work¹⁰³. This tool is designed to gauge the likelihood of someone remaining unemployed for at least a year. This is but one approach. We recognise that a range of different models exist and a new Scottish system should seek to learn from best practice in other countries.
- 5.9 Once the needs are assessed and the right goals are identified, a proportionate and jointly agreed package of support should be put in place. For some, the agreement reached may be firmly focused on a return to the workplace; for others, it may be more akin to an individual support plan.
- 5.10 We recognise that for many people their time out of work will be short, often less than six months, and for a majority of unemployed people, less than a year. In keeping with the Social Security Partnership, an individual for whom the return to work is a realistic goal may only need to see a nominated adviser on a less regular basis, such as once per month. This might happen where:
- A return to work is likely within six months.
 - No additional training or support is needed to help the individual to assess/achieve their goals including securing paid work.
 - The individual is able to search for work perhaps with limited additional support.
- 5.11 This does not mean a 'hands-off approach' for everyone. Labour markets can change quickly, especially when large employers in local economies go out of business, and people may need to develop new skills or understand how they transfer existing skills and experience to new jobs and new industries. In these situations, they should be able to call on help if and when required.
- 5.12 For individuals who fail to move into work quickly, a more detailed assessment and fresh agreement might be needed after the initial six month period has elapsed. The crucial point is that wherever individuals are in their journey to work, such agreements should be guided by our Social Security Partnership and tailored to the needs and circumstances of the individual. Our Principles are very clear that where individuals can work they should work. But we take a wider recognition that at certain stages of an individual's life, work may not be the appropriate choice at that moment in time.
- 5.13 We envisage that any agreement (or support plan) between an individual and a nominated adviser would not only outline activity intended to help the unemployed person move closer to the labour market or enter work, but significantly, it should clearly explain the support which he or she can expect to improve their prospects

¹⁰³ <http://employment.gov.au/job-seeker-classification-instrument>

for finding and staying in work. Such an agreement would not be static – if circumstances change then it is right that the programme of support changes – so it would be regularly reviewed. It would also be less target-driven for some and more focused on achieving ‘reasonable’ or ‘feasible’ steps. As our Partnership makes clear, for some a ‘work first’ approach will not be appropriate. Volunteering and other community-based activity have an important role in their own right, but also in building confidence and in helping people to secure paid and more sustainable employment.

- 5.14 For those who need sustained help from a range of services, a dedicated caseworker could be assigned to act as a single point of contact for each individual either leading, or helping individuals to coordinate the activity and support they need, working with other Government agencies and third parties (such as training providers and third sector organisations) as appropriate. The caseworker may have specialist skills in working with disabled people, people with long-term health conditions or homelessness, for example.
- 5.15 Finally, as people move into work it might be appropriate for the support they have received so far to remain as they adjust to entering the workplace. This would provide valuable assistance and assurance for people who may not have engaged in paid work for a considerable period of time, and in turn, would help many individuals sustain employment. For too many people, the biggest challenge associated with getting a job is not just the uncertainty that comes with the prospect of losing their benefits, but also navigating a new environment alone and without support.

“See if you’ve been unemployed so long, then you get flung in at the deep end, that can shake your confidence.” Expert Working Group Focus Group Participant

- 5.16 **We recommend that support should stay with some people as they make their first, often tentative, steps into work.** This might be as simple as putting people in touch with others in a similar circumstance. Or it might be helping people take full advantage of their new job – building on their skills by enrolling in a training course, or support to manage debt, for example. In the first instance we suggest trialing different ways to assess what works best and what can be delivered in a cost-effective way¹⁰⁴.

Conditionality in a new system – the opportunity to start afresh

- 5.17 Our discussions were clear that conditionality and rights and responsibilities play a part in most social security systems. Within the UK, the evidence so far suggests that the current approach, and the regime of sanctions in particular, can be both punitive and counter-productive – placing people into hardship and more widely destroying trust and the relationship between the individual and the State. **We recommend that the current system of sanctions is abolished.**

¹⁰⁴ Models such as the Employment, Retention and Advancement trialled in the UK and US would be worth considering in this regard.

- 5.18 As our Partnership makes clear, individuals and wider society are Partners in the social security system we propose and it must be a system they feel they can trust. There are strong views that multiple attempts to disengage from the process should be responded to with sanctions. Nevertheless, there must be ways and space to create scenarios that are credible but which focus on supporting and empowering people, not on penalising them.

“I feel the people that are really trying is the ones that they’re sanctioning.”

Expert Working Group Focus Group Participant

“There is a real worry of the threat of sanctions amongst women who may be unable to attend interviews and work related requirements due to poor public transport or a lack of childcare.” Scottish Womens Convention

- 5.19 Debate on the current UK arrangements have led to suggestions that the first sanction for less serious instances of non-compliance should be replaced by the payment of social security on a benefit card for the duration of the sanction. This would have to be picked up from the Jobcentre, fostering renewed contact with the individual. If the individual did not re-engage then they would be unable to pick up the card and access benefits¹⁰⁵. We note this approach without recommending it.
- 5.20 The role and nature of conditionality, and whether or not sanctions play a part in a new system in Scotland, is a sensitive and controversial issue which will need further consideration and consultation by an independent Scottish Government. We would certainly expect it to feature in the discussions which the National Convention on Social Security will have as it considers our draft Partnership. Again, without making a firm recommendation, we can foresee the following points being considered in these discussions:
- Whether there are targets for sanctions. We believe there should be none.
 - Whether removing or limiting an individual’s entitlement to social security should be part of any new approach. We believe if this features at all, it would be the last rather than the first consequence of failing to meet a term of an agreement.
 - How people who wilfully refuse to engage with the system should be treated.
 - The hierarchy on decision making when it comes to any sanctions. We believe this should be clear and transparent.

“Experience from Oxfam’s partners in Scotland suggest sanctions are counterproductive and don’t work. Oxfam believes that within any welfare system there are rights and responsibilities – therefore some element of conditionality may be acceptable. However, the current system of sanctions is punitive, counterproductive and fails to recognise local conditions and individual circumstances.” Oxfam Scotland

105 <http://www.policyexchange.org.uk/publications/category/item/smarter-sanctions-sorting-out-the-system>

5.21 There is a real opportunity for Scotland to develop a better approach, framed in terms of ‘positive conditionality’ which has the achievement of goals at its heart. Rather than reporting in a narrow, often transactional way about job-search activities, a new type of conditionality would focus on a much broader range of activities, for example, improving basic skills, completing vocational qualifications, re-skilling to enable work in alternative sectors or volunteering. We believe that if this type of approach was common, applied on a targeted basis and backed up with the know-how of professionals, peers and employers, improved employment rates would in all likelihood follow as the economy improves.

Transforming assessment and support for those with complex needs

5.22 We are very grateful to Inclusion Scotland who held two events to explore the issues set out in our Call for Evidence and how they impact on disabled people. We heard a wide range of views from people with direct experience of the current benefits system, and similar issues arose time and again:

- Disabled people (and their families) feel they are not trusted and, in turn, find it hard to exhibit trust in the existing system.
- There was a call for a minimum amount of assessments and reviews.
- People should feel secure. It was remarkable how many times words like ‘fear’, ‘afraid’ and ‘scared’ were used to describe how disabled people felt. In their view fear is built into the system as a disincentive to stop people accessing support and help.
- Rigidity and inflexibility characterise the current system.
- Voluntary work can aid recovery, improve confidence and self-esteem. It may suit people with complex and/or fluctuating conditions.
- Outsourcing and privatisation are not working.
- Choice, control and the avoidance of stigma were the key issues.

5.23 We believe these views, reinforced by the other views we gathered, provide a strong mandate for taking a fresh look at how the needs of disabled people can be better met.

“I suffer from fibromyalgia...and I’m looked at as disabled, you know. And they’re trying to shove me into work but there’s only so much I can do. And there’s only so much on certain days I can do, you know.”

Expert Working Group Focus Group Participant

5.24 As outlined above, we accept that effective and person-focused assessments are a key feature of any welfare system. In particular the Work Capability Assessment (WCA) for Employment and Support Allowance (ESA), which has been independently reviewed on four occasions, with a fifth review underway, is not fit for purpose.

- 5.25 **We therefore recommend that the Work Capability Assessment is scrapped and a new approach to assessing individuals for disability benefits is developed.** The new assessment should be developed in equal partnership with professions, organisations who represent people with ill-health or disabilities and most importantly, individuals themselves. It might also take account of the views of carers and families who often play a significant role in wider support networks.
- 5.26 Building on the work of others^{106,107}, we further **recommend that the following should be considered as features of the new assessment building on the key principles of the wider system:**
- All assessments should be carried out within the public sector, preferably by a clinical professional in the relevant field. It would be preferable if this was carried out by someone who knows the individual and is trusted by them, but we recognise this might be unrealistic. Their views, however, should be sought as part of the process.
 - All assessments to be video recorded (subject to the agreement of the individual), providing the decision-maker with additional evidence beyond the written report if necessary.
 - Assessments may occur over more than one meeting so that a proper picture of the individual's condition and wider circumstances is established rather than just a 'snap shot'. In this situation, interim social security payments to support the individual might be needed until the assessment process is complete.
 - Home visits should be offered where this is deemed appropriate.
 - Assessments and communications before, during and after the assessment should take into account any particular or special needs of the individual. What adults with autism might say, for example, is not always what they mean.
 - The individual being assessed should be given a copy of the draft report. They should also be given the opportunity to submit their comments alongside it before the report is finalised and submitted for a decision.
 - There should be minimum time limits on reassessments.
 - The new assessment process would be subject to regular, independent scrutiny.
- 5.27 A single appropriate assessment may be sufficient for those whose needs are such that change or improvement may not be likely or where life expectancy is short. Clearly such assessments should be prioritised and carried out quickly. Equally it may be appropriate to assess other individuals more frequently. In the medium to long-term, a 'one stop shop' assessment process could reduce the bureaucracy faced by disabled people and unpaid carers leading them to access all appropriate support through one professional rather than having to deal with many different people and different services¹⁰⁸.

106 Spartacus Network, Beyond The Barriers, 9 April 2014.

<http://www.spartacusnetwork.org.uk/images/reports/BeyondTheBarriers.pdf>

107 Act Now For Autism. <http://www.actnowforautism.co.uk/page8.htm>

108 Carers Scotland Expert Working Group Consultation session, 15/1/14.

- 5.28 **We also recommend that an independent Scotland pilots new approaches as part of a new assessment process.** Our Principle of promoting assets-based support fits well with the concept of ‘self-management’. Self-management puts people living with long-term conditions in the ‘driving seat’. Quite simply, it allows people to live their lives better, on their terms. Health and Social Care Alliance Scotland and other third sector organisations lead a significant amount of innovative activity in this area, including the Self-Management Fund. Ideas such as peer support may also have merit. We recommend that such organisations and people who have experience of these issues be invited to help develop new models which could be tested as part of Scotland’s distinctive approach to assessing disabled people and people with long-term health conditions for support.
- 5.29 In the short term, before the new assessment process is established, the first Government of an independent Scotland will want to make changes to the process it inherits. **We recommend that an interim set of changes are made as quickly as possible and which address the most serious issues with the WCA before it is replaced.** As some have suggested, continuing to pay ESA whilst mandatory reconsideration is carried out and setting a time limit for mandatory reconsideration to be completed should be priorities¹⁰⁹. Personal Independence Payment assessments have also begun and, similarly, an interim set of changes should be considered before it is replaced under the system we recommend.
- 5.30 In Chapter 4 we set out proposals to transform the way in which employment support is delivered. **We recommended that programmes designed to help long-term unemployed people find, and stay in work should be driven by and designed around long-term local labour market challenges.** In the case of people for whom work might be a realistic possibility at some stage in the future, **we recommend that such programmes should also explicitly take account of the barriers they face and suitable interventions will be needed to move towards and into work.**

““There has to be a fundamental shift to the understanding that, due to mental and physical health, some in our society will not be able to work a full time job and, instead of being stigmatised and impoverished, they should be supported to live a meaningful and rewarding life where the vital community work many of them do is rewarded”.

Poverty Truth Commission

- 5.31 Initially, the emphasis might be less on seeking paid work and more on learning new skills or undertaking voluntary work depending on the individual’s needs. It will be important for any action to be part of a jointly-developed flexible plan to help the individual move towards work. At present, disabled people are often deterred from doing voluntary work in case it is seen as evidence that they are exaggerating the nature and extent of their condition. The risk of benefit loss in such circumstances is also very real. By setting it in the context of a staged plan for entering work where progress is rewarded rather than penalised, this concern should be removed. If each step back to better health and work is rewarded, rather than cutting incomes

¹⁰⁹ Spartacus Network, *Beyond The Barriers*.

in the switch to benefit conditionality for those re-assessed as capable of work, the question of assessment may start to be viewed quite differently. We want people to be supported to reach their full capability.

- 5.32 Flexibility in the current system such as the provision for ‘permitted work’ (previously known as the ‘therapeutic earnings rule’) has been poorly understood and barely used. We recommend that enabling disabled people or people with long-term conditions (which might fluctuate leading to ‘good days’ and ‘bad days’) to try out small amounts of work without putting their income from the social security system at risk should be reflected in a reformed system. It is vital to take the fear out of moving from benefits into work for people.

“Many people with learning disabilities benefit from a range of activities that lead to work. Many people and agencies that support people with disabilities talk about progression along a path to employment which can include longer periods in education and periods of time spent in volunteering. All of these help to build experience and the skills needed to be successful in employment but as people have learning disabilities it takes significantly longer. A new benefits system should recognise these tasks as important contributions both to the society around themselves and to the individual themselves.” Learning Disability Alliance Scotland

- 5.33 **Once ready for work, we recommend establishing a new ‘Work Opportunities Service’ to provide advice and guidance to individuals on jobs available.**

The precise model of this service would need further, detailed consideration, but we would expect it to be a partnership between those who currently lead existing initiatives designed to help disabled people into work. We would also expect it to have a strong NHS vocational rehabilitation element to its work.

““The struggle to get work is a reflection of inflexibility in the labour market for disabled people...” Comment from an Inclusion Scotland Event held on behalf of the Expert Working Group

- 5.34 **We further recommend that the Work Opportunities Service would have, as part of its remit, a requirement to work closely with employers, providing them with advice and support on issues such as better structuring of jobs and adapting facilities for disabled people. It would offer an associated job-matching role for employers and be a source of guidance when an existing employee becomes disabled.** It would also draw on the experience of employers who have been effective in adapting their workplaces and work models to accommodate disabled people. Disability Employment Advisers within the current Jobcentre Plus network offer a source of expertise which might be readily available to support the new service. There is also specialist knowledge within Skills Development Scotland and good experience among careers advisers and more widely, within third sector organisations, which should also be considered.

- 5.35 The role of employers is enormously important and we recognise the activity already underway through the Supported Employment Framework and initiatives led by third sector organisations such as the Scottish Association of Mental Health. We believe the benefits to employers of having a more diverse workforce are clear and compelling – a workforce that is more reflective of Scotland’s society and which allows business to reach deep into the pool of available talent. **We recommend a clear narrative setting out these benefits should be a strong part of an underpinning employer engagement strategy.**

The medium-term agenda

The role of organisations in helping to achieve the vision

- 5.36 The first Government of an independent Scotland will clearly wish to consider whether the range of services, functions, and bodies it inherits can deliver the necessary change we propose, or whether a new set of institutions, and/or enhanced functions to existing institutions, will be needed. We believe some alteration of this ‘institutional landscape’ is likely to be needed in order to deliver our vision. Our remit asks us to provide an indication of the opportunities for bringing devolved and reserved services together in an independent Scotland.
- 5.37 The Scottish Government has responsibility for a wide range of social policy including education, many aspects of childcare, health, local government and regeneration. Services for those out of work or for those who need support from the current welfare system are currently delivered by a mixture of public and private providers, and partly by the Scottish Government and the UK Government. But policy on skills and training is devolved to Scotland creating certain policy and delivery ‘disconnects’.
- 5.38 The national skills body Skills Development Scotland (SDS) was formed in 2008 and brought together careers, skills, training and funding services. They work closely with the Scottish Government, local government, and employers in all sectors to help individuals and businesses access the right learning and skills development opportunities. They also deliver intensive support to those who need it most, particularly young people aged 16 to 19.
- 5.39 The Department for Work and Pensions (DWP) is responsible for the policy and delivery of benefits for people of working age including programmes designed to help them find work. Its Jobcentre Plus (JCP) network of 94 offices¹¹⁰ across Scotland is the primary service in helping unemployed people find work. It operates independently of SDS despite, in many cases, dealing with the same customers. DWP is also responsible for the policy and delivery of welfare for those who have reached their state pension age. It has contracted out a number of its frontline services, such as health assessments and employment programmes, to the private sector.
- 5.40 Local Government is another key partner in supporting employability, making a significant financial investment to help unemployed people move closer to, and

110 DWP & Scotland Office, *Scotland analysis: work and pensions*, Department for Work and Pensions, 24 April 2014. <https://www.gov.uk/government/publications/scotland-analysis-work-and-pensions>

into, work, through employability support, and more widely through adult learning, education, social care, social work, childcare and economic development. All local authorities provide employment support through their Local Employability Partnerships and operate the Scottish Welfare Fund (SWF), the successor arrangement to Crisis Loans for Living Expenses and Community Care Grants in Scotland¹¹¹.

- 5.41 A number of national and local voluntary organisations currently deliver employment services. Community Jobs Scotland (CJS) is a partnership between the Scottish Government and the Scottish Council of Voluntary Organisations (SCVO), the national body for Scotland's charities, voluntary organisations and social enterprises. This creates work opportunities for young unemployed people within third sector organisations across Scotland.
- 5.42 The previous paragraphs seek to illustrate that, at present, services are delivered by a number of partners across political and organisational boundaries, each with differing priorities and aims, and with some fundamental tensions. This creates a complex and disjointed landscape for individuals and service providers. In the first instance, building on the detailed analysis in our first report, **we recommend that a detailed scoping exercise is undertaken by the Scottish Government**. Its purpose would be to identify the resources, functions and services related to the delivery of benefits which Scotland would inherit and therefore provide a solid basis from which the decisions we outline below can be taken.
- 5.43 Considering how employment support, skills and careers advice services could work more closely together and with improved outcomes for individuals in an independent Scotland should be a priority. In our discussions, the idea of merging the JCP network and SDS was raised. This approach would combine both the spend and estate of both organisations, and align functions to potentially deliver a simpler, unified service which responds better to the needs of individual customers and sustains a relationship with employers. Equally integrating these functions into central government is possible, and is the approach which has been adopted by DWP. Both organisations have undergone significant operational change in recent times and this must be considered as part of the scoping exercise above.
- 5.44 Giving greater responsibility for delivery to Local Government, within a clear national framework, is another option, given they already deliver 'welfare' in both the narrow (for example the current arrangements for Council Tax Reduction and the Scottish Welfare Fund) and wider sense (for example social services) and have a clear sense of the interactions between their local economy and labour market.

"Many of the functions of Job Centres, Skills Development Scotland and Scottish Enterprise could be better designed and delivered if they were under the auspices of local government and delivered in line with outcome priorities of Community Planning Partnerships." COSLA

111 Scottish Government, *Scottish Welfare Fund*, N.D. <http://www.scotland.gov.uk/Topics/People/welfarereform/scottishwelfarefund>

- 5.45 We received views from a range of organisations, some of whom were supportive of this approach to varying extents. These focused around a national framework to guarantee equality of entitlement and consistency in practice, but delivery and processing by locally well-resourced offices – best placed to respond to local needs, particularly for households with multiple and complex circumstances¹¹². There were also suggestions in relation to further devolution of funding and powers to Local Government¹¹³.

“Localised forms of delivery, supported by national structures would be best suited to meeting the needs of service users. Operational practicalities, demographics and the contours of demand differ vastly across local authority areas. For instance, in rural areas, access to services and to infrastructure such as childcare, internet and public transport are major issues with significant gendered dimensions.” ENGENDER

- 5.46 Contracting out services to the private sector is clearly unpopular in Scotland, and especially with those who are directly involved with the current system. At a workshop undertaken by Inclusion Scotland, there was ‘strong antipathy’ to the private sector delivering welfare, with some citing the unsuccessful contract with ATOS as an example. The Scottish Campaign on Welfare Reform also expressed preference for a system that puts users’ needs, rather than profits, first¹¹⁴.
- 5.47 Contracting out to private companies has been a feature of the DWP commissioning strategy for a range of its services. This approach has been successful in some countries, for example Job Services Australia has achieved better job outcomes for around half of the cost in Australia¹¹⁵. An independent Scotland will need to think carefully about its position on this matter.

“Providers felt that delivery should be nationally through a single independent body, which has no vested interest in the final judgements/outcomes of their work (e.g. such as ATOS currently), and which is supported by local authorities and third sector organisations (but not run by them). Independence was seen as being of paramount importance to create fair and impartial decisions, without vested authority.”
Coalition of Care and Support Providers

- 5.48 An independent Scotland could also consider a change in the role of the third sector. A range of views on this were submitted to us, with some general comments around better partnership working and increased responsibilities for the sector, and some more specific proposals around the third sector assuming administrative roles in a new social security system¹¹⁶. Some employment programmes are already

112 One Parent Families Scotland, *OPFS Response to Expert Working Group on Welfare Call for Evidence*, December 2013. <http://www.scotland.gov.uk/Resource/0044/00441915.pdf>

113 COSLA, *Letter to Expert Working Group on Welfare – Call for Evidence*, 4 December 2013. <http://www.scotland.gov.uk/Resource/0044/00441909.pdf>

114 Scottish Campaign on Welfare Reform, *A Manifesto for Change*, N.D. <http://www.scotland.gov.uk/Resource/0044/00441887.pdf>

115 J. McCormick, 2013.

116 Reid Howie Associates, 2014.

successfully delivered by the third sector in Scotland, for example CJS, and there may be scope to develop such programmes in the future. There would undoubtedly be huge potential to work in partnership with third sector bodies that have expertise in specialised areas, such as supporting people with mental health needs back to work.

“We also believe there could be a role for the third sector in ensuring access to statutory social security support, particularly in terms of providing independent advocacy, and information and advice to ensure citizens are able to receive the financial support to which they are entitled. Benefits of involving the third sector in these roles include their specialist knowledge of local areas and/or specific population groups or conditions, the fact that they are often more trusted and respected by members of the public and the fact that, unlike private contractors, voluntary organisations have no legal duty to make profits or satisfy stakeholders.”
Child Poverty Action Group

- 5.49 There are pros and cons to each of the above approaches. The benefits of whatever model Scotland chooses should therefore be carefully weighed against its costs, and the opportunities must be seen to clearly outweigh the challenges that will need to be overcome.
- 5.50 So that this choice is properly informed, **we recommend proposals for new structures or institutions should be properly considered, costed and consulted on by the first Government of an independent Scotland against the following criteria:**
- The ability to pursue a ‘whole of Scotland’ approach where this makes sense using, for example, national frameworks or guidelines, performance measures and quality standards or developing national service offers.
 - Necessary regional and local variation in how services are designed and delivered could flourish. In other words, services which fit round the needs of the individual, their family and community and which respond to their needs and that of the local and regional labour markets. Given Scotland’s size and its history of local employability partnerships, it would be well-placed to develop this mix of the national and local services.
 - Enables the individual to access the full range of services that might help them back into, and stay in, work – that means swift access to any skills and training, job-search, childcare, health, careers and other advice and support services.
 - The capacity to gather robust evidence so that what works and what doesn’t work is clearly understood, and ‘the system’ improved on the basis of what is learned.
 - Ensures that coherent links are made between the needs of individuals, the skills provision available and the opportunities available in local, regional and national labour markets.
- 5.51 Using these criteria as a guide will help to embed the Purpose and the Principles into the delivery arrangements that will implement the social security system.

Chapter 6

Costs and Benefits: A Sustainable Social Security System for the Longer Term

Introduction

- 6.1 Debates around welfare expenditure tend to focus on affordability. This Chapter contains our assessment of the affordability of the welfare system now and in the future, possible changes to costs deriving from the short- to medium-term proposals outlined in Chapter 4 and the broad cost considerations of our two long-term options, the personal welfare accounts and the Citizen's Basic Income.
- 6.2 While Government in an independent Scotland will need to consider affordability, an important consideration is to keep a focus on whether or not spending on welfare, when viewed over the long term, is sustainable. Sustainability is likely to drive better policy making than short-term affordability, and permits investment in the short term where this will be judged to produce savings in the medium to long term.
- 6.3 Currently social protection expenditure as a percentage of GDP is lower in Scotland than the UK and comparatively low compared to the EU 15¹¹⁷. This places Scotland in a positive position regarding affordability and increases the potential for investment for future sustainability. Short-term changes to the current system can readily be incorporated.

Current expenditure on welfare

- 6.4 So far in this Report we have spoken about the welfare system and the benefits system. When talking about expenditure we need a new definition to enable us to use the costs provided in the Government Expenditure and Revenue Scotland (GERS) publication. We use the term social protection. Social protection is the single largest category of public spending for Scotland. It encompasses a range of spending functions that are devolved including social services. However, the largest single element of expenditure in this category is spending on social security benefits, which is reserved to the UK Government.
- 6.5 GERS shows that, in 2012-13, social protection in Scotland was £22.5 billion. It does not allow us to identify spending solely on the benefit system.

117 Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

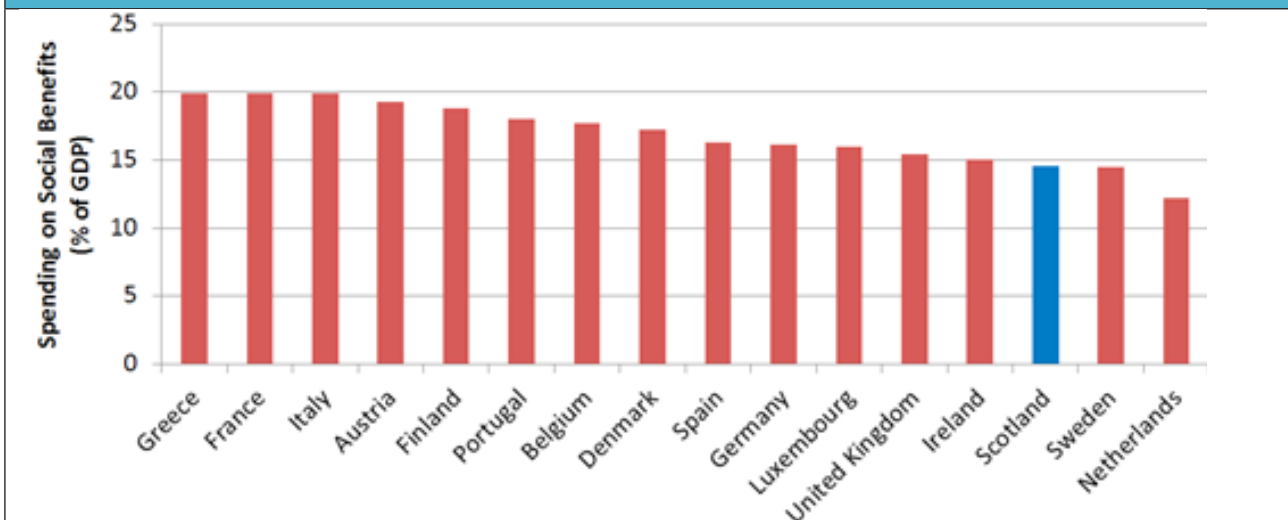
- 6.6 Using GERS data we can see that in each of the last five years, social protection expenditure in Scotland was lower than in the UK as a whole, accounting for 15.5 per cent of GDP in Scotland and 16.0 per cent in the UK in 2012-13 (the most recent year for which figures are available), see Table 6.1.

	2008-09	2009-10	2010-11	2011-12	2012-13
Scotland	13.0%	15.0%	14.3%	14.4%	15.5%
UK	14.2%	15.6%	15.4%	15.5%	16.0%

Source: GERS 2012-13 and Scottish Government analysis.

- 6.7 It is also useful to consider how Scotland compares on an international basis. Comparing spending on social protection across countries is complicated by differences in the structure of Government and the provision of welfare transfers¹¹⁸.
- 6.8 The standard approach to producing international comparisons is to express expenditure as a percentage of GDP to control for the size of the economy. Combining the results in Table 6.1 above with internationally-comparable data from Eurostat suggests that spending on social protection in Scotland is estimated to have been lower, as a share of GDP, than in the majority of EU-15 countries during 2012, see Chart 6.1.

Chart 6.1: Social protection spending as per cent of GDP: EU-15, 2012

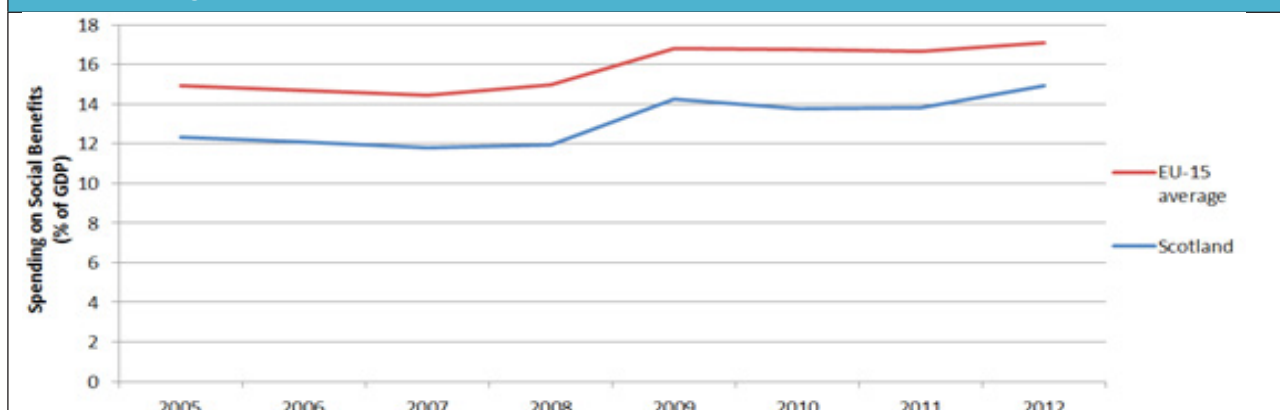


Source: Eurostat and Scottish Government calculations.

- 6.9 Looking at trends over time rather than at a single point, Chart 6.2 highlights that Scottish expenditure has consistently been below the EU-15 average from 2005 to 2012.

118 Scottish Government, *Scotland's Balance Sheet*, 2013.

Chart 6.2: Comparison of social protection spending as a per cent of GDP between Scotland and EU-15 average, 2005 to 2012



Source: Eurostat and Scottish Government calculations.

Forecasting benefit expenditure to 2018-19

Cost of payments to individuals

- 6.10 In our first report, we confirmed that the Scottish Government's methodology to forecast the costs of benefits was reasonable and we projected forward these costs to 2016-17. This work has now been updated to 2018-19, the early years of the first Parliament of an independent Scotland. These projections are based on the current UK Government plans for welfare and do not take account of changes that an independent Scottish Government may wish to implement.
- 6.11 These costs include the actual costs of the payments to individuals, and the costs to Government of administering these payments. Administration costs associated with the wider work of DWP, including Work Programme and Jobcentre Plus, are also included as it is not possible to separate these out. Costs associated with the payment and administration of tax credits and Child Benefit, administered by HMRC, are also included.
- 6.12 While the data has been updated, our methodology for estimating both AME and DEL expenditure has remained the same as published in the first report. Full details of the methodology can be found in Annex C.
- 6.13 Our AME forecasts are based on the UK Government's medium-term forecasts of benefit expenditure, published as part of each Budget and Autumn Statement. In the 2014 UK Budget, outturn data for 2012-13 and forecasts for benefit expenditure to 2018-19 were published. To obtain a Scottish estimate we have combined benefit forecast of spending on each benefit (produced at the time of the 2014 UK Budget) with historical data on Scotland's share of benefit spending, all at the level of the individual benefit, to produce a forecast of benefit expenditure in Scotland to 2018-19. Where historical information on the ratio of Scotland to Great Britain spending is not available, a proxy has been used.
- 6.14 Chart 6.3 shows our resulting forecasts of AME benefit spending in Scotland using this methodology along with how benefit expenditure is distributed across different recipient groups in 2012-13 prices.

Chart 6.3: Forecast benefit expenditure in Scotland 2012-13 to 2018-19, real terms 2012-13 prices (£ billion)

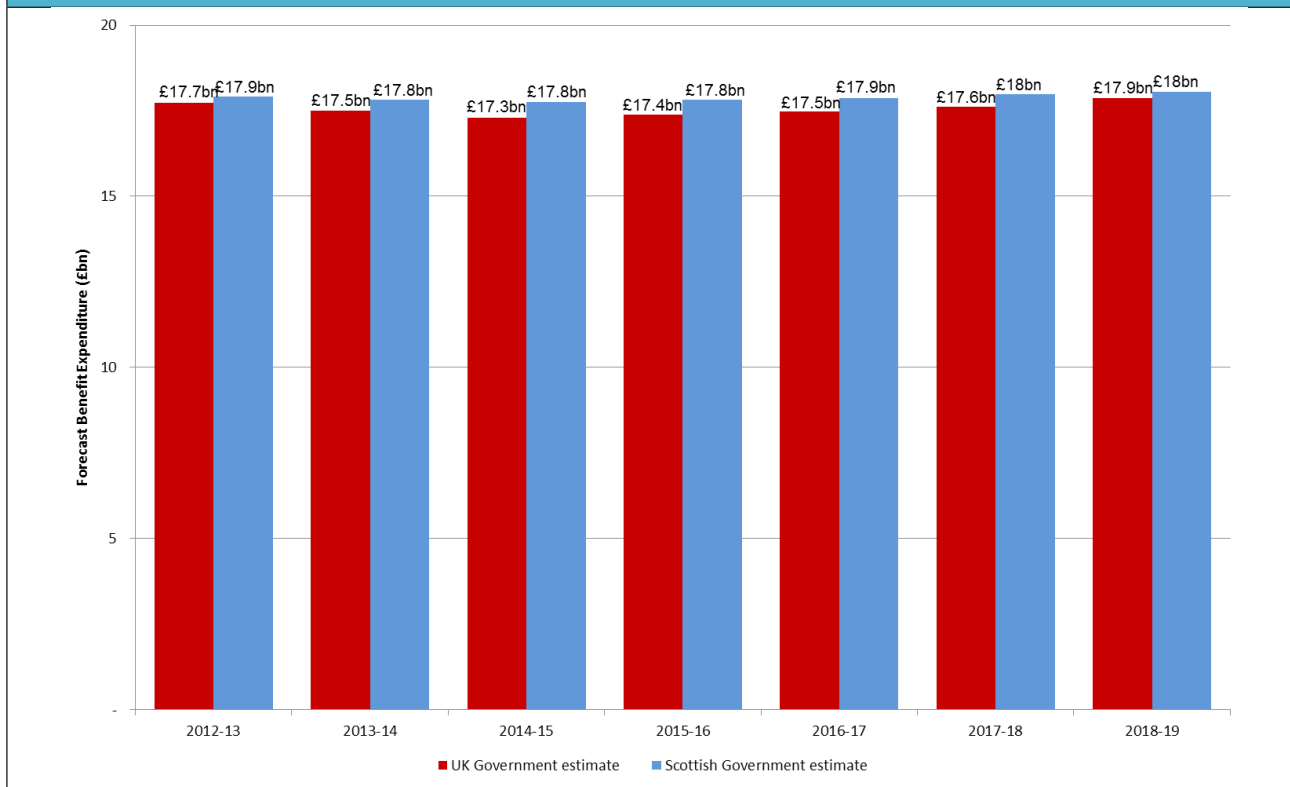


Source: Scottish Government calculations based on methodology highlighted in this Report.

6.15 The UK Government recently also published analysis on the long-term projections of benefit expenditure in Scotland¹¹⁹. They used a slightly different methodology to that used in this Report, focusing on the cost per individual in Scotland to take into consideration demographic change. Their projections are also shown in 2012-13 prices rather than in current prices. Despite that variation in methodology, the results are very similar with DWP estimating that Scottish benefit expenditure in 2018-19 (in 2012-13 prices) would be £17.9 billion which is slightly lower than our estimate of £18.0 billion as shown in Chart 6.4.

119 DWP, *Long-term projections of social security expenditure in the United Kingdom, including Scotland*. 24 April 2014. <https://www.gov.uk/government/publications/long-term-projections-of-social-security-expenditure-in-the-united-kingdom-including-scotland>

Chart 6.4: Comparison of UK Government and Scottish Government forecasts of benefit expenditure, 2012-13 to 2018-19, real terms 2012-13 prices (£ billion)



Source: Scottish Government calculations based on methodology highlighted in this Report and Long-term projections of social security expenditure in the United Kingdom including Scotland.

Note: Principle population projection used for UK Government estimates of benefit expenditure in Scotland.

- 6.16 The UK Government projections split expenditure into that spent on working-age and pension-age individuals. While the Scottish Government analysis can split expenditure into broad categories, such as elderly or out-of-work families, it cannot be broken down into the age of recipient in the same way.
- 6.17 The UK Government projections estimate working-age benefits in 2018-19 to be around £7.9 billion (44 per cent) of the total £17.9 billion in 2012-13 prices under the principle population projections, see Table 6.2. Looking at the predictions for working-age benefits only, this shows expenditure per working-age person to be lower in Scotland than the UK under current benefit proposals.

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Total expenditure (2012-13 prices)							
United Kingdom	£98.7bn	£95.8bn	£93.2bn	£93.0bn	£93.9bn	£96.2bn	£98.6bn
Scotland	£8.1bn	£7.9bn	£7.6bn	£7.6bn	£7.6bn	£7.7bn	£7.9bn
Expenditure per working-age person (2012-13 prices)							
United Kingdom	£2,500	£2,410	£2,327	£2,307	£2,310	£2,346	£2,386
Scotland	£2,433	£2,349	£2,254	£2,232	£2,238	£2,247	£2,281

Source: DWP, Long-term projections of social security expenditure in the United Kingdom including Scotland, 24 April 2014.

- 6.18 Table 6.3 underlines that the UK Government analysis consistently estimates that Scotland will spend proportionately less on benefits than the Scottish Government analysis suggests. This proportion also continues to fall over time. This is due to differences in methodology alone. For example, the UK Government analysis is based on Scotland as a proportion of the UK, which includes benefit expenditure in Northern Ireland (which is excluded in the Scottish Government analysis). The UK Government analysis also takes into consideration demographic changes, while the Scottish Government analysis assumes that the ratio of spending in Scotland to Great Britain, at the level of individual benefits, will remain at their 2012-13 levels through to 2018-19.
- 6.19 If expenditure in Scotland was to follow the pattern of the UK Government's forecasts then this places Scotland in a more positive position regarding affordability relative to the rest of the UK.

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Scottish Government analysis: Scotland as % of GB	8.6%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%
UK Government analysis: Scotland as % of UK	8.5%	8.5%	8.4%	8.4%	8.4%	8.3%	8.3%

Source: Scottish Government calculations based on methodology highlighted in this report and DWP, Long-term projections of social security expenditure in the United Kingdom including Scotland, 24 April 2014.

Note: The increase from 8.6% to 8.8% of GB expenditure between 2012-13 and 2013-14 in the Scottish Government analysis can be explained by the inclusion of Council Tax Replacement and Scottish Welfare fund in the Scottish expenditure lines. However, as the localisation of Council Tax support and discretionary elements of the Social Fund are not included within the UK Government's forecasts, they are not included in our estimation of GB expenditure.

Costs of administration

- 6.20 To look at the costs of benefits administration, or DEL, we have used DWP and HMRC 2012-13 accounts as the basis for our forecast of benefits administration costs in Scotland. Total DEL limits to 2015-16 are provided for DWP and to 2014-15 for HMRC¹²⁰. Beyond that we have assumed that administration costs would grow in line with the current forecasts of the Office of Budget Responsibility (OBR) of how Resource DEL (RDEL) will change across all UK Government Departments.
- 6.21 We then estimated Scotland's share of these future administrative costs. To do this, we assumed that for DWP the proportion of administration costs attributable to Scotland was equal to Scotland's share of the spending on the actual DWP benefits in 2012-13 (or 8.8 per cent). For HMRC we know how much per pound of spend on tax credits and Child Benefit is on administration costs. Using these figures, we have estimated the proportion of HMRC DEL spend on administering these two benefits across the UK. This proportion was assumed to remain constant over the period and an estimate of the Scottish share was applied to the forecast for HMRC total DEL spend.
- 6.22 Taking DWP and HMRC administration costs together, the total DEL costs for administering benefits in Scotland are forecast to fall gradually from £0.7 billion in 2014-15 to £0.5 billion in 2018-19. The implicit assumption behind this way of producing a forecast is that the cost of administering benefits in Scotland is no higher, per pound of benefits paid to claimants, than it is across Great Britain at present.

Total costs

- 6.23 Tables 6.4 and 6.5 show the overall forecast of benefit spending in Scotland, including both DEL and AME. It shows that, by 2018-19, expenditure on the welfare system in Scotland, including the additional costs of Universal Credit, will amount to £20.7 billion. Table 6.6 and 6.7 show the equivalent forecasts for Great Britain.

¹²⁰ Capital DEL was excluded from these calculations.

Table 6.4: Forecast costs associated with welfare in Scotland 2012-13 to 2018-19 (£ billion), nominal terms

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Based on current costs							
AME expenditure	17.9	18.1	18.5	18.8	19.3	19.7	20.2
DEL expenditure	0.7	0.7	0.7	0.6	0.6	0.5	0.5
Total current costs	18.6	18.8	19.2	19.4	19.8	20.3	20.7
Additional costs of Universal Credit							
OBR forecasts		-	-	-	-	0.0	-0.0
Total	18.6	18.8	19.2	19.4	19.8	20.3	20.7

Sources: Scottish Government Calculations based on methodology highlighted in this Report and OBR Economic and Fiscal Outlook March 2014.

Notes: Numbers have been rounded to nearest £0.1 billion; numbers may not sum due to rounding: "-" indicates that there is no data available while '0.0' indicates that there is a value but that it rounds to less than £0.1 billion.

Table 6.5: Forecast costs associated with welfare in Scotland 2012-13 to 2018-19 (£ billion), real terms 2012-13 prices

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Based on current costs							
AME expenditure	17.9	17.8	17.8	17.8	17.9	18.0	18.0
DEL expenditure	0.7	0.7	0.7	0.5	0.5	0.5	0.5
Total current costs	18.6	18.5	18.5	18.4	18.4	18.5	18.5
Additional costs of Universal Credit							
OBR forecasts		-	-	-	0.0	0.0	-0.0
Total	18.6	18.5	18.5	18.4	18.4	18.5	18.5

Sources: Scottish Government Calculations based on methodology highlighted in this Report and OBR Economic and Fiscal Outlook March 2014.

Notes: Numbers have been rounded to nearest £0.1 billion; numbers may not sum due to rounding: "-" indicates that there is no data available while '0.0' indicates that there is a value but that it rounds to less than £0.1 billion.

To convert figures from nominal to real terms the GDP deflator Budget 2014 was applied.

Table 6.6: Forecast costs associated with welfare in Great Britain 2012-13 to 2018-19 (£ billion), nominal terms

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Based on current costs							
AME expenditure	208.1	205.3	209.0	213.5	218.7	224.6	230.2
DEL expenditure	7.9	7.7	8.3	6.7	6.4	6.2	6.2
Total current costs	216.0	213.0	217.3	220.2	225.1	230.8	236.4
Additional costs of Universal Credit							
OBR forecasts		0	0	0	0.1	0.5	-0.2
Total	216.0	213.0	217.3	220.2	225.2	231.3	236.2

Sources: OBR, *Economic and Fiscal Outlook – March 2014* supplementary fiscal tables, DWP medium-term benefit forecasts as at Budget 2014, Long-term projections of social security expenditure in the United Kingdom including Scotland and Scottish Government calculation.

Note: Numbers have been rounded to nearest £0.1 billion; numbers may not sum due to rounding; “-” indicates that there is no data available while ‘0.0’ indicates that there is a value but that it rounds to less than £0.1 billion.

Note: Figures are presented for GB and abroad except for over 75 TV licences includes Northern Ireland. GB expenditure for tax credits and Child Benefit, administered by HMRC, is available in DWP medium-term benefit forecasts.

Localisation of Council Tax support and discretionary elements of the Social Fund are not included within the UK Government's forecasts.

Table 6.7: Forecast costs associated with welfare in Great Britain 2012-13 to 2018-19 (£ billion), real terms 2012-13 prices

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Based on current costs							
AME expenditure	208.1	201.7	200.9	202.0	203.0	204.6	205.7
DEL expenditure	7.9	7.5	7.9	6.3	6.0	5.7	5.5
Total current costs	216.0	209.2	208.8	208.3	209.0	210.3	211.1
Additional costs of Universal Credit							
OBR forecasts		-	-	-	0.1	0.5	-0.2
Total	216.0	209.2	208.8	208.3	209.1	210.8	211.0

Sources: OBR, *Economic and Fiscal Outlook – March 2014* supplementary fiscal tables, DWP medium-term benefit forecasts as at Budget 2014, Long-term projections of social security expenditure in the United Kingdom including Scotland and Scottish Government calculation

Note: Numbers have been rounded to nearest £0.1 billion; numbers may not sum due to rounding; “-” indicates that there is no data available while ‘0.0’ indicates that there is a value but that it rounds to less than £0.1 billion.

Note: Figures are presented for GB and abroad except for Over 75 TV licences includes Northern Ireland. GB expenditure for Tax Credits and Child Benefit, administered by HMRC, is available in DWP medium-term benefit forecasts.

Localisation of Council Tax support and discretionary elements of the Social Fund are not included within the UK Government's forecasts.

To convert figures from nominal to real terms the GDP deflator from Budget 2014 was applied.

Changes in the short to medium term

- 6.24 Chapter 4 sets out the direction of short to medium-term policy proposals. The general direction of these proposals is to provide a system of social security which supports people into good work. The ongoing administrative costs of these proposals are expected to be neutral in the beginning as change is based primarily on making better use of existing resources through offering a more personalised service and better integrating benefit, employment and training activities with the individual at the core. Over the longer term the expectation is that costs will reduce as individuals are successfully assisted into employment.
- 6.25 At the same time we recognised in Chapter 4 that there are inequities in the current system that cannot wait for resolution. We refer to the impact of changing the level of the Carer's Allowance and requiring all public sector workers (to begin with) receiving the Living Wage thus saving tax credits. Some indication of the impacts of such changes are shown below.

Moving individuals into the labour force

- 6.26 One of our key aims is to support individuals into employment. Three scenarios have been examined to provide an estimation of the potential savings to the benefit system. They do not take account of changes to tax credits or tax revenues.

The following scenarios provide an illustration of the potential savings to benefits expenditure achievable through various changes to the current situation. The scenarios chosen relate to employment recovering as we move into a period of growth and what might be possible if efforts were made to support people from Income Support and Employment and Support Allowance into work as the economy improves. They do not take into consideration the impact on tax credits, or implications for taxation revenue.

Scenario 1: Increasing levels of employment

For every 1,000 individuals moved from Jobseeker's Allowance (JSA) into work, around £3.5 million in JSA expenditure would have been saved in 2013-14.

In November 2013 there were 106,800 individuals on JSA. If 10 per cent of these individuals moved into work **this would save around £38 million in JSA expenditure in 2013-14**¹²¹. This is around 0.2 per cent of total benefit expenditure or around 0.4 per cent of non-pensioner benefits in Scotland in 2013-14.

For every 1,000 individuals moved from Income Support (IS) into work, around £3.8 million in IS expenditure would have been saved in 2013-14.

121 Based on the average JSA expenditure per individual in Scotland in November 2013 of £68.43 per week from DWP tabtool, found at http://tabulation-tool.dwp.gov.uk/100pc/jsa/ccgor/ccsex/a_cawklyamt_r_ccgor_c_ccsex_nov13.html; the number of individuals claiming JSA in Scotland from DWP tabtool, found at http://tabulation-tool.dwp.gov.uk/100pc/jsa/ccgor/ccsex/a_carate_r_ccgor_c_ccsex_nov13.html

Scenario 2: Moving people from Income Support

In November 2013 there were around 78,510 people on IS of whom 38,390 were single parents, 20,900 on incapacity benefits and 15,890 carers with another 3,330 unclassified. If around 10 per cent of these individuals were supported back into work **this would save around £30 million in 2013-14**¹²². This is around 0.2 per cent of total benefit expenditure or around 0.3 per cent of non-pensioner benefits in Scotland in 2013-14.

Scenario 3: Encouraging those on Employment and Support Allowance into work

This Report has discussed how the welfare system is a social partnership between the individual, the State and also employers. Part of this partnership will be for employers to hire, and make provision for those with more complex needs and barriers to work.

For every 1,000 individuals moved from Employment and Support Allowance (ESA) into work, around £5.5 million in ESA expenditure would have been saved in 2013-14.

If we assumed that 10 per cent of the current ESA caseload found employment, around 23,000 individuals in November 2013, then **this would save around £125 million in ESA in 2013-14**¹²³. This is around 0.7 per cent of total benefit expenditure or around 1.2 per cent of non-pensioner benefits in Scotland in 2013-14.

Carer's Allowance

- 6.27 One change that we recommend be considered immediately is increasing Carer's Allowance from £61.35 per week to the same rate as Jobseeker's Allowance for those aged 25 and over (£72.40 per week). The Scottish Government has estimated that this would approximately cost an additional £32.9 million per annum.

A move to the Living Wage

- 6.28 The IPPR & Resolution Foundation have estimated the gain to the UK Exchequer of increasing the National Minimum Wage to the same level as the Living Wage would be around £3.6 billion, assuming no behavioural response to this change¹²⁴. This is made up of £1.1 billion from income tax receipts, £1.3 billion from National Insurance Contributions and £1.1 billion savings on means-tested benefits and tax

122 Based on the average IS expenditure per individual in the Income Support Statistical group in Scotland in November 2013 of £71.39 from DWP tabtool, found at http://tabulation-tool.dwp.gov.uk/100pc/is/ccstatgp/ccsex/ccgor/a_cawklyamt_r_ccstatgp_c_ccsex_p_ccgor_scotland_nov13.html; and the number of individuals in the Income Support Statistical group in Scotland from DWP tabtool found at http://tabulation-tool.dwp.gov.uk/100pc/is/ccsex/ccstatgp/ccgor/a_carate_r_ccsex_c_ccstatgp_p_ccgor_scotland_nov13.html

123 Based on the average ESA expenditure per individual in Scotland in November 2013 of £105.53 from DWP tabtool, found at http://tabulation-tool.dwp.gov.uk/100pc/esa/ccgor/ccsex/a_cawklyamt_r_ccgor_c_ccsex_nov13.html; and the number of individuals in receipt of ESA in Scotland from DWP tabtool, found at http://tabulation-tool.dwp.gov.uk/100pc/esa/ccgor/ccsex/a_carate_r_ccgor_c_ccsex_nov13.html

124 K. Lawton & M. Pennycook, *Beyond the bottom line: The challenges and opportunities of a living wage*, IPPR and Resolution Foundation, 2013. http://www.resolutionfoundation.org/media/media/downloads/Beyond_the_Bottom_Line_-_FINAL.pdf

credits. Assuming that Scotland takes a proportion share of these savings (in this instance applying Scotland's percentage share of UK expenditure on the relevant revenue or benefit) the Scottish fiscal position would improve by around £280 million, before we consider any indirect effects.

Summary

6.29 In the short to medium term the changes proposed will not have a significant financial impact on annual benefit expenditure in Scotland. We believe savings could be achieved by the more effective use of existing systems and processes. We would expect that the sustainability of the system would be a consideration in the work of the National Convention on Social Security. Analysis already shows that Scotland currently spends less on social protection than the UK as a whole.

Radical options for the future

Personal welfare accounts

- 6.30 As described in Chapter 4, personal welfare accounts aim at encouraging individuals to make personal provision for a range of life events. This approach is based on the premise that the individual saves into an account and at a later stage uses those savings to take a period of care leave, for example. The Government and/or the employer may contribute to the savings account or tax credits could be offered for savings. The design of the scheme will depend on who it is aimed at and what behaviours it will encourage.
- 6.31 Costs to the Government arise from tax breaks granted on the money saved and any top-up or bonus amounts paid to encourage savings, as currently in place for pension savings and Individual Savings Accounts. In addition there is the potential cost of administering the scheme if it is to be provided through the public sector. However any such costs need to be set against savings in benefits paid for time off work, caring, training and so on, depending on the terms of the personal welfare account.
- 6.32 Because of the wide range of possibilities in terms of design, the costs to the Government could range from marginal to more substantial. The Dutch have experimented with life course savings schemes but found it difficult to estimate exact costs. A Danish study¹²⁵ considers Government revenue effects of introducing welfare accounts in Denmark and suggests that positive net effects on public finances could be expected. The study models the total effect on net revenue of welfare accounts that include provisions for unemployment, early retirement in addition to leave for sickness, parental, education and child caring. It estimates that the total effect on net Government revenues of the proposed accounts could be worth over 6 per cent of the income tax base.

Citizen's Basic Income

- 6.33 In Chapter 4 we outlined the Citizen's Basic Income as a policy choice for reshaping the welfare state. The following section looks to estimate the cost of a Citizen's Basic Income based on the methodology outlined by the Citizen's Income Trust and the Jimmy Reid Foundation report *In place of anxiety*¹²⁶. The key assumptions around this are:
- All individuals receive a tax-free transfer from the State;
 - This would replace all benefits except those relating to housing or disability (which would receive a supplementary payment on top); and,
 - The basic rate would vary with age to reflect the different needs at different life stages.

125 A. Lans Bovenberg et al., 2012. <http://www.reidfoundation.org/portolio/inplaceofanxiety/>

126 A. McKay & W. Sullivan, 2014. A. McKay & W. Sullivan, *In Place of Anxiety*, The Jimmy Reid Foundation, March 2014. <http://reidfoundation.org/portfolio/inplaceofanxiety>

- 6.34 The Reid Foundation base their costs of a Citizen's Income on the 2012-13 rates of means-tested benefits, income support and pension credit, see Table 6.8 below:

Age	2012-13 weekly rate	Source
0 to 15	£56.25	Income Support rate for 16 to 24 year olds
16 to 24	£56.25	Income Support rate for 16 to 24 year olds
25 to 64	£71.00	Income Support rate for those aged 25 plus
65 and over	£142.70	Pension credit rate

Source: A. McKay & W. Sullivan, 2014

- 6.35 To obtain estimates of a Citizen's Income the rates in Table 6.8 are multiplied by the numbers in each age group. The Reid Foundation also take into consideration state pension entitlements which are over the Pension Credit rate. Taking both these estimates together it is estimated a Citizen's Income would cost around £25 billion in 2012-13 in Scotland, Table 6.9. However, this does not include disability or housing benefits. If we assume that current expenditure on Housing Benefit and PIP were used as a proxy, this would increase to around £27 billion. This is around £9 billion more than the £18 billion estimated to have been spent on benefits, and their administration, in Scotland in 2012-13.

Age	2012 mid-year population estimates	Citizen's Income per week	Cost (nearest £bn)
0 to 15	914,700	£56.25	£3bn
16 to 24	628,700	£56.25	£2bn
25 to 64	2,844,500	£71.00	£11bn
65 and over	925,800	£142.70	£7bn
State pension entitlements in excess of £150.00*			£3bn
Cost of Citizen's Incomes and pension entitlements			£25bn
Running costs (1 per cent)			**
Total annual cost			£25bn

Source: Scottish Government calculation based on A. McKay & W. Sullivan, 2014 methodology.

Notes: Figures may not sum due to rounding.

**Due to lack of data we estimated the cost of State pension entitlements in excess of £150.00 instead of £142.70 that was used in the original report. This may lead to an underestimation of the cost.*

*** Running costs estimated to be less than £0.5 billion.*

- 6.36 The Reid Foundation suggest that this additional costs of the Citizen's Income could be met via the current basic rate of taxation on earned income (20 per cent) and Employee National Insurance Contributions (NICs) (12 per cent), a marginal tax rate of around 32 per cent. However, it is likely that this methodology would result

in a shortfall for Scotland. The most recent GERS suggests that all income tax receipts (Basic, Higher and Additional rates) and NICs (Employer and Employee) accounted for £10.9 billion and £8.5 billion respectively in 2012-13¹²⁷. This comes to £19.4 billion which is over £5 billion less than a citizens income where no additional payments for disability or housing are made. As the income figures include all NICs and income tax receipts, they account for more than the basic rate of taxation and employee NICs.

- 6.37 However the Green Paper on Basic Income¹²⁸, which examined the potential for a Basic Income in Ireland, suggested that a high tax rate of around 50 per cent would be required to fund such a scheme. Hirsch (2006)¹²⁹ suggests that a flat tax and universal benefits (which is in effect what CI is) would require a tax rate of 46 per cent if national insurance was brought into the tax system.

127 Scottish Government, Government Expenditure and Revenue Scotland 2012-13, 12 March 2014. <http://www.scotland.gov.uk/Publications/2014/03/7888>

128 Irish Government, 2002. http://www.taoiseach.gov.ie/eng/Publications/Publications_Archive/Publications_for_2002/GreenPaperOnBasicIncome1.pdf

129 D. Hirsch, Flatter taxes: rich giveaway or new deal for poor? Joseph Rowntree Foundation, 11 August 2006. <http://www.jrf.org.uk/publications/flatter-taxes-rich-giveaway-or-new-deal-poor>

Annex A

Remit

Background

1. The Scottish Government published the report of the Expert Working Group on Welfare on 11 June, together with its response. The Group was asked to look at the costs and delivery of the welfare system at the point of independence and to take evidence on early priorities for policy change. Its report, together with work being undertaken by the Scottish Government, will inform the White Paper being published in Autumn 2013.
2. Scottish Ministers have accepted the Group's recommendation that a transitional period of shared administration for delivery of benefit payments will be necessary. They believe, however, that this would only be in Scotland's interests if it allows the first Government of an independent Scotland to (i) introduce its priorities for change from Day One of independence and (ii) begin work towards creating a welfare system that better reflects Scotland's priorities and needs immediately following a vote for independence in the Referendum. Additionally, Scottish Ministers have stated that such a transitional period should be as short as possible, ideally coming to an end in 2018.
3. The Expert Working Group on Welfare will provide recommendations to Scottish Ministers in Spring 2014 on four areas:

Principles

- The principles which could underpin a benefits system for people of working age in an independent Scotland.

Policies

- In broad terms, set out the type of policy propositions for working-age benefits which would align with these principles, and:
 - how such policies would support people who can work into sustained employment;
 - how such policies would support people who can't work participate in society as fully as possible.
- The Group should, where it believes this would provide important context to its recommendations, provide views on other policy areas which the first Government of an independent Scotland may need to consider in order to achieve its policy outcomes for working-age benefits.

Cost

- The Group confirmed that the Scottish Government's methodology to forecast the costs of benefits was reasonable. The Scottish Government will extend those forecasts so that they cover the early years of the first Parliament of an independent Scotland.
- With that financial baseline in mind, and being mindful of the economic and fiscal circumstances, the Group will consider the broad costs and savings which might arise from its policy propositions on working-age benefits and, where relevant, views on how costs might be met and such savings invested.

Delivery

- Options for delivery of benefit payments and the associated welfare services (which are currently reserved) in an independent Scotland.
- An indication of the opportunities for bringing devolved and reserved services together in an independent Scotland to create a more holistic system of welfare.

Annex B

Origins and Development of the Current System of Social Security

1. The present system of social security can trace its roots back over a century as part of a much broader ambition, namely the creation of a welfare state. While the 1942 report by Sir William Beveridge – The Report of the Inter-Departmental Committee on Social Insurance and Allied Services (commonly known as ‘The Beveridge Report’) – might be the best known milestone in its development, elements of the current welfare state began to emerge almost 40 years earlier, under Governments led by Liberal Prime Minister Herbert Asquith. Legislation on the state pensions was first enacted in 1908 and the National Insurance Act 1911 provided for compulsory contributions to insure against sickness and unemployment.
2. The Beveridge Report aimed to provide a comprehensive system of social insurance ‘from cradle to grave’. It called for the provision of adequate health care by the creation of a National Health Service, reforms to education, a national housebuilding programme and a commitment to full employment. The Report also outlined a Plan for Social Security:

“17. ...a scheme of social insurance against interruption and destruction of earning power and for special expenditure arising at birth, marriage or death.”
3. This scheme proposed that all working-age people should pay weekly contributions to the state from their earnings. In return, the State would provide benefits to the unemployed, the sick, the retired and the widowed. Both the rate of benefits and the rate of contributions were to be flat-rate. At the heart of the Beveridge proposals, therefore, lay the principle of contribution. People would pay into a system of benefits which they could draw on when they needed it. In the words of the author, “benefit in return for contributions, rather than free allowances from the State”¹³⁰.
4. Beveridge was, however, mindful that his Plan should not displace the legitimate expectation that citizens also had a role to play in helping themselves:

“9. ...The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.”
5. In 1944 a White Paper setting out the Government’s response to The Beveridge Report was published. It accepted the need for a social insurance scheme to cover sickness, widowhood, old age and unemployment. It recommended that participation should be compulsory for the whole working population. They would, as Beveridge proposed, pay flat-rate contributions and, in return, receive or claim flat-rate benefits.

¹³⁰ W. Beveridge, *Social Insurance and Allied Services*, Inter-departmental Committee on Social Insurance and Allied Services, Great Britain, 1942. paragraph 21.

6. The Government did, however, reject an indefinite benefit for unemployment – offering instead a maximum of 30 weeks – for fear that this would be open to abuse. The White Paper also rejected the idea of subsistence rates, reflecting back at Beveridge the point he had made about the role of the individual:

“There still remains the individual’s opportunity to achieve for himself in sickness, old age and other conditions of difficulty a standard of comfort and amenity which it is no part of a compulsory scheme of social insurance to provide. And in reserve there must remain a scheme of National Assistance designed to fill the inevitable gaps left by insurance and to supplement it where an examination of individual needs shows that supplement is necessary.”¹³¹
7. After the end of the Second World War, the Plan was largely enacted through the National Insurance Act of 1946 which combined the three insurance schemes that already existed (those covering unemployment insurance, national health insurance and a contributory pension scheme) into one. For the first time, national insurance was made compulsory for all of the adult population.
8. It is important to acknowledge the context within which Beveridge delivered his Report. Great Britain had just secured its most important victory in the Second World War at El Alamein – the country was in a state of some euphoria and ready to embrace Beveridge’s vision of what a (victorious) post-war Britain might look like. On the night before publication people queued outside HMSO branches to buy the Report with sales reaching six figures before the end of 1942. It was a blockbuster, and welcomed with almost universal approval.
9. The fact that Beveridge felt the need to tackle the Five Giants of Disease, Ignorance, Squalor, Idleness and Want reflects the challenges faced by a country recovering from two global conflicts and an economic depression. Our society was also quite different, not least in terms of the roles which men and women played: in contrast to the war-time period, men were typically the sole earner in a family, with women staying at home to raise the children. It is no surprise that the goal of full employment was the subject of Beveridge’s next piece of work just before the end of hostilities¹³².
10. Despite the rising costs of the NHS, the post-war reforms of the Labour Government which introduced the NHS and other elements of the welfare state established, by and large, a domestic political consensus that lasted for the next three decades. Within that period, there were some moves to introduce earnings-related entitlements to unemployment benefits in the 1960s and 1970s; much greater progress in this regard was made in relation to the state pension, culminating with the introduction of the State Earnings Related Pension Scheme (or SERPS) in 1975.
11. By the end of the 1970s universal child benefit was being paid to mothers as a replacement for family allowance, with linked Home Responsibilities Protection to ‘credit’ insurance contributions, while earnings-related additions for unemployment

131 Ministry of Reconstruction, *Social Insurance Part I (Cmd 6550)* HMSO, London, 1944, p.7.

132 W. Beveridge, *Full Employment in a Free Society: A Report*, Allen & Unwin, 1944.

and sickness benefits had been abolished. In addition, the employment rate of women grew steadily during this and subsequent decades. Full employment had, however, ceased to be the economic goal – controlling inflation was more important.

12. As now, the political backdrop at the start of the 1980s was one of cuts to public expenditure as part of the prescription to deal with economic recession. During this time, the means-testing of benefits became much more important with contributory benefits playing a much smaller part in the benefits system. Over time, the levels of payments fell to those not in work while benefits for working families with children rose. The move towards greater home ownership by former council house tenants also had a dramatic consequence: an increase in the level of rents across the remaining housing stock and, with it, a sharp increase in the demand for housing benefit. In fact, both the number of those claiming benefits and real expenditure on housing benefit doubled during the first half of the 1980s, and the level of spending doubled again during the subsequent 10 years¹³³.
13. Perhaps the other story in the 1980s (and early 1990s) was the movement of those who were long-term unemployed and older unemployed workers – especially men formerly employed in industrial jobs – onto Incapacity Benefit. This was designed to keep the unemployment rate down. By the middle of the 1990s, however, the benefits bill had continued to rise and dependency on welfare, something which had started to enter the public discourse in the previous decade, had become a major concern to politicians and the public alike. A much stricter regime for those on benefits, with a stronger focus on work, was seen as one of the ways of tackling this social problem. It was also designed to tackle the problem of large numbers of people now claiming Incapacity Benefit.
14. Borrowing from the language and programmes of the Clinton administrations, various welfare-to-work (New Deal) programmes introduced by the Labour Government from 1997 onwards continued in this vein with the State able to withdraw benefits from some of those who refused reasonable employment. These programmes combined compulsory programmes of work (for young people who were long-term unemployed) and a mix of encouraged and required work-related activity for others (notably lone parents and some long-term sick and disabled).
15. The focus remained on boosting the levels of financial support, both in and out of work, for families with children, culminating in the reform and expansion of the tax credit system. Unemployment Benefit was replaced by Jobseeker's Allowance (JSA) which has both contributory and non-contributory elements but is essentially a means-tested benefit.
16. From 2008 a new Employment and Support Allowance (ESA) began to replace Incapacity Benefit and Income Support. Over the past decade there had been a significant shift towards 'activation' – policies designed to get people into work – and the ESA reforms were seen as a necessary part of the solution. Like JSA, ESA has both contributory and non-contributory elements. As introduced, ESA was to be paid to most people in return for undertaking mandatory work-related interviews,

133 See Hills, "Housing," 134; S. Wilcox, *Housing Finance Review 2000/2001*, Joseph Rowntree Foundation, 2000, p. 212.

agreeing a mandatory action plan and participating in some form of work-related activity where they were deemed fit for work-related activity through a Work Capability Assessment. If individuals did not fulfil these agreed responsibilities, the new benefit would be reduced. Other reforms included revised medical assessments focusing on ability and support needs rather than incapacity.

17. The changes to the benefits system being implemented by the UK Government are set out at length in the first report of the Expert Working Group on Welfare¹³⁴. Briefly, the main reforms are:
- Changes to ESA: these include limiting claims from people in the work-related activity group to one year and a new conditionality and sanctions regime.
 - Changes to Housing Benefit (HB) and Local Housing Allowance (LHA): which is the name given to support for housing costs for those who rent from private sector landlords. The changes from April 2013 include reductions to HB in the socially-rented sector by 14 per cent of eligible rent if tenants are deemed to be under-occupying by one bedroom, or 25 per cent for two or more bedrooms.
 - The Benefit Cap: this limits the total amount of benefit a household can receive at the national average income (approximately £26,000).
 - The Uprating of Welfare Benefits: increasing benefits and state pensions, including public service pensions, by (the lower) Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) or the Rossi index. In addition, certain working-age benefits will be uprated by 1 per cent rather than CPI for the tax years 2013-14, 2014-15 and 2015-16. The benefits affected include JSA, ESA, Income support and corresponding elements of Universal Credit. Certain tax credits – the couple element and lone parent element of Working Tax Credit, and the child element of Child Tax Credit – are also only to be uprated by 1 per cent.
 - Universal Credit (UC): a new single payment for working-age adults who are looking for work, or are in work but on a low income. UC will replace JSA (income-related), ESA (income-related), Income Support, Working Tax Credit, Child Tax Credit and Housing Benefit. UC is underpinned by a claimant commitment – and a new regime for conditionality and sanctions. It is currently being introduced in stages across the UK and began in the Inverness area in November 2013.
 - Personal Independence Payment (PIP): the replacement for Disability Living Allowance (DLA) for people aged 16-64. Individuals who are already getting DLA will be progressively reassessed for PIP. One of the key changes from DLA to PIP is the move from the current self-assessment to a points-based assessment which will involve a face-to-face meeting with an independent healthcare professional working under contract to DWP. The new assessment will follow a similar process to the Work Capability Assessment currently used for claims to ESA.
18. The UK Government has also announced an overall cap on welfare expenditure. This will be set at £119.5 billion for 2015-16 and apply to all benefits other than

134 The Expert Working Group on Welfare, *May 2013 Report*, Scottish Government, 2013. <http://www.scotland.gov.uk/Resource/0042/00424088.pdf>

basic state pension and some unemployment benefits. The cap will be set at the beginning of each UK Parliament and will require the UK Government to seek Parliament's approval if it wishes to spend above the cap.

Annex C

Forecasting Benefit Expenditure in Scotland Methodology

1. This Annex highlights the data used along with the methodology for forecasting both AME and DEL benefit expenditure in Scotland to 2018-19. It should be noted that Northern Ireland has a separate benefit system and therefore this analysis looks at Great Britain only.

The current UK Fiscal Framework

2. Under the current UK fiscal framework, public expenditure is split into two elements: Annually Managed Expenditure (AME); and Departmental Expenditure Limits (DEL) (which taken together are known as Total Managed Expenditure (TME)). HM Treasury describe these two elements as follows¹³⁵:
 - DEL spending is expenditure, split into revenue and capital, that is planned by each UK Government Department. Limits on DEL expenditure are usually set by HM Treasury at Spending Reviews;
 - AME is more volatile, demand-led expenditure not subject to multi-year limits in the same way as DEL. In the 2013 Budget, the UK Government announced an intention to introduce a firm limit on a significant proportion of AME. Further details of how these limits will operate are to be presented by the UK Government in their forthcoming Spending Review¹³⁶.
3. Over 95 per cent of expenditure relating to the benefits system is recorded under AME. This spending is demand-led, in that spending in any given year depends not only on Government decisions on how entitlements should be calculated, but also on how many people claim social security in the year, something not within the direct control of Government. This means that such spending can change from year-to-year in a way that is not always predictable. DEL spending covers the day-to-day operational costs of DWP and HMRC, and can generally be budgeted more accurately.

Data used

4. The Scottish Government does not have access to the data and tools used by DWP and HMRC to produce forecasts of benefits expenditure and estimates of the costs and impact of changes in policy. Such tools include forecasting models, mostly based on historical administrative data, and micro-simulation models, mostly based on large-scale household surveys. As a result, the forecasts of benefit expenditure in Scotland prepared by the Scottish Government have been estimated using the following publicly available resources:

135 HM Treasury, *How to understand public sector spending*, 29 May 2013. <https://www.gov.uk/government/publications/how-to-understand-public-sector-spending/how-to-understand-public-sector-spending>

136 HM Treasury, Budget 2013, United Kingdom House of Commons, Budget Report – HC 1033 – March 2013. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/188357/budget2013_complete.pdf.pdf

- DWP and Office of Budget Responsibility (OBR) benefit expenditure forecasts;
 - DWP and HMRC accounts;
 - HM Treasury forecast of DEL expenditure to 2015-16;
 - DWP historical information on benefit expenditure, split by countries and regions of Great Britain;
 - the Government Expenditure and Revenue Scotland (GERS) publication.
5. In response to the recommendations in our first Report, the Scottish Government is planning how best to develop its own capacity to undertake detailed modelling of how changes in policy affect the cost of the benefits system. An initial investigation of the market has indicated that relying on third parties to provide modelling advice is unlikely to provide the best solution.

Forecasting benefit expenditure to 2018-19

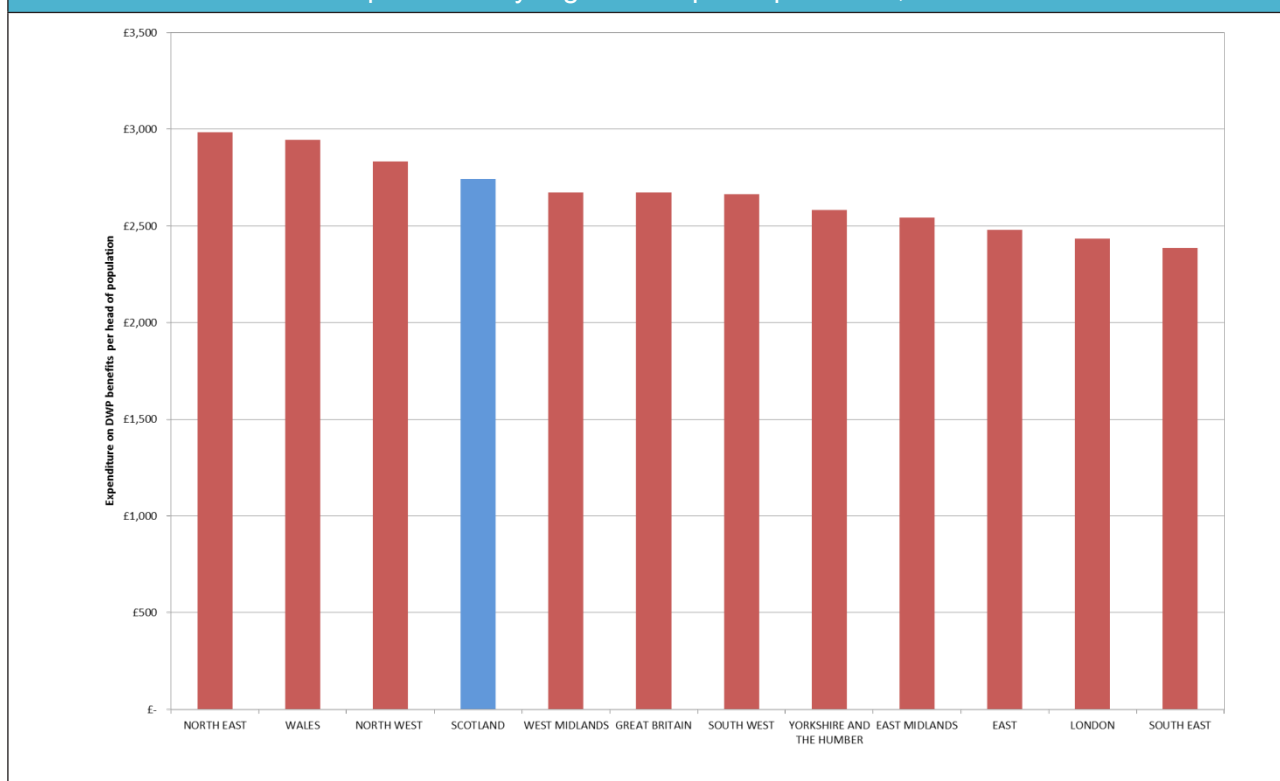
6. The UK Government publishes medium-term forecasts of benefit expenditure as part of each Budget and Autumn Statement. In the 2014 UK Budget, outturn data for 2012-13 and forecasts for benefit expenditure to 2018-19 were published. DWP provides benefit-by-benefit forecasts for spending on the benefits for which they have responsibility. Forecasts for spending on tax credits and Child Benefit, administered by HMRC, are also now published by DWP for both the UK and Great Britain. These forecasts represent a central estimate of future levels of benefit expenditure.
7. It should also be noted that both the OBR and DWP have included Universal Credit in their forecasts as an “...additional cost not already included against other benefits (i.e. UC payments that don’t exist under current benefit structure)”¹³⁷. However, the OBR have remarked that significant uncertainties relating to Universal Credit remain. These include the possibility of future changes to the policy design and implementation, uncertainty over how benefit recipients will respond to the changes, and the scale of savings to error and fraud¹³⁸. This was reiterated in a National Audit Office Report into Universal Credit which stated that “the Department [of Work and Pensions] will have to scale back its original delivery ambition and is reassessing what it must do to roll-out Universal Credit to claimants”¹³⁹. Like the DWP forecasts, Scottish Government forecasts do not account for these uncertainties.
8. DWP also publish outturn data for their benefits split by countries and regions of Great Britain, and Chart C.1 shows spending on DWP benefits in Scotland compares to Wales and the regions of England on a per capita basis.

137 Office for Budget Responsibility, March 2014.

138 Office for Budget Responsibility, *Economic and fiscal outlook*, December 2012. <http://budgetresponsibility.org.uk/wordpress/docs/December-2012-Economic-and-fiscal-outlook23423423.pdf>

139 National Audit Office, *Universal Credit: early progress*, 5 September 2013. <http://www.nao.org.uk/wp-content/uploads/2013/09/10132-001-Universal-credit.pdf>

Chart C.1: DWP benefit expenditure by region on a per capita basis, 2012-13



Source: DWP benefit expenditure by Local Authority data, Table LA 2012-13, ONS 2012 Mid-Year population estimates and Scottish Government calculation.

Note: *also includes expenditure on TV licences for individuals over 75 in Northern Ireland.

9. Table C.1 shows spending on individual benefits in Scotland as a share of spending in Great Britain. It focuses on the main benefits administered by DWP, along with tax credits and Child Benefit which are administered by HMRC, and so excludes some smaller benefit lines – a full list of all benefits included in this analysis is available in Table C.2. On average, in 2012-13, 8.6 per cent of spending on benefits in Great Britain went to recipients in Scotland, with this fraction varying between benefits, ranging from 11.3 per cent for Incapacity Benefit to 7.2 per cent for Discretionary Housing Payments.

	Great Britain*	Scotland	Scotland (as % of GB)
Attendance Allowance	5,476	489	8.9%
Bereavement Benefit/Widow's Benefit	593	59	9.9%
Carer's Allowance	1,927	169	8.8%
Child Benefit & Guardian's Allowance	11,780	926	7.9%
Council Tax Benefit	4,915	380	7.7%
Disability Living Allowance	13,430	1,450	10.8%
Discretionary Housing Payments	57	4	7.2%
Employment & Support Allowance	6,780	752	11.1%
Housing Benefit	23,900	1,789	7.5%
Incapacity Benefit	3,276	371	11.3%
Income Support	5,309	496	9.3%
Industrial Injuries Benefits	905	92	10.2%
Jobseeker's Allowance	5,170	478	9.2%
Maternity Allowance	395	27	6.8%
Over 75 TV Licences	582	49	8.5%
Pension Credit	7,511	688	9.2%
Severe Disablement Allowance	887	97	10.9%
State Pension	79,809	6,783	8.5%
Statutory Maternity Pay	2,303	215	9.4%
Tax Credits	28,844	2,226	7.7%
Winter Fuel Payments	2,144	187	8.7%
Total	205,993	17,727	8.6%

Source: DWP, DWP benefit expenditure by Local Authority, Table LA 2012-13 and DWP, Social Security in the United Kingdom, including Scotland, 24 April 2014.

*Notes: * includes those living abroad or not known and excludes individuals in Northern Ireland.*

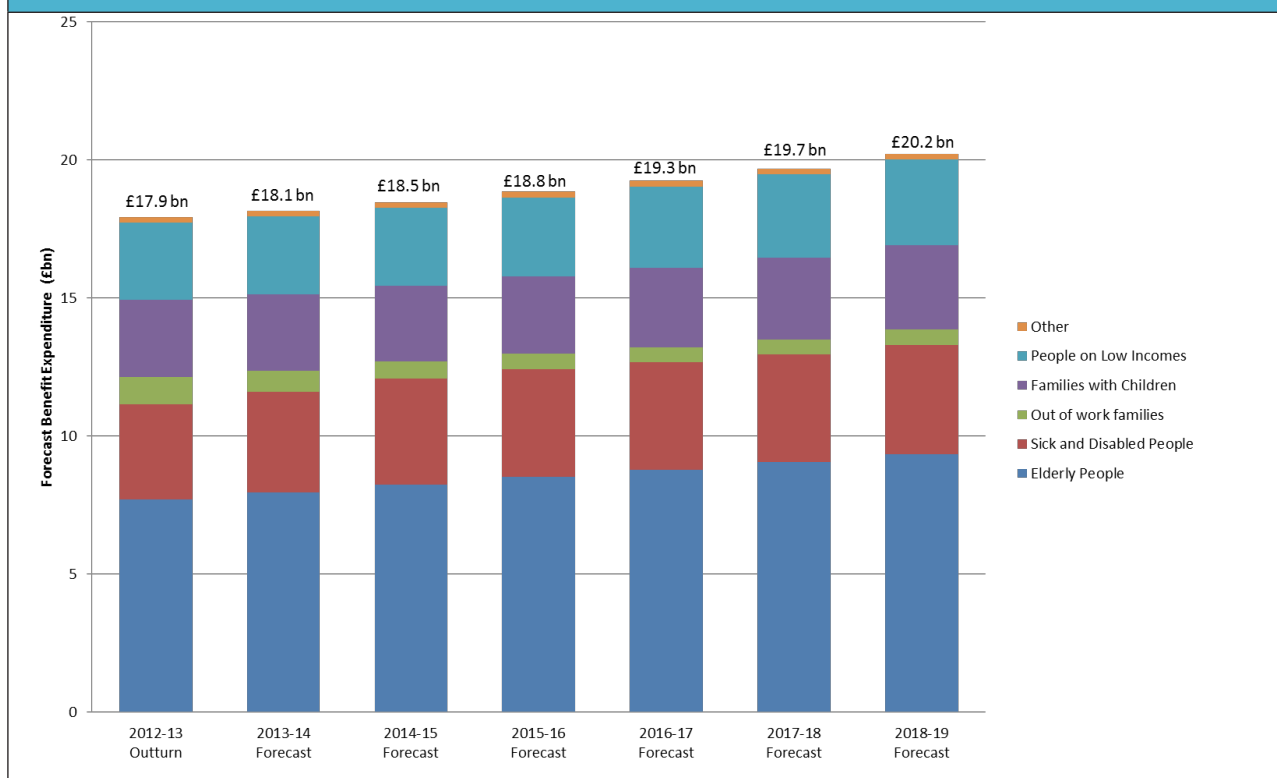
Table C.2: Benefit categories

Benefits for out of work people	Benefits for elderly people	Benefits for people who are ill or disabled	Benefits for families with children	Benefits for people on low incomes	Other
Income Support In Work Credit & Return to Work Credit Job Grant Jobseeker's Allowance	Financial Assistance Scheme Over 75 TV Licences Pension Credit State Pension State Pension Transfers Winter Fuel Payments	Attendance Allowance Carer's Allowance Disability Living Allowance Employment & Support Incapacity Benefit Industrial Injuries Personal Independence Payment Severe Disablement Allowance Specialised Vehicles Fund Statutory Sick Pay Vaccine Damage Payments	Child Benefit Child Tax Credit Guardian's Allowance Maternity Allowance Statutory Maternity Pay	Council Tax Benefit/ Council Tax Reduction Discretionary Housing Payments Housing Benefit New Deal & Employment Programme Allowance New Enterprise Allowance Scottish Welfare Fund Social Fund (regulated) Working Tax Credit	Bereavement benefits Christmas bonus Universal Credit Other small benefits such as cold weather payments, child trust fund etc.

Note: All benefits listed above are contained within the Medium-term forecasts for all DWP Benefits as produced at Budget 2014 except Child Benefit, Tax Credits, which are contained in 'DWP, Social Security in the United Kingdom, 24 April 2014 including Scotland' and other small benefits such as cold weather payments, child trust fund etc.

10. The basis for our forecast of benefit spending in Scotland was to take this information on the historical share of benefit spending in Great Britain that is paid to people in Scotland, and apply these to the benefit-by-benefit forecasts of spending made at the Great Britain level. In other words, we have combined DWP's forecast of spending on each benefit (produced at the time of the 2014 UK Budget) with historical data on Scotland's share of benefit spending, all at the level of the individual benefit, to produce a forecast of benefit expenditure in Scotland to 2018-19.
11. In some cases, historical information on the ratio of Scotland to Great Britain spending is not available. In these situations, the Scottish Government used a proxy. For example, Scotland's share of Disability Living Allowance spending was used as a proxy for Scotland's share of future Personal Independence Payment spending. Alternatively where there was no suitable benefit to use as a proxy, the average share of benefits, 8.6 per cent, was applied (this was used for the Christmas bonus, for example). Estimates based on current expenditure have been used for those benefits currently administered by the Scottish Government such as the Scottish Welfare Fund and the Council Tax Reduction scheme.
12. The implicit assumption behind this methodology is that the ratio of spending in Scotland to Great Britain, at the level of individual benefits, will remain at their 2012-13 levels through to 2018-19.
13. Our resulting forecasts of AME benefit spending in Scotland using this methodology are shown in Table C.3, with how benefit expenditure is distributed across different recipient groups illustrated in Chart C.2.

Chart C.2: Forecast benefit expenditure in Scotland 2012-13 to 2018-19, nominal terms (£ billion)



Source: Scottish Government calculations based on methodology highlighted in this report.

Table C.3: Forecast AME costs associated with welfare in Scotland 2012-13 to 2018-19 (£ billion)

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Nominal terms	17.9	18.1	18.5	18.8	19.3	19.7	20.2
Real terms (2012-13 prices)	17.9	17.8	17.8	17.8	17.9	18.0	18.0

Source: Scottish Government calculation based on methodology highlighted in this report.

Note: To convert figures from nominal to real terms the GDP deflator from Budget 2014 was applied.

Forecasting DEL expenditure

14. Understanding the operating costs for benefit administration for Scotland is not straightforward, as distinct costs relating to Scotland cannot easily be disaggregated from the rest of Great Britain. As benefits administration costs cannot be identified within GERS, we have used DWP and HMRC accounts as the basis for our forecast of benefits administration costs in Scotland.
15. For administration costs relating to DWP, the 2012-13 annual report and accounts provides figures on total DEL expenditure for 2012-13 (this includes administration costs plus programme expenditure, and therefore includes expenditure on the Work Programme and Jobcentre Plus), and the 2014 UK Budget provided data on total

DEL limits to 2015-16. Beyond 2015-16, we assumed that DWP's administration costs would grow in line with the OBR's current forecast of how Resource DEL (RDEL) will change across all UK Government Departments, and this implies falls in real-terms of 5.0 per cent in 2016-17, 5.2 per cent in 2017-18 and 3.0 per cent in 2018-19. We then assumed that Scotland's share of these future administrative costs was equal to Scotland's share of the spending on the actual DWP benefits in 2012-13 (or 8.8 per cent).

16. The same methodology was used to forecast HMRC's total DEL budget. Within HMRC's 2012-13 annual report and accounts, administration costs are estimated to be 1.43 pence per pound of Tax Credit, and 0.57 pence per pound of Child Benefit. Using these figures, we have estimated the proportion of HMRC DEL spend on administering these two benefits across the UK. This proportion was assumed to remain constant over the period and an estimate of the Scottish share was applied to the forecast for HMRC total DEL spend.
17. Taking DWP and HMRC administration costs together, the total DEL costs for administering benefits in Scotland are forecast to fall gradually from £0.7 billion in 2014-15 to £0.5 billion in 2018-19. The implicit assumption behind this way of producing a forecast is that the cost of administering benefits in Scotland is no higher, per pound of benefits paid to claimants, than it is across Great Britain at present.

Assumptions and uncertainties

18. As with any piece of financial forecasting, the forecasts in this Report are based on assumptions. The main assumptions relate to economic growth and demographic change that underpin the UK Government's forecasts of benefit expenditure for Great Britain. However, in order to produce our forecast of benefit spending in Scotland, we have had to make additional assumptions.
19. Our first main assumption is that the ratio of spending on benefits in Scotland to that in Great Britain remains constant. In the event of divergences in the economic conditions or the demographic structure between Scotland and the rest of Great Britain, then forecasts would need to be revisited.
20. Table C.4 shows the ratio of spending on DWP benefits in Scotland to that in Great Britain, based on available data for the past five years. This has been used to produce average benefit ratios for (a) the past five years and (b) the past three years.
21. If the five year average ratios of spending on benefits in Scotland to that in Great Britain were used to forecast benefit spending for Scotland, this would produce a slightly higher forecast of benefit spending in Scotland than our main forecast. However, the ratio of spending on benefits in Scotland to that in Great Britain has in actual fact fallen very slightly since peaking at 9.6 per cent in 1999-2000 and 2000-01. If we had assumed that such a trend were to continue, then that would have produced a forecast of benefit spending in Scotland that is slightly lower than the figure identified in this report.

22. This illustrates the dependency of forecasting on the use of assumptions and how changing the assumptions can produce slightly different results. For example, if the ratio of spending on key benefits in Scotland to that in Great Britain were to change by 0.2 percentage points (i.e. to fall to 8.4 per cent or rise to 8.8 per cent), then this would change our forecast of benefit spending in Scotland by no more than 2 per cent.

Table C.4: Ratio of Scottish benefit expenditure as a proportion of Great Britain* for key benefits, base year 2012-13			
	5 year average (2008-09 to 2012-13)	3 year average (2010-11 to 2012-13)	1 year (2012-13)
Attendance Allowance	9.2%	9.1%	8.9%
Bereavement Benefit/Widow's Benefit	9.9%	9.9%	9.9%
Carer's Allowance	9.0%	8.9%	8.8%
Child Benefit & Guardians Allowance	7.9%	7.9%	7.9%
Council Tax Benefit	8.0%	7.8%	7.7%
Disability Living Allowance	11.0%	10.9%	10.8%
Discretionary Housing Payments	11.0%	10.4%	7.2%
Employment & Support Allowance	10.6%	10.6%	11.1%
Housing Benefit	7.7%	7.6%	7.5%
Incapacity Benefit	11.5%	11.4%	11.3%
Income Support	9.6%	9.5%	9.3%
Industrial Injuries Benefits	10.2%	10.3%	10.2%
Jobseeker's Allowance	9.1%	9.4%	9.2%
Maternity Allowance	7.2%	6.9%	6.8%
Over 75 TV Licences	8.5%	8.5%	8.5%
Pension Credit	9.5%	9.3%	9.2%
Severe Disablement Allowance	11.0%	11.0%	10.9%
State Pension	8.6%	8.5%	8.5%
Statutory Maternity Pay	9.2%	9.2%	9.4%
Tax Credits	7.9%	7.8%	7.7%
Winter Fuel Payments	8.7%	8.7%	8.7%
Total	8.7%	8.7%	8.6%
<i>Source: Table LA 2012-13, DWP benefit expenditure by Country, Region and Local Authority, Scottish Government Calculation and DWP, Social Security in the United Kingdom, including Scotland, 24 April 2014.</i>			
<i>Notes: * Data for Great Britain includes those living abroad or not known.</i>			

23. Our second main assumption is that, beyond 2015-16, the costs of administering benefits will grow at the same rate as all areas of DEL spending, and that the costs of administering benefits in Scotland are identical, per pound of benefit spending, to the costs at the Great Britain level. As the costs of administering the benefits system are a small fraction of the total forecast costs of benefits spending in Scotland, small changes in our forecasting assumptions will not have any significant impact on overall costs.

24. Finally, we also note that forecasts of benefit spending at the Great Britain level are particularly uncertain at the moment given the pace and scope of reforms to the benefit system, and that little is known about whether these reforms will have greater or lesser impact in Scotland than the rest of Great Britain.

Annex D

International Models of Welfare

1. Countries have a choice about the role and purpose of their welfare system. This is linked to and reflects a country's development and the view it has of the role of the family. There are three widely accepted 'types' of welfare system defined according to their key underpinning principles:
 - Residual systems, such as in the UK, which see the market and family as providing support first. The welfare system is a 'safety net', intended to help out as a last resort;
 - Industrial systems, such as in Germany, which see welfare as an important support to industrial and wider economic development; and
 - Redistributive systems, such as in Sweden, which see welfare as a means to reduce social divisions, and to redress the inequities created by capitalism.

2. Gosta Esping-Anderson's (1990) 'three worlds' of welfare capitalism, summarised below, broadly map on to these system types.

Gosta Esping-Anderson's (1990) 'three worlds' of welfare capitalism

1. Liberal or largely residual model (e.g. English-speaking countries, including the UK)

- relies primarily on social assistance programmes
- gives priority to poverty prevention ('safety net'); may be redistributive but tends to reinforce inequalities between those in/out of the workforce
- emphasises mean-testing/targeting
- based on idea that everyone can and should work when work is available
- programmes generally have strict entitlements, modest levels of benefits
- tends to stigmatise recipients

2. Social democratic or largely redistributive model (e.g. the Nordic countries)

- based on principles of universalism and social rights – equal access for all
- seeks to offer high quality rather than minimal provision
- based on idea of full employment – stigma for those who are not working; facilitates female participation in workforce
- socialises the costs of caring for children and the aged
- founded on a sense of social solidarity, often reflected strong reciprocal obligations
- high costs/taxation

3. Conservative or largely industrial (corporatist) model (e.g. continental Europe, including France and Germany)

- relies strongly on social insurance, based on employment history, with a basic social assistance safety net
- based on tripartite contributions from the employer, individual and the state
- system has low redistributive impact and replicates occupational and income inequalities through the benefits system
- emphasis on employer contributions tends to raise labour costs
- tends to reinforce traditional gender roles

3. While these broad categorisations are useful, in practice the welfare systems of most countries reflect a mix of factors. In particular, they all have an assumption of paid employment as the desired norm and see the welfare system as having a role in promoting participation in the labour market. For instance, while the social democratic systems are particularly known for their redistributive and equity goals, they have a strong assumption that employment is the goal for most people and their generous benefit entitlements are often accompanied by stringent conditionality around looking for work.

Choices for Governments

Providing a safety net

4. A key traditional role for all types of welfare systems has been in dealing with the risks and contingencies that interrupt or compromise an individual's ability or capacity to work.
5. Welfare systems therefore provide a safety net or social protection to those who are/ become unemployed, as well as the economically inactive, by providing financial support while out of the labour market (in the short term or permanently).
6. Unemployment, short-term sickness and longer-term disability/incapacity benefits and old age pensions, for instance, are available across all types of welfare system (though these have been, and continue to be, subject to reform). Levels of 'generosity' vary, however, with lower levels in liberal/residual systems than in social democratic/redistributive and conservative/industrial systems (Ozkan, 2013).

Welfare as social investment

7. The social investment approach, long associated with that of the Nordic social democratic/redistributive systems, is underpinned by the idea that welfare support should help to develop citizens' (both adults and children) human capital in order to promote self-reliance and, ultimately, enable mobilisation into paid work (Morel et al., 2012).
8. This applies to a broad group including the unemployed but also, in many cases, lone parents and those who may have previously been considered unable to work, such as disabled people. The social investment approach is also about helping to balance paid work with other, particularly family, responsibilities (and vice versa).
9. The idea is that all groups – women and men; the able-bodied and disabled; the privileged and the non-privileged – should have the opportunities to participate in the labour market, because this is good for both individuals and society (Kangas and Kvist, 2013). Paid employment is thus seen as the primary mechanism for reducing inequality and promoting social mobility.

Approaches to social investment

10. Social investment approaches are associated with an emphasis and spend on active labour market policies for the unemployed and segments of the economically-inactive population, the promotion of lifelong learning and skills development and renewal, enhanced family and child benefits including extended parental leave, and good access to childcare and pre-school places, particularly for those on low incomes (Morel et al., 2012; Taylor-Gooby, 2008).
11. There has been a general shift towards 'social investment'-type approaches across welfare systems in recent years, including liberal/residual (like the UK) and conservative/industrial (like Germany) ones¹⁴⁰.

140 The social investment perspective has also underpinned the Lisbon Agenda, which the European Union adopted in 2000 (Morel et al., 2012).

12. Active labour market policy refers to a diverse range of interventions. These include training, assistance in job-search, subsidies paid to employers who accept or take on unemployed people, work experience placement programmes or temporary job creation programmes in the public sector (Bonoli, 2012). These approaches have also been coupled with reforms to unemployment and other benefits, which have become less generous and increasingly conditional and linked to the use of sanctions. Approaches therefore differ according to whether they aim to improve human capital or whether they use negative incentives to move people from benefits into employment (Taylor-Gooby, 2008).
13. Elements of the latter approach are stronger in the liberal/residual countries, such as the UK, Australia and New Zealand, than elsewhere. They are linked with employment assistance programmes which include placement services or job search programmes that (aim to) increase the likelihood of a jobless person establishing contact with a potential employer.
14. The provision of vocational training to jobless people is most developed in the Nordic social democratic/redistributive countries. But even here, work requirements for benefits have been strengthened. Indeed, Denmark was amongst the first to reorient its unemployment protection schemes towards activation and also halved the upper limit on paying out unemployment benefit from four to two years, with a noticeable difference in benefit generosity for the short- and long-term unemployed.

The nature and extent of support for care

15. A fundamental difference between welfare systems is the extent to which care, especially of young children and older people, is assumed to be paid for and/or provided by the family or the State (through taxpayers).
16. Both the liberal/residual and corporate/industrial systems tend to be underpinned by an assumption that families will be the primary carers of, and funders of care for, young children and older adults. Collective approaches to care in these countries are not generally comprehensive and formal care services tend to be expensive.
17. Social democratic/redistributive systems, on the other hand, largely socialise care of young children and the elderly. Publicly funded and provided care dominates the childcare and long-term care market in these countries, though there are significant variations between countries.
18. Long-term care (LTC), including personal and nursing care, can be provided in institutions or in homecare settings. There is significant cost-country variation in LTC spending¹⁴¹, reflecting differences in care needs, in the structure, and comprehensiveness, of formal LTC systems, as well as in family roles and caring cultures. Total spending (public and private combined) as a percentage of GDP is highest amongst OECD countries in Sweden and the Netherlands, and the remaining Nordic countries are also at the higher end.

¹⁴¹ Most of the expense is attributable to the institutional sector in OECD countries and only in Denmark, Austria, New Zealand and Poland does homecare expenditure exceed that (Columbo et al, 2011).

19. Most OECD countries have collectively-financed schemes for personal and nursing-care costs. One third have universal coverage, either as part of a tax-funded social-care system, as in social democratic/redistributive Nordic countries, or through dedicated social insurance schemes, as in Germany, Japan, Korea, Netherlands and Luxembourg, or by arranging for LTC coverage mostly within the health system, as in Belgium.
20. While not having a dedicated 'LTC system', several countries have universal personal-care benefits, whether in cash (e.g. Austria, France, Italy) or in-kind (e.g. Australia, New Zealand). Finally, two countries have 'safety-net' or means-tested schemes for long-term care costs, the United Kingdom (excluding Scotland, which has universal funding of personal care) and the United States (Colombo et al, 2011).
21. In a context, at least in part, of trying to contain the rising public costs of long-term social care, countries have increasingly come to provide some financial support to family members providing care for older and disabled relatives. This is commonly provided through cash benefits either paid directly to carers through a carer's allowance or paid to those in need of care, all or part of which may be used to 'pay' their carers. Benefit levels and eligibility criteria vary.
22. In countries such as the UK, Ireland, Australia and New Zealand (all with liberal/residual welfare systems), carers' allowances are restricted to those most in need, with heavy and regular, usually full-time, caring duties that result in foregone earnings (Colombo et al. 2011). Benefit levels are also generally low¹⁴² and provisions are thus underpinned by a continuing assumption that caring for relatives is part of family life.
23. In other countries there is a more explicit recognition of the market value of caring with family members being 'employed' by those needing care, and payment is regarded as a wage. In France, the relative must 'deliver' a professionally-determined care package for their payment, and in the Netherlands, a work contract is drawn up.

Participation in the labour market

24. The nature of the labour market (and the economy that underpins it) is a key determinant of the level of employment and the types of jobs in a country. Governments can play a role in shaping the labour market, including through their approach to employment regulation.
25. Notwithstanding this, all welfare systems aim to support and promote participation in the labour market, whatever its form, and indeed increasingly so.
26. There does not appear to be a clear relationship between welfare model and key high-level indicators such as economic activity, employment and unemployment for the population as a whole. While the Nordic countries of Sweden, Denmark and Norway are amongst the highest performing countries, the Netherlands and Germany (conservative/industrial) and Canada, New Zealand, Australia and the UK (liberal/residual) also do well with rates that are higher than the OECD average.

142 For instance Carer's Allowance in the UK currently stands at £59.75 a week.

27. There are noticeable differences, however, in employment rates and work patterns between men and women across countries, particularly mothers, and there does appear to be a direct link to the approach to welfare.

Glossary

Annually Managed Expenditure (AME): spending that does not fall within Departmental Expenditure Limits (DEL). Expenditure in AME is generally less predictable than expenditure in DEL and cannot reasonably be subject to firm, multi-year limits.

Attendance Allowance: a benefit for people aged 65 or over who need help with personal care because of a physical or mental disability.

Benefit Cap: a limit imposed by Government on the amount of cash benefits that one household can receive over a year.

Benefits: benefits paid to an individual in cash and in its widest sense includes tax credits. Categorised into the following groups: benefits for out of work people; benefits for elderly people; benefits for people who are ill or disabled; benefits for families with children; benefits for people on low incomes and other (including bereavement benefits and Christmas bonus).

Benefit Expenditure: spending on benefits, including the costs of payments to individuals and the costs of administering these payments.

Capital Departmental Expenditure Limit (CDEL): this is expenditure on fixed capital assets, capital grants and the acquisition of certain financial assets.

Carer's Allowance: the main benefit for full-time carers, subject to certain conditions.

Conditionality Framework: sets out the work-related requirements for every claimant under Universal Credit.

Council Tax Benefit: payable to families with low incomes that are liable to pay Council Tax on a property in which they are resident.

Council Tax Reduction: a reduction in liability for Council Tax made under the Scottish Council Tax Reduction scheme, introduced from 1 April 2013 in Scotland following the abolition of Council Tax Benefit.

Community Care Grant: to help people on benefits who may have to go into care unless they get some support to stay at home, or if they are leaving any form of care and need help to set up their own home.

Consumer Price Index (CPI): measures changes in the price level of a market basket of consumer goods and services purchased by households. This is different to the Retail Price Index (RPI), which is calculated each month by taking a sample of goods and services which the typical households might buy. CPI is generally lower than RPI.

Crisis Grant: to help people, typically on benefits, who are in a crisis because of a disaster or emergency.

Departmental Expenditure Limits (DEL): spending which is planned and controlled across the period of each spending review. In general, DEL will cover all administration budgets and all other budgeted expenditure.

Devolved: the transfer of power from a central government to subnational (e.g. state, regional, or local) authorities. Devolution usually occurs through conventional statutes rather than through a change in a country's constitution.

Disability Living Allowance (DLA): a benefit that helps with the extra costs that disabled people face as a result of their disabilities.

Discretionary Housing Payments (DHP): short-term assistance made up of extra payments to help pay rent and other housing costs, administered by local authorities.

Earnings Disregard: the amount a household can earn before their benefits are withdrawn – it exists to help with the costs of starting and going to work, transport expenses for example.

Earnings Limit: an amount of income which limits entitlement to means-tested benefits.

Earnings Taper: the rate at which benefit is reduced to take account of earnings.

Employment and Support Allowance (ESA): a benefit for people who have limited capability for work because of sickness or disability but do not get Statutory Sick Pay.

Financial Baseline: an initial value that can be used to compare past, current and projected future values. The baseline can be considered the starting point against which all future values are measured.

Government Expenditure and Revenue Scotland (GERS): annual Scottish Government publication that aims to estimate a set of public sector accounts for Scotland using official UK and Scottish Government finance statistics.

Housing Benefit: a means-tested social security benefit in the UK that is intended to help meet housing costs for rented accommodation.

In-work benefits: benefits and tax credits that help top-up income predominantly for those working and on a low income – whether they are in paid work for an employer or are self-employed. Entitlements depend on hours worked and earnings.

Incapacity Benefit (IB): a benefit paid to those below the State Pension age who could not work because of illness or disability. Benefit closed to new entrants in 2008 and was replaced by Employment and Support Allowance.

Income Support (IS): extra money a claimant can get if they have no income or a low income; are working less than 16 hours a week and have not signed on as unemployed. There are specific conditions that a person must meet to get Income Support.

Inter-governmental agreement: an agreement that involves or is made between two or more governments to cooperate in some specific way.

Inter-regional: of, involving, or connecting two or more regions.

Intra-country: within a country.

Jobseeker's Allowance: the main benefit for people who are out of work and actively seeking work.

Living Wage: an hourly rate of pay set independently and updated annually. It is calculated according to the basic cost of living in the UK, and employers choose to pay the Living Wage on a voluntary basis.

Local Employability Partnership: local authority area-based organisations that are brigaded together as services and support for people requiring employability interventions.

Low Pay Commission: an independent body that advises the Government about the National Minimum Wage.

Marginal Tax Rate: the proportion paid in tax of each additional income unit received at their highest level of income.

Microsimulation model: a model based on individual level data that enables the distributional impact of tax and benefit policies to be simulated.

National Convention on Social Security: a recommendation by the Expert Working Group to bring together all parties involved in the development and implementation of a social security system in an independent Scotland, with the aim of considering how trust in the system can be re-established and maintained.

Nominal Terms: nominal, or cash, terms means that the expenditure is represented in the monetary value of the day and is not adjusted for inflation.

Outturn: expenditure (revenue) actually incurred (received) to date and been subject to audit.

Passported Benefits: benefits for which people are eligible if they receive one or more UK welfare benefit e.g. blue badges or free school meals.

Pathfinder: early testing of Universal Credit before national roll out.

Permitted Work: where conditions are attached to working and receipt of benefits, for example with Carer's Allowance.

Personal Independence Payment (PIP): since April 2013, the new benefit Personal Independence Payment is replacing Disability Living Allowance for disabled people aged 16 to 64.

Personal Social Services: describes a range of services including social work and social care services.

Preparing for Work Agreement: Expert Working Group proposal to establish an agreement, tailored to the needs and circumstances of an individual, that would move them towards employment with the necessary support and services required to assist.

Public Expenditure: spending by Government, including Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME).

Public Expenditure Statistical Analysis (PESA): the primary source of outturn data on public expenditure in the UK. The country and regional analysis presents public expenditure identifiable for Scotland, Wales, Northern Ireland and the English regions.

Real Terms: inflation has been taken into account and is shown in the prices of a specified year.

Reserved: the UK Government is responsible for national policy on all powers which have not been devolved. These are known usually as 'reserved powers' and include foreign affairs, defence, international relations and economic policy.

Resource Departmental Expenditure Limit (RDEL): resource budgets relating to spending on items that are consumed in the process of providing public services. This includes wages and salaries, benefits and purchasing goods and services.

Sanctions: penalties (often financial) within conditions attached to receiving benefits usually attached to the requirement to seek and accept employment where appropriate.

Social Security Advisory Committee: a statutory body that provides impartial advice to the UK government on social security issues.

Social Security Commission: a new body proposed by the Expert Working Group that would be established by Government to undertake review and advisory functions on social security policy and legislation.

Scottish Welfare Fund (SWF): a national scheme which aims to: provide a safety net in a disaster or emergency, when there is an immediate threat to health or safety; and enable independent living or continued independent living, preventing the need for institutional care. There are two types of grants in the SWF: Crisis Grants and Community Care Grants.

Severe Disablement Allowance (SDA): this has been replaced by Employment and Support Allowance. SDA was a benefit for people who were unable to work as a result of a long-term severe illness or disability.

Social Protection: personal social services and social security payments.

Social Security: a government system that provides assistance to people to meet different kinds of need primarily through cash benefit payments.

Social Security Allowance (SSA): the new unified working-age benefit which the Expert Working Group have suggested is introduced.

Social Security Partnership: the partnership proposed by the Expert Working Group to set out the expectations that each Partner (state, individual and employer) should have of the other.

Tax Breaks: provide a savings through tax deductions, tax credits, tax exemptions and other incentives.

Tax Credits: state benefits that provide extra money to people responsible for children, disabled workers and other workers on lower incomes.

Total Managed Expenditure (TME): a definition of aggregate public spending derived from National Accounts. TME captures total public expenditure in the UK. It is Annually Managed Expenditure and Departmental Expenditure taken together.

Transitional Costs: the cost incurred in making a change to a new system.

Transitional Period: a period of change from one system to another.

Triage: the determination of priorities for action through an agreed set of criteria which will set the direction for the level of support and services that an individual will receive.

Underemployment: refers to the unemployed but also includes those working part-time because they could not get full-time work, and those who are not actively looking or available for work but would charge like it.

Under-occupancy penalty: also referred to as the 'Bedroom Tax'; from April 2013 working age households in local authority or housing association properties deemed to be under-occupying will be subject to a reduction in their eligible rent.

Universal Credit: this a new single payment for people who are looking for work or in work but on a low income. Universal Credit will replace six current benefits: Income-related Jobseeker's Allowance; Income-related Employment and Support Allowance; Income Support (including Support for Mortgage Interest); Working Tax Credit; Child Tax Credit and Housing Benefit.

Uprating: to raise the value of a benefit in line with a wider factor, usually inflation.

Welfare: in this context, taken to mean the benefit system.

Welfare Cap: a limit imposed by Government on the overall budget for welfare over a specified period.

Welfare Services: actions or procedures that cover the basic wellbeing of individuals and society. They may be provided as a citizenship right, or negotiated in the market, and managed by governments and institutions or private actors.

Welfare State: a system whereby the State undertakes to protect the health and wellbeing of its citizens, especially those in financial or social need, by means of grants, pensions, and other benefits. The foundations for the modern welfare state in the UK were laid by the Beveridge Report of 1942.

Work Capability Assessment: the process of gathering information and evidence, which may include a medical assessment, in order to determine whether a claimant has limited capability for work, and if so, whether they have limited capability for work-related activity.

Work Opportunities Service: Expert Working Group proposal to establish a new service to provide advice and guidance to individuals on jobs available.

Work Programme: a payment-for-results welfare-to-work programme that launched throughout Great Britain in June 2011. Along with the Universal Credit benefit reforms, it is central to the Coalition Government's programme of welfare reform.

Zero hours contracts: not defined in legislation, but is generally understood to be an employment contract between an employer and a worker, which means the employer is not obliged to provide the worker with any minimum working hours, and the worker is not obliged to accept any of the hours offered.

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