The devolution of social security benefits

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1. This submission has been prepared by Professor Paul Spicker, who holds the Grampian Chair of Public Policy in the Robert Gordon University. Professor Spicker is the author of several academic studies of social security policy, including *Poverty and social security* (Routledge, 1993), *Poverty and the welfare state* (Catalyst, 2002) and *How social security works* (Policy Press, 2011). He has acted as an adviser on projects for the States of Guernsey, Special Adviser to the House of Commons Work and Pensions Committee on benefit simplification and Budget Adviser to the Welfare Reform Committee in the Scottish Parliament; currently he advises the Scottish Federation of Housing Associations. This response is submitted in a personal capacity.

2. The remit of the Smith Commission is to “deliver more financial, welfare and taxation powers, strengthening the Scottish Parliament within the United Kingdom.” This submission focuses on powers relating to “welfare”, understood here as benefits for social security and income maintenance.

3. The main points in this submission are these:

   - Benefits are complicated. They serve a wide range of needs and circumstances, delivered to meet a wide range of objectives. Any reform of benefits that is based on a single principle, or on a narrow focus, is liable to compromise other principles.
   - If benefits are devolved, they must be expected to vary in their terms and conditions. The ‘parity principle’ applied in Northern Ireland states the opposite; that would not fulfil the remit of the Smith Commission.
   - If devolution was confined only to the delivery of specified benefits, the power of a devolved government to alter those benefits would be limited by finance, administrative constraints and interactions with other benefits.
   - The devolution of powers implies not only that the criteria and conditions for benefits may be modified, but that new benefits will be permissible.
   - Any reform which does not deal with the package of benefits overall for identifiable categories of claimant will lead to inconsistencies and anomalies.
   - Specific proposals to devolve only Housing Benefit and Attendance Allowance have not been thought through sufficiently. The devolution of Housing Benefit will require changes in Universal Credit; the devolution of Attendance Allowance must extend to DLA/PIP.
   - There is a danger that a detailed specification of powers will get in the way of further reforms in the existing structure of benefits.
   - Change is difficult. The benefits system deals with a huge variety of circumstances, often providing for people on very low incomes who are highly vulnerable to the effects of change. Everything has to be done carefully.

Principles

4. The benefits system is complex for good reasons. Part of the complexity is because it deals with a vast array of different circumstances, including

   - old age (for example, State Pensions and Pension Credit)
   - disability (Personal Independence Payment, Industrial Injury Benefit, War Pensions)
incapacity for work (Employment and Support Allowance)
unemployment (Jobseekers Allowance)
responsibility for children (Child Benefit, Child Tax Credit, Maternity Benefits)
paying rent while on low incomes (Housing Benefit)
low wages (Working Tax Credit, Child Tax Credit, Housing Benefit)
caring responsibilities (Carers Allowance)
bereavement (Bereavement Payments, Widows benefits)
emergencies and crises (The Scottish Welfare Fund)

Although many policy documents have strongly identified benefits with work and the labour market, there is much more to them than that. Most benefits go to older people; much of the remainder goes to people regardless of whether or not they are in work. Jobseeker’s Allowance and the various incapacity benefits account for less than a quarter of working age benefits, and most of that figure goes (in the words of the defining statute) to people who “it is not reasonable to require ... to work”.

5. A further source of complexity is that benefits are designed to meet a wide range of objectives. The aims of benefits include, amongst many others:

- social protection and insurance
- responding to poverty
- providing for need
- economic policy
- income smoothing (redistribution through a person’s life-cycle)
- shaping individual behaviour
- managing the labour market
- financing social services (such as housing)
- promoting social cohesion
- rehabilitation
- compensation, and
- redistribution.

Any reform of benefits that is based on a single principle, or on a narrow focus, is liable to compromise other principles.

6. Guy Lodge and Alan Trench, in a report for the IPPR, propose a series of criteria by which devolution of benefits might be judged. They include:

- **Solidarity and redistribution.** There is an intrinsic problem in devolving benefits if it means that the regions with the least ability to pay also have the greatest burden to bear. Need increases during an economic downturn and only a national scheme offers social protection.
- **Economic management.** Policies for benefits have to be understood in relation to the UK market and the need for economic growth.
- **Integration with local and devolved services.** Services for health, social care and social inclusion are organised and delivered at local or regional level. Barnardo’s have argued further

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1 Welfare Reform Act 2007, s 1(4)b.
3 G Lodge, A Trench, 2014, Devo more and welfare, London: IPPR.
that services should be coherent from the point of view of users.\textsuperscript{4}

Other criteria might reasonably include:

\begin{itemize}
  \item \textit{Taking account of policy variation.} One of the many objections to the “bedroom tax” was that it assumed integration with policies about rent-setting which actually applied only in England. This meant in Scotland that the assumed ‘removal of subsidy’ was greater than any nominal subsidy that might have been received.
  \item \textit{Practical administration.} Contribution records for Scotland are held by the National Insurance Contributions Office and cannot sensibly be disentangled from those for England or Wales. By contrast, Housing Benefit in Scotland is administered by Scottish local authorities, making it straightforward to invest them with the appropriate authority to make decisions.
  \item \textit{Avoiding inequities and anomalies.} There are already some anomalies in the current system, often arising from gaps or overlaps between benefits (such as whether sick people qualify for JSA or ESA, or the position of people who claim PIP or Attendance Allowance according to age). Devolving some benefits and not others creates a potential for generating further anomalies.
\end{itemize}

7. The position of some parties in the UK government, as identified in the recent Command Paper, is that there should be uniform terms and rates of benefit for all benefits.\textsuperscript{5} If that principle - equivalent to the “parity principle” in Northern Ireland - is applied, effective devolution is ruled out. It would be possible to devolve the administration and delivery of benefits, but not the criteria, conditions or the level of benefit. That would not be consistent with the remit of the Smith Commission, to deliver more powers relating to welfare and to strengthen the relative position of the Scottish Parliament in this field. For devolution to be possible to any degree, it has to be accepted that benefits in different parts of the United Kingdom might reasonably differ.

The current situation

8. HM Government’s \textit{Scotland Analysis} identifies nearly £18bn of expenditure on benefits and tax credits for 2012/13. Of that figure, £9.6 bn goes to pensioners and £8.1 bn goes to people of working age and children. The figures for pensioners include not only “pensions” (State Pension and Pension Credit), but elements of Housing Benefit and disability benefits.\textsuperscript{6}

9. Under the terms of the Scotland Act, the Scottish Parliament is expressly forbidden to act in relation to social security benefits.\textsuperscript{7} In circumstances where the UK Parliament has decided to delegate power to Scotland it has been necessary to amend the primary legislation. However, some benefits in Scotland have been devolved within these constraints. They include

\begin{itemize}
  \item the Scottish Welfare Fund, which has replaced the Social Fund
  \item Council Tax Reduction, which has replaced Council Tax Rebate
  \item free prescriptions (and eye tests), which have replaced the previous system for exemptions for people on low-incomes.
\end{itemize}

\textsuperscript{4} Barnardo’s Scotland, 2014, Barnardo’s Scotland response to the Smith Commission’s call for views from civic society on further Scottish devolution.

\textsuperscript{5} Cm 8946, 2014, The parties’ further proposals on further devolution for Scotland, p.33.


\textsuperscript{7} Scotland Act 1998, Schedule V.
Housing Benefit is effectively administered, for practical purposes, by Scottish local authorities.

10. The formal powers of Scottish Government in respect of benefits are currently less than those of an English local authority. As the law stands, English local authorities have the power to act to promote welfare as they see fit, including the provision of financial assistance to individuals. The Scottish Government does not have the same power, because its competencies are explicitly restricted by the terms of the Scotland Act. That situation has implications for Scottish local authorities. They have been granted powers to promote welfare by the Scottish Parliament, using the same wording as the UK Parliament used to offer power to English authorities. Despite the terminology of the statutes, these provisions are not equivalent, because the powers of Scottish local authorities are restricted by the limitations of the source (the Scottish Parliament) from which they are derived. The introduction of the Scottish Welfare Fund required a rider to be added to the Scotland Act (a section 30(2) order) to empower local authorities to implement the measure.

11. Formal powers, however, are only part of the equation. Northern Ireland has had devolved powers over the whole of the benefits system for most of the last century. Those powers are constrained in practice by the 'parity principle', which leads to benefits in the province being delivered strictly in conformity with the rules applied in the rest of the United Kingdom. According to the Northern Irish Department of Social Development, “the long standing principle of parity dictates that an individual in Northern Ireland will receive the same benefits, under the same conditions, as an individual elsewhere in the United Kingdom.” At the time of writing the Northern Ireland Assembly has not passed the 2011 Welfare Reform Bill, intended to implement a series of measures imposed by the coalition government. Many of the measures in the Bill are symbolic, and do not lead to major savings (for example, a benefits cap that affects very few people). However, as a consequence of not passing the Bill, the Northern Ireland has been accused of overspending on its total budget, and it faces fines of £90m for failing to comply with the directions given to it by HM Government. Their experience shows that devolved powers may not be enough to exercise effective authority.

Options for devolution

12. The Command Paper on proposals for devolution outlines three main options for devolution:

   “1. devolving a portion of the expenditure relating to claimants in Scotland of a particular benefit, alongside the power to either vary the rate and rules or operate a separate benefit with a different rate and eligibility criteria, or alternatively to reallocate that funding to another area;
   2. devolving a proportion of the expenditure on a specific welfare service that relates to claimants in Scotland, alongside a statutory responsibility to deliver that service in Scotland, and potentially further powers to either increase or scale back provision of that service; or
   3. powers to ‘top up’ benefits above the level set by the UK Government.”

13. If devolution was confined to the delivery of specific benefits and services, as in options 2 or 3, the power of a devolved government to alter those benefits would be limited. The first constraint is financial: the example of Northern Ireland points to the difficulty of exercising powers without having matching powers to raise funds. Equally, if a devolved administration is reimbursed specifically for administering specified entitlements (the current position with Housing Benefit), it may be possible to

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supplement the payments, but it would be difficult to vary the terms on which benefits are delivered without losing track of the information on which the administering agency’s claim to an allocation ought to be based. The second constraint is administrative. The main options for reforming benefits lie not in varying conditions within benefits, but in redefining boundaries - for example, delivering the care component of PIP in tandem with Attendance Allowance, transferring resources from Housing Benefit to housing grants, shifting the emphasis between Tax Credits and Child Benefit, or reallocating resources between benefits and social care funds. A requirement to deliver a ‘specific welfare service’ would limit the scope to do this. The third constraint is the interaction of benefits. Unless clear arrangements are made about passporting, entitlements and tapers, the effect of increasing one benefit may be to reduce entitlement to others. The introduction of Universal Credit poses particular problems for the operation of Housing Benefit and Council Tax Reduction.

14. Option 3, ‘topping up’ benefits, could apply only in very limited circumstances. No benefit can be paid effectively by two agencies: the agencies would need equivalent access to information about names, addresses and household circumstances. It follows that topping up has to be done by paying over funds to an administering agency with the requirement to deliver benefits on newly specified criteria. It was possible to top up Housing Benefit to compensate for the ‘bedroom tax’ because the benefit is administered by local authorities, and the Scottish Government was able to pay the local authorities to pass on the benefit. It would not be feasible in the same way for the Scottish Government to pay HM Treasury or the DWP to top up Child Benefit, Pension Credit or Industrial Injury Benefits - respectively, a universal, means-tested and a non-contributory benefit. Wherever delivery is the responsibility of a UK-wide agency it will be necessary for the operating service first to distinguish potential claimants with Scottish entitlements, and next to offer distinct rates or calculations for those claims. The mechanisms do not exist to make this possible.

15. The current restrictions on the Scottish Parliament prevent the development of alternative forms of financial assistance. Let us imagine that the Scottish Government was minded to introduce a new benefit that did not exist in England. A plausible example might be a Funeral Grant. As a benefit, it would be consonant with all the principles considered above - the need is not cyclical, it would integrate well with local services, the administration would be relatively simple and the expenditure is relatively predictable. There may be questions to ask about whether it should be included within current priorities, or whether it would be affordable, but that would be a matter for the judgment of the Scottish Government. If, however, social security and financial assistance to individuals are treated in general terms as reserved matters, a benefit of this sort has to be flatly disallowed without further consideration. No doubt a creative interpretation of other provisions could be made to get round the bar, but it does seem appropriate to ask a more fundamental question about the division of powers: should such a decision be barred altogether? I proposed in paragraph 7 that devolution should allow for the possibility that some benefits will be different in different parts of the United Kingdom. Once that principle is accepted, it implies a presumption that further development of powers to promote welfare will be permissible. That means in turn that the feasible options for devolution extend beyond the range outlined in paragraph 12, because they are not broad enough to allow for the development of new forms of welfare.

16. There are reasons for keeping some social security benefits at UK level. The main reason for maintaining National Insurance pensions is a practical one: the mechanism of insurance depends on access to records of contributions accumulated over a person’s working life, which cannot be decentralised effectively. State Pension, Pension Credit and special payments (WFP and cold weather payments) are largely administered by the Pensions Service, which has sufficient administrative capacity in Scotland to manage the bulk of the system. However, entitlements are dependent on contribution records held in England, correspondence files and paper submissions are stored in England, and it would be impossible to administer the current system without full continuing access to those structures. An argument for retaining non-contributory elements within the Pensions Service is that it gives claimants one main office to deal with (though that is not decisive: other benefits claimed by pensioners, such as Housing Benefit and Council Tax Reduction, are not managed in this way.) If the aim was to
introduce a different kind of system - a Citizens Pension, like New Zealand Superannuation, which is dependent on residence rather than contribution - full devolution would be feasible.

17. Jobseekers Allowance and Employment and Support Allowance also have contributory elements, which overlap immediately and directly with contributory benefits. They offer insurance payments for the first six and twelve months respectively, followed by a transfer to the means-tested benefit. Unlike pensions, neither depends on a long-term contribution record; the relevant insurance payments generally are made two to three years before a claim, and that makes it possible to envisage a transition to a devolved benefit over a three-year period. As the contributory elements in JSA and ESA have diminished in importance, there may also be an argument to review how those benefits are delivered.

18. Lodge and Trench suggest that Jobseekers’ Allowance (JSA) and Employment and Support Allowance (ESA) should not be devolved, for a different reason: they argue that, on the basis that claims are linked to the economic cycle, so that finance is most constrained in times of greatest need.

In the case of JSA, the short-term elements of JSA are clearly cyclical, and that is most of the benefit: five JSA claimants in every six claim the benefit for less than a year. In so far as there is a case to devolve JSA, it is probably stronger in relation to long-term unemployment. Very low proportions of people who become unemployed remain unemployed for very long periods, and there is scope to treat long-term claimants differently from others. If it is thought appropriate for those claimants to be subject to a personalised administrative regime, though the evidence of the effectiveness of such provision is very mixed, it makes sense to do it at local level.

ESA is more complex. It is an awkward amalgam of previous insurance and means-tested benefits covering sickness, long-term incapacity and severe disablement. Some of this may be affected by economic cycles, but the figures have remained stubbornly unresponsive to changes in economic conditions for most of the last twenty years. ESA also covers periods of sickness not covered by Statutory Sick Pay, people whose illness means they cannot return to their previous work, and people in early retirement. At UK level, the administration of ESA in these terms has been deeply problematic, and there is a strong argument for breaking up the benefit into its component parts.

19. The same considerations do not apply in relation to many other benefits, and there is general scope to devolve them. Child Benefit might serve as an illustration. If there is to be a presumption in favour of devolution, such as the Scottish Government has argued for, it should imply that Child Benefit is at least considered for devolved administration. It has not really been mentioned in current debates, largely because its present status is not problematic; but if personal taxation is to be devolved, then for consistency Child Benefit, which incorporates the tax allowance for children, ought to be considered as part of the package. Otherwise the main route open to the Scottish Government for supporting children would be a Child Tax Allowance, creating the potential for overlaps and anomalies in its interaction with Child Benefit and Child Tax Credit.

Devolution of Child Benefit is possible. The benefit is relatively easy to administer, offering long-term entitlement that is not highly sensitive to changes in income or status; the calculation of equivalent value is simple; it incorporates the value of the former tax reliefs for children; it has a direct impact on family poverty, and the Scottish Government may or may not wish to vary the rates, or to review its tax status. There is a case for reviewing whether payments currently devoted to Tax Credits should not be used for Child Benefit instead. That option can be reviewed within a devolved administration, provided that both Tax Credits and Child Benefit are devolved. This does not establish that Child Benefit should be devolved; it indicates that it could be, without evident damage to the principles on which welfare is delivered.

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10 G Lodge, A Trench, 2014, Devo more and welfare, London: IPPR.
20. Lodge and Trench also propose that Housing Benefit and Attendance Allowance might be devolved; that proposition has been accepted by the Conservative Party’s Strathclyde Commission\(^\text{11}\), and in the submission of the Labour Party to the Smith Commission\(^\text{12}\). The devolution of Housing Benefit is practical, because the work is already done by local authorities. There is however a potential inconsistency with the government’s plans for Universal Credit. Universal Credit was intended to bring together a range of different benefits with a common taper, so that there would be a single Marginal Rate of Deduction. That initial objective has been compromised in two ways: it does not include deductions through Income Tax, and it excludes Council Tax Reduction. If Housing Benefit is also taken out, the planned marginal deduction of 65% will be much too high, and marginal deductions outwith UC will far exceed those within it. The Scottish Government has consequently asked for the roll-out of UC to be suspended.

21. Various proposals have accepted the IPPR’s argument for devolving Attendance Allowance, without extending this to Disability Living Allowance/Personal Independence Payment. There is a considerable overlap between the benefits, and as it stands the proposal makes little sense. The current alignment of benefits is the legacy of a policy in the 1970s to restrict help to people with mobility problems on the basis of age, because older people are much more likely to have mobility problems and to the government of the day an age limit seemed a simple way of saving money. PIP, which is in the process of replacing DLA, provides a care component for people with severe disabilities below the age of 65; Attendance Allowance covers the same circumstances for people above the age of 65. However, if a claimant has received DLA or PIP before reaching retirement age, it has been possible to apply for an extension to continue receiving it after that age. Because PIP makes an allowance for mobility, and AA does not, those who can claim the former benefit prefer to do so. Very large numbers of claims for DLA - about a third - fall into this category. That also means that a person who had a stroke at 63 may receive benefit, three years later, that someone who has a similar stroke at 66 does not.

The proposal to devolve Attendance Allowance alone can only exacerbate the existing inequities. Whatever happens to these benefits, they should be considered and reformed at the same time. That points to a general principle: benefits for specified need groups - such as people with disabilities, unemployed people, pensioners and people who are unable to work - should be dealt with together, because any other arrangements will inevitably lead to inconsistencies and anomalies.

22. The structure of existing benefits should not be supposed to be inviolable. Option 1 in the Command Paper allows some variation of benefit rates and eligibility criteria, but the assumption is that existing benefits will be devolved within the constraints of their current definition. That could make further reform exceedingly difficult. New variations would depend on renegotiation (and possibly redesign of delivery systems) between the devolved authority and the Department for Work and Pensions.

Much of the benefits system has taken its present form for less than seven years, and it cannot be expected to have the same form seven years hence. (Indeed, if plans for Universal Credit go ahead, it will not have). Many current benefits are portmanteaus, combining together a range of different functions, purposes and methods of operation. ESA, as pointed out, has lumped together several distinct benefits into a badly integrated whole - among them, Sickness Benefit, Invalidity Benefit, Severe Disablement Allowance and elements of Income Support. Personal Independence Payment, like the predecessor benefit Disability Living Allowance, combines a “care component” (formerly part of attendance allowances), a “mobility component” (formerly part of Mobility Allowance), and support for older people (a third of Disability Living Allowance is delivered in the form of extensions granted to older people who otherwise would claim Attendance Allowance). Housing Benefit combines rent rebates for social housing, rent allowances and provision for supported housing. There is scope to think of these benefits in different terms: identifying the client group, contingency and component budget, and


allocating the resources and responsibilities accordingly. In any mixed system, where some benefits are provided at UK level and others are not, this would depend on reconsideration of the terms of benefits at both levels.

**Interdependencies**

23. Benefits generally work by paying people cash, rather than providing people with services. There is some latitude for interpretation in the classification of benefits: at different times, free school meals, residential care home fees, free prescriptions and milk and vitamins for expectant mothers have all been treated as ‘benefits’, and there is a case for viewing free TV licences, concessionary transport and personal care budgets in similar terms. It is often the case that services might be provided in kind rather than cash provided to pay for items. If, for example, the Scottish Government were to make more direct provision of child care (which they are committed to do in principle), it would have a direct and immediate effect on entitlement to Child Tax Credit payable to meet child care fees. Housing Benefit was initially introduced with the intention of transferring money from housing subsidies to personal benefits, and there is a very strong argument for rebalancing the elements so that money goes again to the subsidy of housing provision. In both cases, this kind of rebalancing could only be done if powers were held at the same level of governance, and the government responsible for delivering the benefits were to have the power over how the resources were used and what was provided.

24. Benefits commonly interact with other benefits, and with the tax system. I have referred to the overlap between benefits and tax allowances, and to the difficulties of establishing a reasonable marginal rate of deduction in the Universal Credit scheme. Increasing payments of non-means tested benefits has the potential to reduce entitlement to means-tested ones: for example, if the State Pension goes up, entitlement to Housing Benefit and Council Tax Reduction goes down. It already happens that some benefits are clawed back through tax (notably Child Benefit when received by higher earners); there could be difficulties if benefits issued by one government were to be taxed by another. Control of effective tax rates may be undermined if National Insurance contributions are made to a different authority. Taxation and benefit powers need to be dealt with in tandem.

25. The programme of ‘welfare reform’ initiated by the last Labour government, and continued by the present coalition, has attempted to fuse support for employability and work preparation with the benefits system. There are reasons to doubt that this approach works. The biggest group of people without a job are not job-seekers; they are people on ESA, with severe restrictions of their capacity. The Work Programme has a poorer record of placing people in work than the previous system did. A recent IPPR report comments that any apparent gains from the Work Programme are flattening out; that the results for people who are most disadvantaged are poor; and that the performance is very uneven. It seems likely too that the Work Programme is carrying a large proportion of deadweight – services to people who, left to their own devices, would find a job anyway. I have suggested above that longer-term support for unemployment might appropriately be devolved to local level. Beyond that, there is also a distinct case for devolving shorter-term employment support to local services, uncoupling it from the benefits system altogether.

26. There may be alternatives to supporting people’s incomes by benefits. One of the most obvious is the minimum wage, and the Commission may wish to consider whether the Scottish Government should not have the power to vary the rate. A further consideration is whether or not the Scottish Government might be granted sufficient powers to permit job creation, which can be done through infrastructure projects financed through bond issues or by increasing employment in the public sector; but that is beyond the immediate scope of this paper.

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Practical and legal barriers

27. The assumption that the system can be radically simplified is an illusion. Universal Credit was based on the idea that it should be possible to deliver a unified, personal benefit responding to changes in people’s circumstances in ‘real time’; each of those aims has had to be compromised. The problems of administration, security, incentives and interaction with other benefits were well documented before its introduction; although many of these problems have been attributed to ICT, they are intrinsic to the design. The fundamental flaw, as Richard Titmuss pointed out many years ago, lies in ‘expecting the computer to solve the problems which human beings have not yet adequately diagnosed’.14

28. Benefits need to provide consistent, predictable, stable incomes; “personalised” benefit systems do the opposite. We should be moving to a system based on a collection of small, simple, benefits; the total income or any individual or household will depend on the accumulation of a range of benefits, but the loss of one benefit will not leave people penniless. Using a range of smaller benefits would allow for a degree of responsiveness to varying needs. To make the system more predictable and manageable, there should be common pay days over common time periods - every benefit should have the same pay day for everyone. The advantage of such a system would be the provision of a relatively secure, stable income, delivered at regular intervals.

29. This describes an appropriate direction of movement, but change is difficult. The benefits system deals with a huge variety of circumstances, often providing for people on very low incomes who are highly vulnerable to the effects of change. Over-simplification and cutting corners can hurt people. If budgets are fixed, every change that makes someone better off will make someone else worse off. Everything has to be done carefully. This also implies that in any arrangement in which powers relating to specified benefits or claimant groups are delegated to Scotland, there needs to be a extended timetable, ensuring that at no stage are vulnerable people left without clearly demarcated systems of support.

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October 21, 2014