This briefing provides information on recent UK wide welfare reforms introduced by the UK Government. The briefing also considers proposals for welfare following the referendum on Scottish independence on 18 September 2014. It summarises the Scottish Government’s proposals for welfare, including the state pension, if Scotland was to become an independent country. It also considers the proposals from the main unionist parties for further devolution of welfare in the event of a ‘no’ vote in the referendum.
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EXECUTIVE SUMMARY

Around £18bn was spent on welfare benefits (including the State Pension) in Scotland in 2012/13. The UK Government is pursuing a fundamental, but at times controversial, programme of reform to the welfare system. This reform has led to the Scottish Government having control over some aspects of the welfare system including the Scottish Welfare Fund and the Council Tax Reduction Scheme, although these account for relatively small proportions of total welfare expenditure.

Pro-union parties

The pro-union parties consider that the social security system remains a key element of the social union that binds the UK together. They believe that the pooling and sharing of resources and risk works to Scotland’s advantage. However, Scottish Labour and the Scottish Conservatives also believe that, where there is a close link to devolved policy, benefits could be devolved. In this respect, both parties suggest that attendance allowance (a relatively small benefit, accounting for around 2% of benefit spend in Scotland) should be devolved.

More significantly, Scottish Labour proposes that Housing Benefit (accounting for around 10% of benefit spend) should be devolved and the so called “bedroom tax” abolished. This, the party argues, would allow a more integrated approach to housing policy to be taken and would extend choices between the appropriate balance of capital, revenue and personal subsidies. The Scottish Conservatives also argue that there is a case for devolving Housing Benefit, if it can be disentangled from Universal Credit.

The Scottish Liberal Democrats have stated that the strategic planning of welfare should become a joint responsibility of both the Scottish Parliament and the UK Parliament, with “partnership powers” as the basis of common objectives that would be agreed at joint meetings between the two governments.

In the event of a “no” vote, all main three UK parties have agreed, in a joint declaration, to put forward further suggestions for some devolution of social security in Scotland at the next general election in 2015.

Scottish Government

The Scottish Government’s White Paper, Scotland’s Future, argued that there are too many people in Scotland living in poverty and that the UK Government’s welfare reform agenda is making the situation worse. It argued that only with the powers gained through independence would it be possible to design an efficient and fair welfare system that meets the needs of those who depend on it and treats them with dignity and respect while supporting those who can work into work.

Following a “yes” vote and subsequent negotiations, the Scottish Government’s aim is that Scotland will assume the status of an independent country on 24 March 2016. The first elections to an independent Scottish Parliament would be held on 5 May 2016.

The White Paper set out the following immediate priorities for action:
• Abolish the "bedroom tax" within the first year of the first independent Scottish parliament.
• Halt the further rollout of Universal Credit and Personal Independence Payment.
• Uprate benefits and tax credits by inflation (rather than current policy of 1% for working age claimants).

It also put forward the following proposals both as interim measures for Universal Credit and for the longer term design of a welfare state:

• Remove housing benefit from the single payment, restore it as a separate benefit and maintain direct payments to social landlords.
• Restore the ability of claimants to receive individual support rather than single household payments under Universal Credit.
• Equalise the earnings disregard between first and second earners

A further early priority for the Government will be to launch an urgent review of the conditionality and sanctions regime as well as the system of assessments for disability benefits. The White Paper also commits to maintaining access to passported benefits, such as free school meals.

In relation to the State Pension, the Scottish Government proposes continuing with the main aspects of the current reform programme – such as the creation of a Single Tier Pension, but with some differences such as setting up a Commission to consider the timetable for increasing the pension age beyond 66.

In its first report, the Expert Working Group on Welfare (‘the Expert Group’) recommended an initial transitional period of shared administration for delivery of benefit payments. It considered this to be in the common interest of both countries, and that it ought to be underpinned by an obligation to ensure continuity of service to benefit claimants across the nations of the United Kingdom. The White Paper stated that this makes sense in the short term. However, it proposed that shared administration would last only until 2018 and be organised in such a way that would:

• allow the first government of an independent Scotland to introduce its priorities for change from 2016
• allow that government to begin work towards creating a welfare system that better reflects Scotland's priorities

The UK Government has said it is “highly unlikely” that the UK would agree to share its delivery services with an independent Scotland, since it is “…hard to see how this would be beneficial to the continuing UK.” Any sharing arrangement would require detailed negotiation and the UK Government would “…focus on the needs of its own citizens and maintaining its effective, efficient and robust system delivering UK Government policies, and the continuation of the delivery of its programme of reform.”

The UK Government is also critical of the timescales put forward by the Scottish Government arguing that it is not realistic given the scale of change required and further concludes that an entirely separate Scottish delivery organisation would lose the advantages of potential economies of scale offered by the current system.
INTRODUCTION

The referendum on Scottish Independence will take place on 18 September 2014. This paper offers a brief overview of the main proposals in relation to welfare post referendum. It includes the Scottish Government’s White Paper on independence (2013a), focusing on its immediate priorities for action, both the Expert Working Group on Welfare Reform’s reports (2013, 2014) and the pro-unionist parties’ devolution options (Scottish Liberal Democrats, 2012, 2014; Scottish Labour Devolution Commission 2014; Scottish Conservatives 2014). Where appropriate, the briefing also signposts readers to further sources of information.

CONTEXT

The discussion about the type of welfare state that would exist in an independent Scotland, or the potential options for further devolution if Scotland stays in the UK, needs to be seen in the context of the current programme of welfare reform currently being undertaken by the UK Government.

The UK Government acknowledges that its programme of welfare reforms is the most fundamental change to the social security system for 60 years. In the view of the Department for Work and Pensions (DWP), public spending needs to be more sustainable and targeted more effectively to ensure that the system is fair to the British taxpayer and those people who are in genuine need of support. However, many elements of the welfare reforms have proved to be controversial.

The majority of the reforms are provided for by the Welfare Reform Act 2012 (the 2012 Act) which works alongside related legislation, for example, the introduction of the Work Capability Assessment in the Welfare Reform Act 2007 and the Welfare Benefits Up-rating Act 2013. The main elements of the reforms include:

- the move to Universal Credit, which will replace 6 existing working age benefits: Income-based Jobseeker’s Allowance; Income-related Employment and Support Allowance; Income Support; Child Tax Credits; Working Tax Credits and Housing Benefit
- the introduction of a benefit cap which limits the total amount of benefit a claimant can receive
- uprating benefits and tax credits by 1% per year (for three years from 2013 to 2015) for working age claimants
- changes to Housing Benefit including the removal of the spare room subsidy (the so called “bedroom tax”), where working age tenants in the social rented sector have their benefit reduced if they are considered to be under-occupying their property
- the move from Disability Living Allowance to Personal Independence Payments
- limiting the period for which people in the Work Related Activity Group (WRAG) can receive contribution-based Employment Support Allowance to 365 days and preventing any new claims for Employment Support Allowance on the grounds of youth
- the introduction of a Claimant Commitment as part of Universal Credit (which has also been introduced for Job Seeker Allowance claimants under existing legislation)
- the more rigorous conditionality and sanctions regime
- tougher penalties for people who commit benefit fraud

The 2012 Act also allowed for the ‘localisation’ of some benefits. Scotland now has responsibility for the Scottish Welfare Fund, previously the Discretionary Social Fund, as well as the Council Tax Reduction Scheme, previously Council Tax Benefit. The Scottish
Government also has existing responsibility for a number of ‘passported benefits’ which allows certain benefit recipients to automatically receive additional support such as free school meals or blue badge parking. ¹

The DWP states that its overall aim is for a simpler, fairer benefits system to ensure work pays and to make employment an aspiration for everyone who is able. It envisages that, instead of people being trapped in welfare dependency, the welfare reforms will reward work and, along with the right support and encouragement, will help people lift themselves out of poverty. Further information is available in a document (DWP 2014a) put together by the DWP explaining its objectives.

Although the stated principles and ideals behind the reforms may have been broadly welcomed, critics have challenged their scale, pace and targeting. It has been suggested that the reforms have had an unforeseen cumulative impact which has unfairly impacted on the most vulnerable in society, for example; those on low income, disabled people and women and children. (Social Security Advisory Committee 2014, Beatty and Fothergill 2014, Scottish Government 2013b). Critics have also argued that there is a causal link between the revised sanctions regime and the increased use of food banks (Scottish Parliament Welfare Reform Committee 2014a, 2014b). The reform programme has also experienced a number of delays, for example, the backlog in processing Personal Independence Payments (BBC News 2014a) as well as issues with Universal Credit infrastructure and new IT systems (National Audit Office 2013). Many commentators have argued that the true impact of many of the reforms is yet to be felt as Universal Credit and Personal Independence Payments are still to be fully rolled out (see for example NAO 2014, Marsh 2013).

Although the reforms have proved politically contentious, the coalition government claims broad public support for its measures to reduce social security expenditure, particularly for working age claimants (DWP 2010a). For example, according to the British Social Attitudes Survey 30, opinion polls consistently show that a large majority of the public believe that many social security benefits are claimed by people who do not deserve them. Unlike support for the National Health Service, popular attachment to the welfare state appears to have weakened considerably over the last 30 years (Pearce and Taylor 2013).

The Scottish Government has put in place a range of measures to mitigate the impact of the reforms. These include:

- a top up of funding for the Council Tax Reduction Scheme to replace the 10% reduction in money transferred by the UK Government
- a top up to the funding transferred to Scotland for the Scottish Welfare Fund
- the provision of resources to local authorities to increase their Discretionary Housing Payments budgets to mitigate the “bedroom tax.” Discretionary Housing Payments are allocated to local authorities to help tenants who are having trouble making their rent payments. Legislation limits the total that can be spent on Discretionary Housing Payments in a year. ² On 2 May 2014, the UK Government agreed to devolve the order making power which sets the statutory cap on Discretionary Housing Payments. This will allow the Scottish Government to provide £35m to local authorities, bringing the total budget for Discretionary Housing Payments in 2014/15 in Scotland to £50m. ³

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¹ Further information on each of these elements is available in SPICe briefings or briefings produced by the House of Commons Library. See hyperlinks or sources section.


³ Legislation limits the total spend on DHPs to 2.5 times the DWP allocation. The powers will be transferred by means of a Section 63 order under the Scotland Act 1998. The Section 63 order and subsequent order still
The UK Government is also in the process of significant pension reforms. These include increasing the pension age to 67 and combining the existing state pensions into a single payment – the Single Tier Pension. This new State Pension will be set at a level that is higher than Pension Credit (the means tested benefit for pensioners on a low income). As a result, it is expected that eligibility for Pension Credit will fall as people get more of their income from the new State Pension. There are also changes to public sector and private pensions which are not covered by this briefing.

SCALE OF CURRENT BENEFIT SPEND

Table 1 shows that, in 2012/13, nearly £18bn was paid out in welfare benefits in Scotland, over a third of which was on the State Pension. This £18bn amounted to around 27% of all government spending in Scotland, and was equivalent to just over 12% of Scottish GDP (assuming a geographical share of North Sea oil) or £3,336 per person (Kennedy 2014a).

Table 1: Spend on Welfare: Scotland, 2012/13 £m

<table>
<thead>
<tr>
<th>Benefit</th>
<th>£m</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Pension</td>
<td>£6,783</td>
<td>38.3%</td>
</tr>
<tr>
<td>Tax Credits</td>
<td>£2,226</td>
<td>12.6%</td>
</tr>
<tr>
<td><strong>Housing Benefit</strong></td>
<td><strong>£1,789</strong></td>
<td><strong>10.1%</strong></td>
</tr>
<tr>
<td>Disability Living Allowance</td>
<td>£1,450</td>
<td>8.2%</td>
</tr>
<tr>
<td>Child Benefit</td>
<td>£926</td>
<td>5.2%</td>
</tr>
<tr>
<td>Employment and Support Allowance</td>
<td>£752</td>
<td>4.2%</td>
</tr>
<tr>
<td>Pension Credit</td>
<td>£688</td>
<td>3.9%</td>
</tr>
<tr>
<td>Income Support</td>
<td>£496</td>
<td>2.8%</td>
</tr>
<tr>
<td><strong>Attendance Allowance</strong></td>
<td><strong>£489</strong></td>
<td><strong>2.8%</strong></td>
</tr>
<tr>
<td>Jobseeker’s Allowance</td>
<td>£478</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>Council Tax Benefit</strong></td>
<td><strong>£380</strong></td>
<td><strong>2.1%</strong></td>
</tr>
<tr>
<td>Incapacity Benefit</td>
<td>£371</td>
<td>2.1%</td>
</tr>
<tr>
<td>Statutory Maternity Pay</td>
<td>£215</td>
<td>1.2%</td>
</tr>
<tr>
<td>Winter Fuel Payments</td>
<td>£187</td>
<td>1.1%</td>
</tr>
<tr>
<td>Carer’s Allowance</td>
<td>£169</td>
<td>1.0%</td>
</tr>
<tr>
<td>Severe Disablement Allowance</td>
<td>£97</td>
<td>0.5%</td>
</tr>
<tr>
<td>Industrial Injuries Benefit</td>
<td>£92</td>
<td>0.5%</td>
</tr>
<tr>
<td>Bereavement Benefits</td>
<td>£59</td>
<td>0.3%</td>
</tr>
<tr>
<td>Over 75 TV Licence</td>
<td>£49</td>
<td>0.3%</td>
</tr>
<tr>
<td>Maternity Allowance</td>
<td>£27</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>Discretionary Housing Payments</strong></td>
<td><strong>£4</strong></td>
<td><strong>0.0%</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£17,727</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Sources: DWP (online a) except Child Benefit and Tax Credits from HMRC (2013)

need to complete the necessary parliamentary proceedings but the Scottish Government has issued a “letter of comfort” to COSLA to reassure local authorities that they can plan to spend up to £50m.
Since 2012/13, there has been some devolution of welfare spending (shown in bold in the table), although the spend in these areas is relatively small. Council Tax Benefit (now the Council Tax Reduction Scheme) accounts for about 2% of welfare spend. There will also be devolution of decision making on the spending limit on discretionary housing payments with the Scottish Government budgeting £35m for 2014/15.

The Scottish Government also now has responsibility for the Scottish Welfare Fund, (replacing the Discretionary Social Fund which is not shown in the table) with a budget of £33m in 2014/15. Proposals from parties campaigning to remain in the UK refer to devolution of Housing Benefit and Attendance Allowance (shown in bold italics in the table). Together, these account for around 13% of current spend.

PROPOSALS FOR FURTHER DEVOLUTION

The following section considers the views of pro-unionist parties towards devolution of welfare benefits.

The Scottish Liberal Democrats (2012) argue that the best future for Scotland is “home rule” within a reformed, federal United Kingdom. They support the retention of a single UK welfare and pensions system, with a common set of living standards and entitlements. It is proposed that some functions of government should constitute ‘partnership powers’. Partnership powers would require co-operation between the home rule and federal governments, with a legal duty on one government to consult with the other. Areas of partnership powers would include the strategic planning of welfare services. For example,
“... changes proposed by the UK Government in housing benefit would require a process of formal consultation with the Scottish Government”. They also recommend the Scottish Government acts ‘as an agent’ for the UK Government for the work of Jobcentre Plus and the Work Programme.

The Scottish Conservative’s Commission on the Future Governance of Scotland (2014) and Scottish Labour’s Devolution Commission’s Powers for a Purpose – Strengthening Accountability and Empowering People (2014) both set out their parties’ positions that social security provision should continue largely on a UK wide basis. As Powers for a Purpose stated,

“We strongly support the continuation of the comprehensive UK Welfare State, with pensions and cash benefits distributed largely on the same basis across the country, especially those benefits which people have contributed to through national insurance. We take this view because social union is central to the very idea of the sharing union, which is about how we pool resources to safeguard the common entitlements of citizenship enjoyed by everyone across the UK.”

Similarly, the Scottish Conservative Commission said, “…It is a key plank of our social union that social security payments are paid according to need, and not geographical region.” Specifically, in relations to pensions they argue that devolving state pensions would place a very significant burden on Holyrood’s budget and that there is little public appetite for the state pension to be different in Scotland from the rest of the UK. They refer to the mobility of citizens within the UK and note that, even in highly decentralised or federal systems, the centre usually remains responsible for social security and pensions provision.

Both Scottish Labour and the Scottish Conservatives identify areas for further devolution in certain areas in the event of a “no” vote in the Scottish referendum (summarised in Table 2 below). After a “no” vote, all of the three main UK parties have agreed, in a joint declaration, to put forward further suggestions for further devolution of social security (and tax) in Scotland at the next general election in 2015 (BBC 2014b).
Table 2: Summary of Scottish Labour and Scottish Conservative proposals for further devolution of welfare

<table>
<thead>
<tr>
<th>Party</th>
<th>Housing Benefit</th>
<th>Attendance Allowance</th>
<th>Power to supplement welfare benefits</th>
<th>Work Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scottish Labour</td>
<td>“We are in favour of devolving Housing Benefit”. This is on the basis that housing is already devolved.</td>
<td>“We will devolve Attendance Allowance” given that Scotland has responsibility for health and social care.</td>
<td>Not in favour of devolving Personal Independence Payment as it is “not in general matched by devolved services in the same way as Attendance Allowance”.</td>
<td>Devolution of responsibility for delivery of the Work Programme to local authorities, with strategic oversight from the Scottish Parliament. “We are conscious of the need to ensure a link between the benefits system and income from work and for the need for local agencies to work in collaboration with local authorities and the third sector”.</td>
</tr>
<tr>
<td>Scottish Conservatives</td>
<td>“There is a case for devolving Housing Benefit”. This is on the basis that housing is already devolved.</td>
<td>“…should be considered for devolution” on the basis that it is closely related to the devolved functions of social care and health.</td>
<td>“We consider that there is a case…” for the Scottish Parliament to have the power to supplement welfare benefits legislated for at UK level. This would allow the Scottish Parliament to legislate where it wants to supplement GB benefits.</td>
<td></td>
</tr>
</tbody>
</table>
The following section considers in more detail Attendance Allowance and Housing Benefit which the Scottish Labour and the Scottish Conservative parties recommended should be devolved.

ATTENDANCE ALLOWANCE

Attendance Allowance is a benefit available to people with a mental or physical disability who are 65 or over, who could benefit from personal care or supervision. It is not means-tested and is disregarded as income for means-tested benefits and tax credits. The benefit is paid at two weekly rates: the lower rate is £54.45 and the higher rate is £81.30 (2014-15). In November 2013, there were 151,780 entitled cases, of which 93,080 were at the lower rate and 58,700 at the higher rate. As Table 1 shows, expenditure on Attendance Allowance in Scotland for 2012-13 was £489m, 2.8% of total benefit spend. Attendance Allowance has not formed part of the UK Government’s wider welfare reforms because these have focused on benefits for working age people.

Both the Scottish Labour and Scottish Conservative Commissions argue that Attendance Allowance could be devolved because of the alignment with the existing functions of health and social care. Neither party provide any further explanation. However, Scottish Labour said it is not in favour of devolving Personal Independence Payment “as it is not in general matched by devolved services in the same way as Attendance Allowance.” Attendance Allowance is similar to the Disability Living Allowance care component although the Personal Independence Payment “daily living” component has a slightly different focus.

The issue of how Attendance Allowance interacts with devolved policies has arisen before. Prior to the implementation of free personal care on 1 July 2002, people who funded their own care in a care home could apply for attendance allowance. However, the UK Government determined that personal care payments were a contribution to the resident’s accommodation costs and that Attendance Allowance payments should be withdrawn. However, those who receive care in their own homes can still claim Attendance Allowance (Robson, 2009).

HOUSING BENEFIT

Housing Benefit is a means-tested benefit that helps low-income tenants, whether in or out of work, to pay their rent. It is a substantial component of the benefit system, accounting for 10% (£1.78bn) of all benefit spend in Scotland (2012/13). Around one-fifth of households (475,000) in Scotland receive Housing Benefit, the majority of which (just under 80%) live in the social rented sector (DWP 2014b). Housing Benefit is integral to other parts of the benefit system, for example, if a tenant is receiving one of a number of other benefits (Income Support, income-based Jobseeker’s Allowance, or Pension Credit Guarantee) they will automatically be entitled (‘passported’) to Housing Benefit.

Housing Benefit is important to tenants and landlords. For tenants, Housing Benefit ensures that they can meet their rent commitments. Rental income is the most important source of income for social landlords and influences landlords’ decisions about expenditure on capital projects and management and maintenance services. Given the number of social tenants reliant on Housing Benefit, Housing Benefit accounts for a large proportion of income for some social landlords. For example, in 2013-14, Housing Benefit is expected to account for 58% (£583m), of total council rental income\(^4\) (Scottish Government 2013c). Thus, any changes to the operation of Housing Benefit or the level of benefit available will have

\(^4\) Standard rental income
important implications for a wide range of housing policies, including the Scottish Government’s investment decisions about affordable housing supply.

In 2010, the UK Government announced a series of reforms prior to the roll out of Universal Credit, with the intention of reducing expenditure and maintaining fairness in the system (DWP 2010b). The reforms included; changes to Housing Benefit in the private rented sector; increasing the non-dependant deductions and the introduction of the “bedroom tax” for social rented sector tenants (see further below) (Berry 2014).

Briefly, the amount of Housing Benefit that a tenant can receive will depend on their “applicable amount”, the “maximum Housing Benefit” (which is the “eligible rent” minus any non-dependent deductions) and how much income and capital they have. However, there are also differences in how the eligible rent is calculated in the private and social rented sectors.

A key difference between the private and social rented sectors is that most tenants in the private rented sector have their eligible rent calculated according to the local housing allowance (LHA) rules which limits the level of rent that Housing Benefit will cover to the 30th percentile of rents in broad market rental areas (BRMA) (of which there are 18 in Scotland). Prior to April 2011, the LHA was calculated according to the 50th percentile of rents in BRMAs. Size criteria are used to determine the number of bedrooms a household requires. For example, a couple with no children would be eligible for the LHA rate for a one-bedroom property. Since April 2011, the LHA rates have been capped by property size and the five-bedroom rate has been scrapped, so the most a household could receive would be the LHA for a four bedroom property.

The “shared accommodation rate” applies to single people aged under 35, with no dependants, living in private rented accommodation. Under these rules, such tenants can normally only get the benefit for a bedsit or a room in shared accommodation (prior to January 2012 the shared accommodation rate only applied to people aged under 25). Normally, tenants in the private rented sector are paid Housing Benefit directly, whereas in the social rented sector landlords receive the Housing Benefit directly.

Social Sector Tenants - Bedroom tax

For social sector tenants, normally the maximum eligible rent that is used in calculating Housing Benefit is the actual rent charged, minus any non-eligible service charges.

Since April 2013, the “bedroom tax” has introduced size criteria in the social rented sector, although the size criteria differs to that which applies in the private rented sector. Where working age tenants in the social rented sector occupy a property that is too big for their households’ needs (according to size criteria), their Housing Benefit will be reduced by 14% if they under-occupy by 1 bedroom or 25% if they under-occupy by 2 or more bedrooms. At May 2014, 71,292 households in Scotland had their Housing Benefit reduced because of the “bedroom tax”, with an average reduction of £11.72 a week (DWP 2014b). As noted earlier, the Scottish Government has taken action to mitigate the impact of the “bedroom tax” in Scotland.

Universal Credit and housing costs

Universal Credit, which contains a housing costs element, will eventually replace Housing Benefit for working age tenants. While many of the features of the current Housing Benefit regulations will remain the same there are a number of key differences. In particular: most tenants in the social rented sector will have their housing support paid direct to them, rather than to their landlord (exceptions will be made for vulnerable tenants); Universal Credit will
be administered by the DWP (at the moment Housing Benefit is administered by local authorities) and Universal Credit will be paid monthly in arrears (Wilson 2013).

Direct payment of the housing element of Universal Credit to social housing tenants is controversial. Social landlords are concerned that it will result in increased rent arrears and impact on their revenue streams (Wilson 2013). To assist with the preparation for the move to direct payments, the UK Government set up six demonstration projects with preparation for direct payments to tenants in the social sector from June 2012 to the end of 2013. The projects are being evaluated and will conclude later in 2014. A package of reports containing a summary of the main findings of the research and analysis at the 12 month stage is available on the DWP website.

**Proposals for Devolution of Housing Benefit**

In making the case for the devolution of Housing Benefit, both the Scottish Conservative and Scottish Labour Commissions pointed to the connections that exist between Housing Benefit and devolved housing policy. As the Scottish Labour Commission argued,

> “…The Scottish Parliament has full responsibility for all land and property matters, now including all property taxes. As a consequence, it is possible to see how these policy instruments, along with Housing Benefit once disentangled from Universal Credit, might be used in a more integrated way to develop housing policies and extend choices between the appropriate balance of capital, revenue and personal subsidies, thereby supporting broader housing strategy”.

Both Commission reports provide relatively little specific detail as to what devolution of Housing Benefit might mean in practice, how it might be delivered or of the financial implications of such a change. The Scottish Labour Commission’s report states that, “We will use this power to abolish the “bedroom tax”, ensure secure funding for the provision of social housing and reduce abuse by unscrupulous private landlords.”

**Practical Issues**

Both the Scottish Labour and Scottish Conservative Commissions recognised that devolving Housing Benefit would be a complex process, particularly with the planned rollout of Universal Credit which will replace Housing Benefit for working age tenants. Labour’s Devolution Commission pointed to the need for close collaboration with the DWP so that devolution of housing support control,

> “…is done in a way that ensures the tapering off of entitlement as those who receive the support increase their earnings is fully aligned with the tapers applying to Universal Credit to avoid negative work incentive effects. The policy will also have to be implemented in such a way that does not inject unacceptable risk from changes in demand for housing support to the Scottish budget.”

**Other comment**

The case for the devolution of Housing Benefit has also been made by other think tanks and research organisations. For example, the Institute for Public Policy Research (IPPR) (traditionally close to the UK Labour Party) in their *Devo More and Welfare* paper refer to a forthcoming IPPR paper which suggests that devolving Housing Benefit could potentially contribute to reversing the 30-year drift in public spending away from building homes and towards subsidising rents. They argue that in the long-run it would be better to invest more in bricks and mortar than in making payments to private landlords (Lodge and Trench 2014).
The IPPR recommends that Housing Benefit should be devolved and, when Universal Credit is brought in, the element replacing Housing Benefit should be disapplied and funding transferred to the devolved governments. It would then be open to the devolved governments to develop social housing policies and use those resources as it sees fit. They propose that funding would be provided through an addition to the devolved governments’ block grants. In another paper IPPR (Hull and Cooke 2012) set out the case for an affordable housing grant to allow Housing Benefit to be devolved to local authorities in England. This would be a three year grant based on a national formula using a small number of needs-related factors and would start with the funds currently provided by central government to local authorities for housing and Housing Benefit. The proposed affordable housing grant would need to be modified to be applied to the devolved governments, as some of the housing functions it would cover are already devolved and form part of block grants. They argue that the effect would be that devolved governments would move from having all their funding in the form of a DEL block grant calculated over a spending review period, to having funding from multiple sources and “…that would add a measure of volatility to devolved governments’ funding, but present no other significant difficulties” (Lodge and Trench 2014).

Reform Scotland also recommend that Housing Benefit (and Council Tax Benefit) be devolved to local authorities in Scotland as, “Housing and council tax are local authority responsibilities, so we believe it is logical to devolve Housing Benefit and Council Tax Benefit fully to councils” (Thomson, Maudley and Payne 2014). This would mean the benefits could differ between local authorities to reflect the different needs and priorities of those areas.

In a speech in June 2014, David Miliband, set out the UK Labour Party’s proposals to give local authorities the power to negotiate, on behalf of tenants, lower rent levels with landlords. He said the Government would let local authorities keep some of the Housing Benefit savings they make on condition that they invested the money in helping build new homes (UK Labour Party 2014).

PROPOSALS FOR AN INDEPENDENT SCOTLAND

The following section considers the proposals relating to welfare benefits in an independent Scotland, in the event of an SNP government as set out in the Scottish Government’s White Paper, Scotland’s Future and in Pensions in an Independent Scotland. No comment or analysis is provided on the relative merits of the proposals. Instead, contextual information is provided to aid understanding of the nature and impact of these proposals.

The Scottish Government’s proposals have been informed by two reports of the Expert Working Group on Welfare. The first assessed the Scottish Government's forecasts of the costs of welfare in Scotland at the point of independence; considered the options for delivery of the welfare system in the early stages of independence; and set out the views of key stakeholders on the immediate priorities for welfare policy change. The second report (published after the White Paper) set out their route map for reform and short, medium and long term options for change. The Scottish Government’s response is set out at Annex A.

IMMEDIATE PRIORITIES FOR ACTION

The White Paper stated that the UK welfare system is now too complicated and is in need of fundamental reform. It envisaged that benefits would work hand-in-hand with programmes designed to help people find sustainable employment and would be better aligned with public services such as health and education. The stated objective is to provide a more
personalised package of support, provide greater long term certainty for claimants and to be focused on longer term goals.

Following Scottish independence, the Scottish Government proposes to introduce policy changes from 2016 to better reflect Scottish needs. As such, the White Paper sets out the following immediate priorities for action:

- Halt the further rollout of Universal Credit and Personal Independence Payment in Scotland.
- Abolish the "bedroom tax" within the first year of the first independent Scottish parliament.
- Ensure that benefits and tax credits increase in line with inflation (rather than current UK policy which uprates many benefits by 1%).

A further early priority for the Government would be to launch an urgent review of the conditionality and sanctions regime as well as the system of assessments for disability benefits. This was clarified further by the Scottish Government's acceptance of the Expert Group’s recommendations to abolish the current Work Capability Assessment for Employment Support Allowance. Other key recommendations agreed by the Scottish Government include establishing a National Convention on Social Security at the start of 2015 and increasing the rate of Carer's Allowance. The White Paper also proposed a commission on the State Pension age.

The following looks in more detail at some of the Scottish Government’s ‘immediate priorities for action,’ particularly in relation to Universal Credit, Housing Benefit, benefits affecting disabled people and their carers, benefits uprating and the State Pension.

**UNIVERSAL CREDIT**

The Scottish Government proposes to halt further roll out of Universal Credit. For those already receiving it, the Government proposes:

- removing Housing Benefit from the single payment
- restoring individual rather than single household payments
- creating a second earners disregard

The Scottish Government has said it would carefully consider the Expert Group’s proposal for a new integrated benefit – the Social Security Allowance, and that longer term reforms would incorporate the features mentioned above.

The DWP has estimated the extra costs of the Scottish Government’s welfare proposals made in the White Paper (DWP 2014c). It estimated that, based on the original implementation timetable, halting the roll out of Universal Credit would initially save money (£19m in 2017/18), but by 2022/23 not having Universal Credit would result in extra costs of £40m, and these extra costs would continue to rise over subsequent years (excel table 2 in DWP 2014c). Given the scale of welfare spend, this is a relatively small difference in cost between UK and Scottish proposals. Part of the reason for this is that similar numbers of claimants will gain as will lose out under Universal Credit. The DWP estimates that across the UK, around 3.1 million households will gain from Universal Credit and in the longer term, 2.8 million would lose out (DWP 2012).
Gender and Universal Credit

Two of the Scottish Government's proposals for Universal Credit reflect a gender analysis of the UK Government's reforms (SNP 2014). While the rules for Universal Credit are gender neutral, it has been criticised as promoting traditional gender roles (eg. Bennett and Himmelweit 2013).

In the current system, as well as Universal Credit, earnings from both members of a couple are taken into account when calculating means tested benefits. However, because there are currently different benefits, some might be paid to one partner and some to the other.\(^5\)

Universal Credit will be paid monthly in arrears and, unless exceptional circumstances apply, as a single payment covering all the household’s needs. Couples can choose which partner receives the payment, or nominate a joint bank account.

There have been some concerns about these proposals. For example, the Women’s Budget Group (2011) has argued that these provisions “concentrate financial resources and power into the hands of one person. It is not clear which account couples would choose to pay Universal Credit into (or how joint or equal the exercise of such choice might be).” On the other hand, the UK Government considers that a single, monthly payment mimics the receipt of a monthly salary at work, reduces complexity for claimants and makes the implications of changes in circumstances more transparent (DWP 2012). These issues were discussed during the debates on the draft Universal Credit regulations in 2013. For further detail see Kennedy and McInnes (2013).

The Scottish Government proposes making separate payments to individuals within couples rather than a single household payment.

The other main gender related issue is the treatment of the income of second earners. Given current social norms, it is more likely that the second earner will be the woman rather than the man. Universal Credit allows a couple to earn a certain amount between them before applying the means test. This amount, known as the 'work allowance,' starts at £111 per week for a couple with no children. Income above this amount is means tested at 65%. If the main earner earns more than £111 per week, then the couple may view the 'work allowance' only in terms of the main earner's wage, and view the second wage as being means tested in its entirety at 65%. This may affect incentives to take or keep a second job. The DWP impact assessment acknowledges that Universal Credit does not create good work incentives for second earners saying,

“although the number of workless households will reduce, it is possible that in some families, second earners may choose to reduce or rebalance their hours or leave work” (DWP, 2012).

The Scottish Government, therefore, proposes to “equalise the earnings disregard between first and second earners” on the basis that this would create a better incentive for second earners to continue working. A similar proposal was made by the Resolution Foundation’s Commission on Living Standards in 2012 (Plunkett 2012). It recommended creating a specific earnings disregard for second earners in order to strengthen the incentive for both members of a couple to work.

\(^5\) e.g. couples make joint claims for tax credits. The child tax credit and childcare elements are normally paid to the ‘main carer.’ If one person is working, then the remainder would be paid to them. Where both are working full time, then couples can decide who gets the payment. Income support and JSA are paid to the claimant, although there is provision in JSA for joint claims (CPAG, 2014).
A new working age benefit - Social Security Allowance

The Expert Group recommended a new working age benefit - the Social Security Allowance (SSA) which would "initially integrate the benefits which the UK Government has identified as being brought into Universal Credit, with the exception of Housing Benefit." The group also recommended extending this to other benefits "...to reduce further the artificial boundaries between different benefits."

Initially therefore, SSA would include:

- Working Tax Credit and Child Tax Credit
- income based Job Seeker’s Allowance
- income based Employment Support Allowance
- Income Support

Although SSA would combine similar benefits to those brought together by Universal Credit, the expert group recommended differences in the way it would be administered reflecting some of the criticisms of Universal Credit. The Expert Group recommended,

- households choose the payment pattern (e.g. weekly or monthly) and choose who receives the payment
- people could choose whether to apply online, face to face or by phone. In Universal Credit, people will be expected to apply on line and one of the criticisms has been the practicality of this policy of ‘digital by default.’

In response to the Expert Group’s proposals, the Scottish Government confirmed that it would “carefully consider” the proposals to introduce a new Social Security Allowance that would bring together existing benefits but exclude Housing Benefit (Scottish Government 2014a).

DISABILITY AND CARERS

Carer’s Allowance

The Scottish Government proposes to increase the Carer’s Allowance from £61.35 per week to £72.40 per week.

Carer’s Allowance is a non-means tested benefit paid to people who regularly care for someone who is severely disabled and who must be in receipt of certain benefits, e.g. Attendance Allowance (higher or lower rate), Disability Living Allowance care component (highest or middle rate).

Carer’s Allowance can be paid in addition to other benefits and tax credits, but the 'overlapping benefit rules' may apply (where a person qualifies for more than one non-means tested benefit the normal rule is that he or she cannot receive the full amount of both benefits, for example, contributory Jobseeker’s Allowance, or the State Pension). Carer’s Allowance counts as income for means-tested benefits. If a carer, and sometimes the person being cared for, is already in receipt of other means-tested benefits, it may not always be advisable to make a claim for Carer’s Allowance (Child Poverty Action Group 2014).

Currently, Carer’s Allowance is paid at the weekly rate of £61.35 and is taken into account in full when, for example, Income Support or income-based Jobseeker’s Allowance are
calculated. An extra amount (called the ‘carer premium’) will be included in the calculation of the means-tested benefits, currently worth an additional £34.20 a week. A carer who is in receipt of Income Support or Jobseeker’s Allowance, for example, is entitled to a personal allowance of £72.40, plus the carer premium of £34.20, but would not receive the Carer’s Allowance amount of £61.35. Any means-tested benefit is reduced by the same amount received from Carer’s Allowance.

**Scottish Government proposal on Carer’s Allowance**

On 1 June 2014, the Scottish Government announced that “over 100,000 carers could be entitled to £575 extra per year under plans for a fairer welfare system in an independent Scotland” (Scottish Government 2014b). This was based on a recommendation in the Expert Working Group’s Report (2014) which described the current level of Carer’s Allowance of £61.35 per week, as an ‘unacceptable anomaly’ compared with £72.40 per week for those aged 25 and over on Jobseeker’s Allowance. They recommended Carer’s Allowance should be increased and paid at the same rate as Jobseeker’s Allowance. The Expert Working Group said that the Scottish Government had estimated that this would cost approximately an additional £32.9m per annum. UK Government figures show that expenditure on Carer’s Allowance in Scotland for 2012/13 was £169m.

**How many would benefit from the increase in Carer’s Allowance?**

The latest figures from the DWP (online b November 2013) show that there are 102,930 people in Scotland entitled to Carer’s Allowance. Of these:

- 160 are under 18 years old
- 64,890 are working age 18-64
- 37,870 are 65 and over

The proposed increase in Carer’s Allowance to £72.40 per week will only be of benefit to those who are not in receipt of income-based Jobseeker’s Allowance / income-based Employment and Support Allowance because, as noted earlier, the personal allowance for those is already £72.40. As Table 3 shows, of the 102,930 carers in Scotland entitled to Carer’s Allowance, only 57,310 receive a Carer’s Allowance payment. The other 45,620 claimants entitled to Carer’s Allowance do not receive it because they have other income, or it is an overlapping benefit. A large number of those not entitled to Carer’s Allowance, (36,820) are State Pensioners (DWP online b). As things currently stand, only 57,310 carers would benefit from an increase in Carer’s Allowance. If under 25s were excluded from the increase in Carer’s Allowance, to match with Jobseeker’s Allowance, then the number of carers likely to benefit from the increase would be 54,490, just over half of the carers entitled to Carer’s Allowance.

Nicola Sturgeon MSP, the Deputy First Minister, gave evidence to the Welfare Reform Committee on 12 August 2014 on the Expert Working Group’s Report. She was asked by Jackie Baillie MSP about the number of carers who would benefit from the proposed increase in Carer’s Allowance,

“**Jackie Baillie:** I join the Deputy First Minister in welcoming the efforts of the members of the expert group on welfare. I want to pursue carers allowance first. I think that the press release from the Scottish Government indicated that 102,000 people would benefit. Ken Macintosh has set out that the reality is that fewer would benefit, as some people in receipt of carers allowance will not receive it because it is offset against other benefits. Will the Deputy First Minister confirm that the actual figure for those who would benefit is 57,000?”
Nicola Sturgeon: I am more than happy to look at what Jackie Baillie is putting to me and to reply to her in writing on the detail of it. I would hope that there would be an agreement here that raising the level of carers allowance is the right thing to do, but there are other aspects of how carers allowance interacts with the benefits system that we require to look at, because the intention here is to help people who are eligible for carers allowance”. (Scottish Parliament Welfare Reform Committee 2014c)

Table 3: Numbers of claimants entitled to/in receipt of Carer’s Allowance in Scotland, by age, November 2013

<table>
<thead>
<tr>
<th>Age of claimant</th>
<th>Total</th>
<th>Entitlement only</th>
<th>Receiving payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>102,930</td>
<td>45,620</td>
<td>57,310</td>
</tr>
<tr>
<td>Under 18</td>
<td>160</td>
<td>10</td>
<td>140</td>
</tr>
<tr>
<td>18-24</td>
<td>2,830</td>
<td>160</td>
<td>2,680</td>
</tr>
<tr>
<td>25-29</td>
<td>3,790</td>
<td>220</td>
<td>3,570</td>
</tr>
<tr>
<td>30-34</td>
<td>5,580</td>
<td>350</td>
<td>5,230</td>
</tr>
<tr>
<td>35-39</td>
<td>6,310</td>
<td>390</td>
<td>5,920</td>
</tr>
<tr>
<td>40-44</td>
<td>8,690</td>
<td>620</td>
<td>8,070</td>
</tr>
<tr>
<td>45-49</td>
<td>9,690</td>
<td>860</td>
<td>8,830</td>
</tr>
<tr>
<td>50-54</td>
<td>9,500</td>
<td>1,030</td>
<td>8,470</td>
</tr>
<tr>
<td>55-59</td>
<td>9,500</td>
<td>1,190</td>
<td>8,300</td>
</tr>
<tr>
<td>60-64</td>
<td>9,000</td>
<td>3,950</td>
<td>5,050</td>
</tr>
<tr>
<td>65 and over</td>
<td>37,870</td>
<td>36,820</td>
<td>1,050</td>
</tr>
</tbody>
</table>

Source: DWP online b

Personal Independence Payment

- The Scottish Government proposes to halt the further roll out of Personal Independence Payment.
- The Expert Group recommended that the Scottish Government should commission an independent review of Personal Independence Payment and seek to replace Disability Living Allowance and Personal Independence Payment with a new benefit for disabled people.

Disability Living Allowance for working age people aged 16 to 64 is being replaced by Personal Independence Payment under the welfare reforms. Both are non-means tested and payable to people whether in or out of work. Disability Living Allowance was available to anyone under the age of 65 with a disability and who needed help getting around and/or with supervision or attention needs. Since June 2013, Disability Living Allowance has been replaced by Personal Independence Payment for all new working age claimants. This new benefit is for those who need help getting around and/or help with daily living activities. Following delays to the timetable, existing Disability Living Allowance working age claimants’ reassessment for Personal Independence Payment is scheduled to start in October 2015, and expected to be completed by December 2018 (Kennedy, 2014b).

UK Government figures show that expenditure on Disability Living Allowance for people of working age in Scotland in 2012/13 was £821m (DWP online a). In November 2013, there were 202,080 working age people entitled to Disability Living Allowance in Scotland (DWP online c).
Research commissioned by the Welfare Reform Committee on the impact of welfare reform in Scotland estimated that 55,000 people will lose out as a result of the changeover from Disability Living Allowance to Personal Independence Payment with an average loss of £3,000 a year (Beatty and Fothergill 2013). The Scottish Government has recently published its own analysis of the financial impacts of welfare reform on disabled. It estimates the different financial impacts depending on the rate of Personal Independence Payment an existing Disability Living Allowance claimant is assessed as needing, for example,

“Approximately 47,000 fewer disabled people in Scotland are expected to receive the PIP enhanced rate mobility component than would have received the equivalent DLA component if DLA were not replaced by PIP. If these claimants receive the PIP standard rate mobility component instead, they face a loss of income of around £35 per week (£1,820 per year), while if they lose all eligibility for the mobility component, they face a loss of income of around £57 per week (£2,964 per year)” (Scottish Government 2014c).

In the White Paper, the Scottish Government said that an immediate priority following independence would be to halt the further roll out of Personal Independence Payment. More detailed proposals for longer term welfare reform will depend on the state of the welfare system on independence (Scottish Government 2013a).

The Expert Group recommended that, following independence, the Scottish Government should commission an independent review of Personal Independence Payment and seek to replace Disability Living Allowance and Personal Independence Payment with a new benefit for disabled people. It proposed that the review would start at the beginning of 2015 and aim to deliver recommendations by Spring 2016 in time for the first elections to an independent Scottish Parliament.

“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.”

The remit for the review is broader than the current scope of Disability Living Allowance and Personal Independence Payment, which are benefits for disabled people to help them with extra costs, eg paying for transport or care at home. It is the Employment and Support Allowance that provides financial support to sick or disabled people who are unable to work.

As with the Work Capability Assessment (below), the Expert Group referred to problems with the new Personal Independence Payment assessments and suggested that an interim set of arrangements should be put in place before a new system is established.
Work Capability Assessment

The Scottish Government has proposed abolishing the current Work Capability Assessment.

The Work Capability Assessment was introduced to assess entitlement to Employment and Support Allowance which replaced Incapacity Benefit. It was introduced for new claimants in October 2008. Between October 2010 and Spring 2014, anyone receiving Incapacity Benefit, Severe Disablement Allowance and Income Support paid on the grounds of illness or disability would have had a Work Capability Assessment and a move to Employment Support Allowance or other benefits. There are still outstanding cases as a result of Work Capability Assessment backlogs (House of Commons Work and Pensions Committee, 2014).

Flaws in the system have been well documented. For example, there has been a large number of successful appeals against decisions that claimants are 'fit for work'. Various changes have been made to the Work Capability Assessment following internal reviews and recommendations. The Work Capability Assessment is currently undergoing its fifth review (DWP 2014 d). An analysis of the earlier reviews and criticisms is available in Kennedy (2012).


“The flaws in the existing ESA system are so grave that simply "rebranding" the WCA by taking on a new provider will not solve the problems: a fundamental redesign of the ESA end-to-end process is required, including its outcomes, and the descriptors used in the WCA. This will be time-consuming and complex but the redesigned ESA assessment process needs to be in place by the time a completely new contract, involving multiple providers, is tendered in 2018.

This redesign needs to focus on what the purpose of ESA is—helping people move back into work where this is possible. It should ensure that the health barriers to employment that an individual faces are properly identified, and that employment support needs are effectively evaluated. Work-related conditionality and employment support should then be matched to the identified employment barriers and tailored more closely to individual circumstances.

As part of this process, DWP should reintroduce an assessment of health-related employment barriers now, and then incorporate this type of assessment into the redesigned ESA process.”

The UK Government has yet to formally respond to this report.

The Scottish Government’s White Paper referred briefly to the Work Capability Assessment and said that disabled people had lost faith in assessments. The Expert Working Group described the Work Capability Assessment as “not fit for purpose”, and recommended it be scrapped and replaced with a new approach to assessment. The Group also recommended the establishment of a new ‘Work Opportunities Service’ to provide advice on jobs available.
for disabled people who are ready for work. In response the Expert Working Group the Scottish Government said that, following “a vote for independence, it would “abolish the current Work Capability Assessment” straight away (Scottish Government 2014a).

HOUSING BENEFIT

The immediate priorities of the Scottish Government following independence would be to:

- abolish the "bedroom tax" within the first year of the first independent Scottish Parliament. The paper estimates that the cost of abolishing the "bedroom tax", at around £50 million per annum, is less than the overall harm it does directly to the Scottish economy (£50 million per annum plus one-off losses of £29 million).
- restore Housing Benefit as a separate benefit and maintain direct payments to social landlords.

The White Paper costings of £50m for the abolition of the “bedroom tax” are based on early survey evidence of the numbers affected by the reform. As previously outlined, the most recent data, for May 2014, indicates around 71,000 households in Scotland have an average reduction of £11.26 a week made to their Housing Benefit because of the “bedroom tax”. This would suggest that the cost of abolishing the “bedroom tax” could be lower at around £43m, although there will also be some tenants who no longer receive Housing Benefit because their “bedroom tax” reduction means they “slip off” the benefit entirely. The cost of abolishing the “bedroom tax” represents a very small proportion (2.4%) of current Housing Benefit expenditure in Scotland.

Commenting on these proposals the IFS said this would,

“…return Scotland to a system where social tenants are treated more generously than private sector tenants. (Private sector tenants have long been only able to claim an amount based on the number of bedrooms they are deemed to need.) Having said that, the Scottish Government is already funding a version of this policy via discretionary housing payments to those affected by ‘the “bedroom tax”’; it would make more sense to restore the full value of standard Housing Benefit formally than to continue with such an ad hoc scheme in an independent Scotland” (Philips and Tetlow 2014).

In relation to the proposals to keep Housing Benefit as a payment paid directly to landlords, the IFS also suggest that this,

“…may also have some benefit for those tenants who struggle to manage their money and, through fewer problems with rent arrears, for their landlords. But if it were kept as a separate payment, it would be important for it to be properly integrated into the rest of the benefit system – otherwise it could create unnecessary complexity for claimants and may adversely affect work incentives” (Philips and Tetlow 2014).

In the longer term, the Scottish Government would also maintain Housing Benefit as a separate payment and would “…aim to ensure greater integration between policies on housing supply and housing benefit support”. However, the White Paper does not provide any detail about how this would be achieved, or what the financial implications would be.
The Scottish Government propose uprating working age benefits and tax credits in line with CPI inflation rather than a flat rate of 1%.

Both the White Paper and the Expert Working Group agree that a link between benefit levels and the general cost of living should be re-established and propose that all benefits and tax credits should increase in line with the consumer price index of inflation rather than the flat rate of 1%.

Since April 2013, there have been two main factors used to increase benefits. Benefits received by disabled people and pensioners will increase in line with the Consumer Price Index (CPI) of inflation (1.9% in June 2014). Below inflation uprating of 1% has been applied to working age benefits for period of three years. These benefits include Jobseeker’s Allowance, Employment and Support Allowance, Statutory Sick Pay and Statutory Maternity Pay, tax credits for working age people, and Housing Benefit applicable amounts. Universal Credit earnings disregards and certain Universal Credit elements are also to be limited to a 1% increase for 3 years.

This 3 year inflation cap was instigated in light of the “general economic conditions” and is part of the Government’s aim to “ensure the overall affordability of the welfare system. The Chancellor of the Exchequer said that it was “not fair to working people” that out-of-work benefit rates had increased by 20% since 2007 while average earnings had risen by only around 10%” (HM Government 2012 para 1.55).

A decision to limit increases in benefits to below inflation for a sustained period is historically unprecedented. If inflation averages more than 1% over the three years, families claiming the benefits and tax credits affected will experience a permanent real terms reduction in the support they receive (Kennedy, Cracknell and McInnes 2013). The Impact Assessment for the uprating Bill estimated that around 30 per cent of all households will be affected, including the majority of working age households in receipt of state support who will experience an average reduction of around £3 a week compared to CPI up-rating (DWP 2013a).

The Impact assessment states that lower income households are more likely to be affected and have a slightly higher average reduction because they are more likely to receive the affected benefits. Overall, the impact assessment estimates that savings to the UK Government will be around £1.1bn in 2014/15 and £1.9bn in 2015/16 in cash terms. These savings will continue into the future and are expected to gradually increase in cash terms. The Resolution Foundation estimates that around 60% of the cuts associated with the 1% uprating will fall on working households (Resolution Foundation 2012).

Poverty campaigners (CPAG 2013) have argued that failing to uprate benefits in line with inflation will increase absolute child poverty, relative child poverty and the material deprivation of children. They have also argued that the Welfare Reform Up-Rating Act 2013 fails the ‘Fairness Test’ in regard to income distribution as the greatest burden is being put on the poorest in society. The uprating changes can also be expected to further widen the disparity in the benefits system between the proportion of welfare spent on pensioners and those of working age (Kennedy, Cracknell and McInnes 2013).

Although the disability benefits will continue to rise with CPI, disabled families may also be receiving the main tax credit elements as well as the “personal allowances” in means-tested benefits which will be limited to 1%. Furthermore, the “Work-Related Activity Component” of Employment Support Allowance, together with the “limited capability for work” element and
the lower rate addition for disabled children in Universal Credit, will also be limited to 1% increases over the next three years (Kennedy, Cracknell, McInnes 2013).

The uprating of the State Pension and Pension Credit is different, and discussed in the next section.

STATE PENSION

The State Pension is the largest single benefit, amounting to over a third of total spend. The UK Government is in the process of reforming various aspects of the State Pension. The Scottish Government proposes to implement current UK Government reforms but with key differences. In Scotland, under independence, the new Single Tier Pension would

- be paid at £160 per week, or match the UK rate if higher
- continue to allow claims based on a partner’s pension for a further 15 years
- uprate both the new Single Tier and existing basic state pension using the ‘triple lock’ in the first parliament (the three main UK parties also support the triple lock on pensions)

Pension age would increase to 66, but the timetable for further increases would be considered by a Commission.

Much of the argument about pension reform relates to demographic forecasts of an ageing population and in relation to the independence referendum there has also been concern about the interaction of UK and Scottish pension schemes (see for example ICAS, 2014). For a summary of these issues and proposals for private and public sector pensions see SPICe Briefing 14/43 (Burnside 2014). The following focuses on the structure of the State Pension.

Current State Pension

In the current system, the full basic State Pension is paid to those over state pension age who have made 30 years of national insurance contributions. In 2014/15 it is worth £113.10 per week. People who have less than 30 years of contributions are paid a lower amount. In addition, there is an earnings related ‘Additional State Pension’, People can choose to contract out of this additional pension in return for lower national insurance contributions. A person can claim a pension based on their partner's national insurance record. This reflects the time when married women were very unlikely to build up a pension entitlement in their own right.

Reform of State Pension

The UK Government is progressively raising the age at which people will receive a State Pension and is also combining the basic state pension and state second pension into a new, Single Tier Pension.

6 i.e. by the highest of 2.5%, average earnings or CPI inflation.
7 the Graduated Retirement Benefit introduced in 1961, replaced first by SERPS in 1975 and then by the Second State Pension in 2010
Pension Age

By November 2018, the state pension age for women will be the same as that for men - 65. The state pension age for both men and women is then planned to increase to 66 by 2020 and 67 by 2028. In his 2013 autumn statement, Chancellor George Osborne said that, “Based on latest life expectancy figures, applying that principle would mean an increase in the state pension age to 68 in the mid 2030s and to 69 in the late 2040s” (HM Government, 2013).

Like the UK Government, the Scottish Government proposes to increase the state pension age to 66 by 2020. However, the Scottish Government has argued that the difference in average life expectancy in Scotland compared to the UK average may warrant a delay. It has therefore proposed a commission to consider the timetable for further increases, which would report within two years of independence (Scottish Government 2014d).

The Westminster Scottish Affairs Committee's report on welfare and pensions (2014) recommended that, rather than delaying, the Scottish Government should state now whether it would increase the pension age to 67, arguing that all the required information was available for a decision to be made.

Single Tier Pension

For those reaching pension age from April 2016, the UK Government plans to combine the basic state pension and the state second pension into a single scheme - the Single Tier Pension. The main differences to the current pension are:

- requires 7 to 10 years of National Insurance contributions to qualify
- full pension requires 35 years of contributions
- there is no earnings related element
- cannot claim a pension based on a partner’s national insurance record
- individuals can choose to defer payment
- payments will be uprated at least in line with earnings, but with policy commitments to uprate ‘pensions’ by triple lock

Pension of £160 per week

The Scottish Government has proposed a Scottish state pension of £160 per week, which is higher than the expected level of the UK Single Tier Pension.

The UK Government will set the amount of the new single tier pension in Autumn 2015 using regulations in the Westminster Parliament. It is to be set above the level of Pension Credit ‘minimum guarantee’ which is currently worth £148.35 in 2014/15. This is subject to annual uprating in line with earnings under the Pensions Act 2007, but for the past four years policy has been to provide a larger increase (Bardens and Cracknell 2013). The DWP has estimated every extra £1 per week that Scottish Single Tier Pension exceeds the UK pension would cost around an extra £50m in 20 years’ time (DWP 2014c).

Derived Entitlements

The UK Government is removing the ability of partners to claim a pension based on their partner’s national insurance record. The DWP has explained this change as one which reflects wider social change, arguing that “90% of individuals reaching state pension age between now and the introduction of the Single Tier Pension will be entitled to a full basic
state pension in their own right." (DWP 2014e) The Scottish Government also estimates that this policy will affect very few people, estimating that it would affect around 2,600 women (Scottish Government 2013d p.39). In response to the Scottish Government’s proposal to maintain this provision for a further 15 years, the UK Government has argued that, "to retain derived entitlement would be to retain a key source of complexity in the current system" (DWP 2014f).

**Uprating using the ‘triple lock’**

The Scottish Government has proposed to uprate both the Single Tier Pension and the Basic State Pension by the ‘triple lock’.

The legislation on the Single Tier Pension requires uprating by at least average earnings (Pensions Act 2014 schedule 12 para 21), (although the White Paper for pension reform (DWP 2013b) assumed that uprating would use the ‘triple lock’). The UK Government has had a policy of uprating the current basic state pension using the ‘triple lock.’ In January 2014, David Cameron said that the Conservative party would continue to 'triple lock' the ‘state pension’ until at least 2020 should they win the next UK election (BBC News 2014c). According to the same report, the Liberal Democrats and Labour have both supported a ‘triple lock’ on pensions. Labour leader Ed Miliband said, "We will set out our plans in the manifesto for all of our tax and spending proposals. That's the right time to do it but nobody should be in any doubt about my commitment to the triple lock on pensions."

**Table 4: Comparison of UK and Scottish Government state pension plans**

<table>
<thead>
<tr>
<th></th>
<th>UK Government</th>
<th>Scottish Government</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State pension age</strong></td>
<td>66 by 2020, 67 by 2028</td>
<td>66 by 2020 Review timetable for further increase</td>
</tr>
<tr>
<td><strong>Single Tier Pension from 2016</strong></td>
<td>Rate to be set in Autumn 2015, but will be higher than £148</td>
<td>£160 per week or match UK payment if higher</td>
</tr>
<tr>
<td>• Amount of payment</td>
<td>Statutory requirement to be at least in line with earnings, although main UK parties support the triple lock for ‘pensions’.</td>
<td>Triple lock in first parliament</td>
</tr>
<tr>
<td>• Uprating</td>
<td>Remove current entitlement to receive partner's pension</td>
<td>Maintain current entitlement for first 15 years of the scheme</td>
</tr>
<tr>
<td>• Partner entitlement</td>
<td>Current policy of triple lock.</td>
<td>Triple lock in 1st parliament</td>
</tr>
<tr>
<td><strong>Basic State Pension</strong></td>
<td>Current policy of triple lock.</td>
<td></td>
</tr>
</tbody>
</table>
OTHER PENSION AGE BENEFITS

The Scottish Government would:

- uprate Pension Credit guarantee element using the triple lock
- retain the ‘savings element’ which the UK Government is abolishing, and uprate it by average earnings

Pension Credit is entirely separate from the State Pension and is a means tested benefit paid to people on low incomes which does not require a history of national insurance contributions. It is made up of two elements – the guarantee element (currently worth up to £145 per week for a single person) and the savings element (worth up to £16.80 per week for a single person). Whereas the State Pension represents 38% of welfare spend, Pension Credit represents only 4%.

As Pension Credit acts as a ‘top up’ to the existing State Pension, setting the new Single Tier Pension above the level of the guarantee element of Pension Credit will reduce the number of people entitled to Pension Credit.

The Scottish Government proposes to increase the guarantee element by the ‘triple lock’. In the UK, the statutory requirement is uprating in line with earnings, but as mentioned above, in recent years it has been increased above this amount. For example, in 2013 average earnings increased by 1.6% but Pension Credit guarantee for 2014 was increased by 2% (Barden’s and Cracknell 2013). In ‘Pensions in an Independent Scotland’, the Scottish Government states that,

“Moving to the triple lock would increase costs in the long run, with the cost increases dependent on the path of earnings growth and inflation. In the short-run to 2017-18, this policy is unlikely to increase costs compared to the current situation (uprating by earnings), as the earnings growth forecast is above the CPI forecast.”

There is also the savings element of Pension Credit. This is also means tested, worth up to £16.80 a week (for a single person) and is available to people who have qualifying income (such as a pension) above £120 a week (for a single person). In February 2014, there were 172,000 people in Scotland receiving the savings element of Pension Credit. Of these, 106,700 were also receiving the guarantee element (DWP online d).

The UK Government is abolishing the savings element but the Scottish Government would keep it and uprate it by earnings. The DWP impact assessment states,

“As the single-tier pension will be set at a rate that is above the basic level of means-tested support there will no longer be a need for a complex savings reward: removing Savings Credit for single-tier pensioners will simplify means-tested support and help to ensure Pension Credit is re-focused on providing a safety net targeted at the poorest and most vulnerable” (DWP 2014e).

As chart 1 shows, £688m was spent on Pension Credit in 2012/13. The DWP has estimated that retaining the savings element of Pension Credit would cost a Scottish Government an extra £3m in 2017/18 rising to an extra £262m by 2042 (2012/13 prices) (DWP 2014c).

Other benefits specifically for those over pension age include:
• Attendance Allowance (2.8% of all welfare spend)
• Over 75 TV Licences (0.3%)
• Winter Fuel Payments (1.1%)

In *Pensions in an Independent Scotland*, the Scottish Government says that: "Free TV licenses for the over 75s would also be retained, as would winter fuel payments" (Scottish Government 2013d).

## TRANSITION TO AN INDEPENDENT WELFARE SYSTEM

The White Paper stated that the period between the referendum and independence would see negotiations with the rest of the UK and with the EU and other international partners and organisations. It is the Scottish Government’s aim that following these preparations and negotiations, Scotland would assume the status of an independent country on 24 March 2016.

The White Paper and the Expert Group note that much of the infrastructure for processing benefit payments already exists in Scotland. For example, claims for Jobseeker’s Allowance, Employment and Support Allowance, Income Support and Incapacity Benefit made by people living in Scotland are processed in Scotland. However, a number of other benefits claimed by people living in Scotland are processed in England (see Annex B for further detail). The majority of the DWP corporate functions are also based in England. The DWP Scotland analysis paper (2014f) states that,

> “An independent Scottish state would need to establish its own employment support mechanism, benefits and tax credits system and pensions framework. In doing so it would need to ensure continuity of payments and service for claimants in Scotland who rely on the social security system during any transitional period. There would be implications for all DWP and HMRC staff based in Scotland and for providers of services on behalf of these Departments.”

The White Paper envisions that a Scottish system of delivering benefits in the future, including benefit related health assessments, would be in the public sector and that those in receipt of benefits, would play a central role in its design through the establishment of a National Convention (discussed below).

## SHARED ADMINISTRATION

The Expert Group recommended in its first report (2013) that there should be an initial transitional period of shared administration for delivery of benefit payments. It argued that this would be in the common interest of both countries and that it would be underpinned by an obligation to ensure continuity of service to benefit claimants across the nations of the United Kingdom. It considered that formalising the current arrangements into an agreed set of shared services would safeguard delivery.

The Expert Group stated that to maintain services for benefit claimants in Scotland,

> “…the Scottish Government would need to agree continued access to IT and other systems presently owned, operated and maintained by the UK Government and/or third party suppliers. It may also need to add some specialist skills to the DWP’s Scottish operations which are currently provided by the UK, such as actuarial, IT and project management. The picture painted is complex.”
The White Paper stated that this makes sense in the short term. However, it proposed that such a system of shared administration would last only until 2018 and be organised in such a way that would:

- allow the first government of an independent Scotland to introduce its priorities for change from 2016
- allow that government to begin the work towards creating a welfare system that better reflects Scotland’s priorities

It proposed following the Expert Group’s recommendations and would seek agreement with the Westminster Government in the transitional period to cover:

- the term of the agreement and arrangements for varying that term
- the services each government will provide to citizens
- the financial arrangements for providing those services
- data sharing and record keeping
- contracts, leases and all third party arrangements

The DWP’s Scotland Analysis (DWP 2014f) says it is “highly unlikely” the UK would agree to share its delivery services with an independent Scotland, since it is “…hard to see how this would be beneficial to the continuing UK.” Any sharing arrangement would require detailed negotiation and the UK Government would “…focus on the needs of its own citizens and maintaining its effective, efficient and robust system delivering UK Government policies, and the continuation of the delivery of its programme of reform.”

The UK Government also rejects the idea that a Scottish Government in an independent state could pursue different policy objectives while sharing IT systems and services as,

“Doing so would require the prioritisation of changes desired by the government of an independent Scottish state over the needs of the UK Government. And reconfiguring the current system to meet the demands of two governments with different policies would introduce additional costs and risks. This would not be in the interests of the government of the continuing UK. The UK Government would do nothing to put at risk the continuity of payments to its own citizens and would not be prepared to incur significant costs to change IT systems”.

Longer term, the UK Government envisages that an entirely separate Scottish delivery organisation “…would lose the advantages of potential economies of scale offered by the current system. Under the current approach, for example, work can be moved around the DWP network to smooth peaks and troughs where necessary to provide the best and most efficient service”.

A report by the Scottish Affairs Committee, *The Referendum on Separation for Scotland: Implications for Pensions and Benefits* (2014) also questioned the assumption that the UK could run two parallel welfare systems in a transition period and deemed this proposal unfeasible. It highlighted evidence that the process of establishing a new welfare system will be difficult, costly and take many years. As such, it does not believe that the interim changes proposed by the Scottish Government could be made in the timescale set out.

Further discussion of this issue in the longer term and how it relates to the European Union is available in a House of Commons Library Standard Note ‘Impact on the UK of Scottish independence: social security and tax credits’ (Kennedy 2014c).
The creation of a National Convention on Social Security is a recommendation by the Expert Working Group which has been accepted by the Scottish Government. Its aim would be to bring together all stakeholders involved in the development and implementation of a social security system in an independent Scotland to consider, amongst other issues, the Group’s draft ‘Social Security Partnership’ Agreement. The proposed ‘Social Security Partnership’ is essentially a contract setting out what individuals, employers and the state should legitimately expect and how they all can interact to create a social and economic system that works for everyone. A draft can be found on page 36 of the Expert Working Group’s second paper.

The Scottish Government has committed to establishing the Convention in 2015 with a view to publishing its report before the first elections to an independent Scottish Parliament.

Both the White Paper and the Second Expert Working Group report also make a range of additional proposals and recommendations for the medium and long term.
ANNEX A: SCOTTISH GOVERNMENT RESPONSE TO THE EXPERT WORKING GROUP

The Expert Working Group produced its second report in June 2014 ‘Re-thinking Welfare: Fair, Personal, Simple’. It considered the principles which could underpin the welfare system in an independent Scotland, policy propositions for working-age benefits and where relevant the cost and delivery implications. It concluded with a wide ranging set of recommendations for a welfare system in an independent Scotland. The Scottish Government responded to the recommendations in a press release on 4 June 2014 (Scottish Government 2014a) which stated that it would:

• Increase Carer’s Allowance to £72.40 per week, the same rate as Jobseeker’s Allowance for those aged 25 or over. This would amount to an extra £575 a year for the 102,000 people in Scotland who are currently eligible to claim the allowance.
• Re-establish the link between benefits and the cost of living, with benefits and tax credits being increased each year by the Consumer Prices Index of inflation.
• Abolish the “bedroom tax”.
• Replace the current system of sanctions with one that is fairer, more personalised and positive.
• Abolish the current Work Capability Assessment that determines the ability to work of the sick and disabled.
• Establish a National Convention on Social Security at the start of 2015.

The Government will also carefully consider the Group’s other recommendations. These include:

• Increasing the National Minimum Wage to equal the Living Wage and with reductions in Employers’ National Insurance contributions to help businesses make this transition.
• Replacement of the Work Programme with new initiatives developed in partnership with those out of work to help them find, and stay in, employment.
• Introducing a new Social Security Allowance that would bring together existing benefits but which would exclude Housing Benefit.
• Better supporting those with long-term disabilities and illness into work.
ANNEX B: WELFARE BENEFITS DELIVERY INFRASTRUCTURE

The following table taken from the first Expert Working Group Report shows where Scotland currently delivers benefits to claimants based in Scotland, where Scotland currently delivers benefits to claimants based in England, and where England currently delivers benefits to claimants based in Scotland.

<table>
<thead>
<tr>
<th>Benefit Type and Delivery</th>
<th>Scotland &gt; Scotland</th>
<th>Scotland &gt; England</th>
<th>England &gt; Scotland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobseekers Allowance</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Employment and Support Allowance</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Income Support</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Incapacity Benefit</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>State Pension</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Pension Credit</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Attendance Allowance</td>
<td>✗</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Disability Living Allowance</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Carers Allowance</td>
<td>✗</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Child Maintenance</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
</tr>
</tbody>
</table>
## ANNEX C: KEY DOCUMENTS

### PRO-UNIONIST PARTIES DOCUMENTS

<table>
<thead>
<tr>
<th>Report</th>
<th>Date</th>
<th>Main content</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Powers for a Purpose – Strengthening Accountability and Empowering People</strong></td>
<td>March 2014</td>
<td>The Scottish Labour Devolution Commission was tasked to take forward Scottish Labour’s position on devolution. The report sets out the Labour Party’s position as a party of the union and devolution. Backs increased tax-varying powers and control over some elements of welfare and benefits policy.</td>
</tr>
<tr>
<td><strong>Commission on the Future Governance of Scotland</strong></td>
<td>May 2014</td>
<td>The Scottish Conservatives commissioned Lord Strathclyde to chair a group to provide a Unionist perspective on devolution and to produce ideas for that could be brought forward in a Conservative manifesto for Scotland in the General Election of 2015 and beyond to the Scottish Parliamentary elections in 2016.</td>
</tr>
<tr>
<td><strong>Federalism: the best future for Scotland. The report of the Home Rule and Community Rule Commission of the Scottish Liberal Democrats</strong></td>
<td>March 2014</td>
<td>Sir Menzies Campbell MP chaired the Home Rule and Community Rule Commission. The proposals include giving the Scottish Parliament control over about two thirds of its tax-raising powers, including setting its own income tax rates. Common wide UK-wide policies such as foreign affairs, defence, pensions and VAT would be shared, overseen by a federal parliament. Also proposed enhanced fiscal and policy-making powers for local government.</td>
</tr>
</tbody>
</table>

### DOCUMENTS ON INDEPENDENCE

<table>
<thead>
<tr>
<th>Report</th>
<th>Date</th>
<th>Main content</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scottish Government Expert Working Group 1st Report</strong></td>
<td>May 2013</td>
<td>The Expert Working Group on Welfare and Constitutional Reform was commissioned by the Scottish Government 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.</td>
</tr>
<tr>
<td><strong>Pensions in an Independent Scotland</strong></td>
<td>Sep 2013</td>
<td>Includes details on proposals for the state pension.</td>
</tr>
<tr>
<td><strong>Scotland’s Future</strong></td>
<td>Nov 2013</td>
<td>Scottish Government White Paper on Independence</td>
</tr>
<tr>
<td><strong>Re-thinking Welfare: Fair, Personal, Simple</strong></td>
<td>June 2014</td>
<td>The report considers the principles which could underpin the welfare system in an independent Scotland, policy propositions for working-age benefits and, where relevant, the cost and delivery implications.</td>
</tr>
</tbody>
</table>
SOURCES


RELATED BRIEFINGS

SB 13-17 Passported Benefits (562KB pdf)
SB 13-54 Scottish Welfare Fund (499KB pdf)
SB 15-50 Housing Benefit Statistics (2174KB pdf)

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