

THE DAVID HUME INSTITUTE



Improving social outcomes in Scotland Devo Plus proposals for welfare devolution and reform

Jeremy Purvis

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Foreword

This is one of a series of papers prepared in the context of our second 'conversation', funded by the Economic and Social Research Council (ESRC), on issues related to possible constitutional change in Scotland. These 'conversations' are being jointly organised by the DHI and Professor Charlie Jeffery of the University of Edinburgh. Professor Jeffery is also a Trustee of the Institute.

The first in the series covered macro-economic policy issues and financial sector oversight and regulation. The excellent papers from that conversation are available on our website. The third 'conversation' is to be on energy sector issues, in conjunction with the Scottish Council for Development and Industry (SCDI); and the fourth on competition policy and regulation, for which we have the full support of the Scottish Government. All four will be completed by end May 2013.

In each case our approach has been to commission papers from informed parties, then run a round table with key players. After the round table we ask authors to re-visit their papers, to be published on line at the time of a full DHI seminar, open to all.

This second 'conversation' covers issues related to social security and welfare under alternative constitutional settlements. We have received papers from; David Bell, Derek Birrell and Ann Marie Gray, Bea Cantillon, Nicola McEwen, Ailsa McKay, and Jeremy Purvis.

These are all now available on our web site. Taken together they provide a remarkably stimulating and wide-ranging assessment of the key issues and options - including informed input on experience outwith GB.

Our round table was held at the Royal Society of Edinburgh on 11 December 2012 and the full seminar is on Monday 19th February, again at the RSE. In addition to our authors' inputs, we arranged that Professor James Mitchell of the University of Strathclyde would sum up issues at the end of the round table and then set proceedings underway - in a constructive direction - at the seminar.

As with the other 'conversations' we have agreed with our friends at Scotland's Futures Forum that there should be a further round table, this time with MSPs in the autumn.

My Trustees and I are extremely grateful to the ESRC and the Binks Trust for their support; to Charlie Jeffery for organising the 'conversation'; to James Mitchell for his crucial input; and to all of our excellent group of authors. Together we believe we have made an important, evidence-based, informed and transparent contribution to this important topic within the context of the critical debate in Scotland on possible constitutional change.

At the same time, however, the DHI, as a charity, can have no views on these issues and hence I must record that the views expressed in this and the related papers are those of the authors and not of the Institute. Nevertheless we commend them to your attention.

Jeremy Peat
Director, David Hume Institute
February 2013

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Introduction

In our first report, *A stronger Scotland within the UK*, we outlined how the devolution of additional tax raising powers would enhance accountability of politicians to the people of Scotland.¹ Our report proposed simplifying the Scottish tax basket into three categories of taxes: those exclusively the responsibility of the Scottish Parliament, taxes that are shared between the Scottish Parliament and Westminster; and those taxes that should remain a wholly UK tax. We also suggested a sensible way forward to bring this about.

Improving Social Outcomes in Scotland, the second report, and the basis of this paper, considered how Devo Plus can create the conditions where policy choices can be made to aid better social justice and improve outcomes for the people of Scotland. It proposed how welfare delivery can be simplified and improved and showed where further devolution can take place, and the justification for it.

A New Union, the Devo Plus third report, showed how we can secure reform for the long term, and the ‘destination of devolution’. It proposed how Holyrood’s existence can be made a permanent part of the UK constitution in its own right, rather than being a creature of statute. It showed how its funding and legal relationship can be strengthened and showed precisely what legislative changes would be needed to bring these about by 2020. It also proposed how A Statement of the New Union can be agreed between parties well ahead of the referendum, how agreed language should then be adopted for UK manifestos in the 2015 general election and what legislation should be carried through afterwards.

This paper summarises our proposals for welfare devolution and how the provision of welfare can be simplified in order for users to better understand the source of the benefits they receive, and the constitutional rationale behind them.

The policy and performance context

In the public debate on social policy there is sometimes interchangeable use of terms such as social protection, public services, tax and wealth distribution, benefits and welfare.

We use the term social protection in the most general sense taken from the term used by the Scottish Government budget figures that categorise social programmes as social protection. We use the term social welfare meaning the benefits that are provided to eligible citizens.

We have accepted in broad terms a view that for overall social policy the state has a role in establishing a just standard of social protection to which all citizens should be entitled: a satisfactory standard of education, health care, housing, nourishment and protection. In other words, to create a proper social contract that offers protection to all citizens. The delivery and extent of such a social contract can therefore be greater in Scotland than the rest of the UK, should politicians in Scotland desire it, but not less.

The Scottish Government’s fifteen national outcomes for delivery over the next decade include outcomes to deliver:

¹ All Devo Plus papers can be downloaded at www.devoplus.com

- Our young people are successful learners, confident individuals, effective contributors and responsible citizens.
- Our children have the best start in life and are ready to succeed.
- We live longer, healthier lives.
- We have tackled the significant inequalities in Scottish society.
- We have improved the life chances for children, young people and families at risk.
- We live our lives safe from crime, disorder and danger.

Within this framework local authorities and community planning partnerships work under single outcome agreements with more detailed delivery outcomes.

The UK Government's programme for government for the coalition's term of 2010-2015 forms the headline areas of policy but within this the Department for Work & Pension's Social Justice: transforming lives policy document defines its areas of focus. The UK Welfare Reform Act 2012 delivers the key legislative changes together with pensions and tax reforms the key fiscal changes.

Sources of data on how we perform are from Scottish and UK statistics, overseen through ONS, and OECD datasets. How government monitors headline performance in social outcomes has been reformed on a number of occasions since devolution in 1999. The Scottish Government's performance framework is the major tool at a government level in Scotland with 32 single outcome agreements with community planning partners. The UK Government's performance framework and Treasury processes provide headline data on improvements and the Social Justice: improving lives policy approach establishes benchmark data against which improvement will now be judged. Headline improvement against EU partners' performance is now established within Europe 2020: UK National Reform Programme 2012. Our approach has been to use all these data sources as well as new research carried out through specific parliamentary questions in Scotland to compare 1999 performance with performance thirteen years on.

How far have we improved since devolution?

Evidence to the Scottish Parliament Finance Committee and to the Christie Commission from the Improvement Service suggests the areas where we are outperforming other nations, but critically after many years of devolution, where we are underperforming.²

² http://www.scottish.parliament.uk/S4_FinanceCommittee/Meeting%20Papers/Papers_20120118.pdf

Country	Degree of Inequality	Health			Education			Average scores
	Gini Coefficient (Data from Eurostats and Scottish Government, 2008)	Life Expectancy at Birth, in Years (2006) The Scotland and European Health for All (HfA) Database	Life Expectancy at Birth, in Years, Males (2006) The Scotland and European Health for All (HfA) Database	Life Expectancy at Birth, in Years, Females (2006) The Scotland and European Health for All (HfA) Database	Mean overall scores in reading, PISA Data (from PISA Highlights from Scotland's Results 2009, Statistics Publication Notice, Scottish Government (p23)	Mean overall scores in mathematics, PISA Data (from PISA Highlights from Scotland's Results 2009, Statistics Publication Notice, Scottish Government (p31)	Mean scores in science, PISA Data (from PISA Highlights from Scotland's Results 2009, Statistics Publication Notice, Scottish Government (p36)	
European Average	30.7							
UK	36	79.66	77.44	81.78	494	492	514	500
Scotland	34	77.36	74.85	79.75	500	499	514	504
England					495	493	515	501
Ireland	29.9	79.85	77.46	82.22	496	487	508	497
France	29.2	81.11	77.51	84.58	496	497	490	497
Germany	30.2	79.86	77.16	82.44	497	513	520	510
Netherlands	27.6	80.07	77.83	82.14	508	526	522	518.5
Sweden	24	81.05	78.88	83.15	497	494	495	495
Norway	25.1	80.7	78.34	82.96	503	498	500	500
Denmark	25.1	78.13	75.73	80.47	495	503	499	499
Finland	26.4	79.68	76.02	83.22	536	541	554	543
Estonia	30.9	N/A	N/A	N/A	501	512	528	513
Latvia	37.7	70.96	65.42	76.44	484	482	484	487
Lithuania	34	71.76	65.33	77.11	468	477	491	479
	European Average	Scotland			Similar to Scotland			
	Better than average	Higher than Scotland			Higher than Scotland			
	Worse than Average	Lower than Scotland			Lower than Scotland			

Source: Improvement Service

Using data from a series of Parliamentary Questions tabled by MSPs on the Devo Plus group we conducted original research to determine whether Scotland has made progress or otherwise within a number of broad social indicators since devolution in 1999. These indicators are used within the UK Government's *Social Justice: improving lives*, and are consistent with the Scottish Government's broad outcome indicators.

Outcome	Performance improved, worsened or no marked difference since 1999
Children referred to the Scottish Children's Reporter Administration for protection	Worsened
Children referred to the Scottish Children's Reporter Administration for offences	Improved
Crimes recorded by the police in Scotland	Improved
Offences recorded by the police in Scotland	Worsened
Reoffending rate for criminal offences	Worsened
People living in fuel poverty	Worsened
Homelessness	Worsened
Children living in a household where there is a drug problem	No marked difference
Heroin and crack cocaine users	Worsened
Dependent drinkers.	Worsened
Participation rate in higher education of young people from	No marked difference

deprived areas	
Proportion of school-age children receiving free school meals	Improved
Lone parent families	Worsened
Children living in a lone parent family	Improved
Workless households	Improved
Children are living in a workless household	Improved

Source: All the data for the above summary table, including the raw data from the relevant parliamentary questions can be found in Improving Social Outcomes in Scotland at www.devoplus.com

A case for further devolution

While we do not believe there is an intrinsic link between devolution and improved outcomes we believe that the poor performance since 1999 demonstrates the need for better delivery and reform.

It is our view also that the responsibility for the delivery of social welfare should be made clearer for each level of government – with a clear understanding as to why the social welfare is provided for at that level, and how it is funded.

As a broad principle we would propose that entitlement to the same standard of work-related rights and benefits should be standard across the UK. The state pension, maternity and other rights should also be set and funded at a UK level whereas housing and employment programmes should be at a devolved and local level. Wherever possible, Social Welfare should be capable of being delivered in a holistic way.

We are acutely aware that necessary improvements for a healthier people, more educated society and more productive workforce comes with the economic, fiscal and social policies implemented by Governments north and south of the Border. We also know that there are competing policy responses to bring this about.

Many of the areas associated with welfare and reducing poverty, for example social inclusion and housing, are devolved. However there is the case that the split in programmes between Westminster and Holyrood means that policy in relation to alleviating poverty is unfocussed and inefficient. For example, the Steel Commission in 2006 already argued for the devolution of work programmes as it was considered there was too much duplication and an overlapping approach to the devolved and reserved work programmes and the operation of Job Centre Plus. The argument for the administrative devolution of work programmes is one well made. In addition, for many recipients of government sponsored programmes they see no reason why one would be reserved and another devolved. An elderly household in receipt of the winter fuel payments from the UK Government should not be expected to understand why they qualify for this, but may not qualify for the Scottish Government’s fuel package. These are two examples, and there are more.

The way forward

In 2009 Reform Scotland published outline proposals arguing that there may be major merit in the devolution of a significant amount of social protection spend and programmes.

The argument was made that as a number of policy areas connected to these benefits are already partially devolved, and because it would also allow the Scottish Government greater scope to truly address specific welfare problems affecting Scotland, there is merit in these areas being devolved. This proposition pre-dated the UK Welfare Act (2012) however and the subsequent decision made by the Scottish Government for separate legislation and regulations in Scotland, as discussed earlier. The welfare landscape has therefore changed dramatically.

The establishment of the Universal Credit and the Personal Independence Payment to does to some extent streamline the constitutional relationship. We stress we make no judgement on the merits or otherwise of the amounts or qualifying levels. This is rightly the remit of elected representatives north and south of the Border.

We do make the case however that the delivery of the Universal Credit needs to be in a manner in which a recipient in Scotland can clearly understand the interaction between their UC award, any earnings calculated and subsequent tapering of the level, and the interaction with Scottish 'passported' benefits. While work is ongoing regarding the mechanisms, we are aware of the intention of the UK government that people will manage their UC online, but many people in Scotland will also have to deal with subsequent agencies concerning their 'passported' benefits and there is clearly scope for complexity in this arrangement.

Fundamentally however the issue is what the most appropriate level of government is that determines the eligibility and threshold of the Universal Credit, the maximum capital limit of £16,000, as well as the earnings taper (65 per cent: or 35p in every £ earned kept if in receipt of the Universal Credit). Furthermore, there is debate as to whether the power to set of the benefits 'cap' should be reserved at a UK level.

While the welfare landscape may have changed, it is right that we consider what the best constitutional arrangements should be for the long term. Following the broad principles we adopt of seeking the most effective level of government for making decisions in these areas, there is a case for the whole devolution of the Universal Credit given that we have proposed the full devolution of income tax rates.

Thresholds for benefits are set at income levels however and not pre-tax levels. This means that the question is balanced to whether it is more appropriate for the overall threshold of the Universal Credit level to be determined in Holyrood for a Scottish resident or at a UK level.

On balance however, the reforms to the system mean that it is more appropriate for the determination of threshold, eligibility and any tapering to be set for any UK worker or citizen.

We have considered employment and competition law with regards further devolution. We have adopted an approach to this area regarding further devolution, consistent with our approach on tax. The strong view we come to is that there are substantial gains in an efficient UK single market that operates with as few barriers as possible for businesses and workers alike. That said, should there be differing political choices made within Scotland on discretionary benefits, or additional payments these can be made, but should be out of own resource and would be done in a way that is in addition to (and not detract from) the UK entitlements. This means that a perverse situation is avoided where Scotland may become responsible for a benefit but its provision acts as income for the purposes of the eligibility for UK benefits.

Blue badge parking Eligibility criteria for the National Concessionary Travel Scheme for Older and Disabled People. (NCT) Free NHS dental treatment Optical voucher Travel costs to NHS premises Energy Assistance Package Non Universal Credit work programmes	SHOULD BE DEVOLVED	We propose the devolution of these benefits. The funding should be established and baselined and then provided for to the Scottish grant as part of the equalisation grant in the future. Using Freedom of information requests by Reform Scotland, for the budget year of 2009
Attendance Allowance	SHOULD BE DEVOLVED	
Winter Fuel Payments	SHOULD BE DEVOLVED	
Job Centre Plus, Social Provision	SHOULD BE DEVOLVED	
Carer's Allowance	SHOULD BE DEVOLVED	
<i>Local authority additional discretionary benefit</i>	<i>Funded & delivered</i>	<i>Notes</i>
Discretionary charges and discounts, either for each resident or targeted towards categories for e.g.:	Much provision already exists with local government settlement but if LA's wish to go further then provision should be made through their resource or local revenue increases	There would be no change to these areas.
Library fees		
Refuse collection		
Burials		
Veterans' discounts		
Emergency payments		
Business supports		

As we had indicated in the introduction of this paper we have used terminology drawn from Scottish Government published expenditure and revenue figures. Social protection expenditure is made up of welfare benefits and the state pension. In 2009/10, £19.9bn was spent on social protection in Scotland of which £15.0bn was spent by Westminster, £4.7bn by councils and £0.1bn spent by Holyrood. These are detailed in the table above. Social protection expenditure accounts for 93% of identifiable spending by Westminster in Scotland. Under our proposals to deliver more effective delivery of work programmes and other integrated programmes we would see the devolution of the levels of expenditure outlined below.³

<i>Programme</i>	<i>Expenditure (£ million) (2009/10 figures)</i>
Attendance Allowance	474
Winter Fuel Payments	242
Job Centre Plus, Social Provision	163
Carer's Allowance	135
Total	1014

³ Data from UK Government PESA and Scottish Government GERS in response to FOI requests.

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Carer's Allowance	135
Total	1014

Under our proposals over £1billion of current UK identifiable expenditure under these programmes would be devolved, in addition to the devolution of the Scottish component of the UK Work Programme. A suitable break point would come about with the discussions over the new contract for this programme in Scotland.

⁴ Data from UK Government PESA and Scottish Government GERS in response to FOI requests.

We would expect the pattern that has already been adopted to devolve this further expenditure, i.e. to consider a base lined level of funding and this to be added to the Scottish block to be up rated as the overall block is. Under the Devo Plus proposals this would be factored in the equalisation support for the successor grant to the Barnett Formula. This means that Scotland loses no resource but allows for the devolution of these programmes.

Conclusions

Policy responses since devolution have been tempered because the policy levers, whether it is co-ordinating income tax levels, family social work services, early years policy, child care provision and entitlement, are a split responsibility between Scottish and UK government initiatives. So while we can accept that there has been no automatic improvement in social outcomes by the fact that there is a Scottish Parliament with spending freedom but fiscal limitations, we argue that the powers of that Parliament need to be commensurate with ensuring there are incentives to make the right social policy choices, and then the appropriate fiscal and administrative powers to deliver them.

With greater responsibility and accountability there is an increased incentive to deliver more effective social policy also. A more safe, healthy, advanced population will help in reducing the share of devolved revenue required to deal with poor social outcomes. This is at the heart of the potential for Devo Plus. Should policy makers seek to make these decisions, Devo Plus allows them to be made, whilst retaining the strength, breadth and equality of the UK entitlements. Critically our proposals aid the user and beneficiary also in making social welfare easier to understand and be delivered more efficiently.

- A more integrated tax and benefits approach is required to secure better early intervention and policy outcomes in Scotland
- There should be more flexibility in fiscal levers in Scotland to assist in securing better social outcomes and Devo Plus tax proposals could be implemented to aid tax fairness and redistribution should choices be made to do so
- Core elements of the UK benefits system should remain at the UK level including the state pension, employment, maternity and citizenship rights and entitlements
- Further devolution of benefits and work programmes should take place to enable more efficient programme delivery covering care, winter fuel payments and work programmes
- Benefits and tax should be integrated at each level of government as much as possible to provide a combined package of incentivise and Social Protection, and tax should be devolved to each level of government as set out in the Devo Plus fiscal proposals
- A clearer social contract should be provided for the delivery of social welfare and benefit entitlements for citizens and recipients with the classification of benefits at each level of government responsible.

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