Dear Duncan,

Thank you for your letter of 26 March, I am sorry that due to UK Parliamentary business I was unable to attend the Committee session. I am very happy to respond to the questions that you set out in your letter and I hope the information attached here is useful to your Committee’s work. As you will be aware, both I and my predecessor have always sought to attend sessions of your Committee and provide information relating to the strengthening of the Scottish Parliament within the United Kingdom, which was the mandate given to us all following the clear referendum result in September last year. I am sure that the next administration will wish to continue this constructive relationship.

As you know, the Scotland Office has been leading an extensive programme of stakeholder engagement related to the clauses and the Command Paper. That work is ongoing and, while the civil service will shortly go into purdah ahead of the general election, work in this area will continue. Further, once the Bill is in Parliament there will be the normal process of parliamentary scrutiny. Any legitimate issues raised will be addressed by the UK Government in this process. We recognise the speed at which this work has been undertaken and that no one can claim a monopoly of wisdom. We remain open to suggestions from your Committee, the Scottish Government or any other quarter about how the historic agreement reached by the parties in the Smith Commission might be implemented.

Before I turn to your questions, I would like to take this opportunity to reiterate that the Smith Commission established in the immediate aftermath of the referendum was a remarkable achievement, seeing as it did the involvement of all five of Scotland’s main political parties for the first time in the history of devolution. Together the parties debated and considered a wide range of issues, heard from many organisations and individuals across Scotland and crucially reached unanimous agreement on the terms of the Commission’s final report. The UK Government committed to turning the Heads of Agreement into draft clauses by 25 January, and we met that deadline. We now look forward to the full Bill being introduced and delivered in the UK Parliament following the General Election.
Taking each of your areas of questioning in turn:

Welfare

In your letter you ask a series of questions about the draft clauses relating to welfare.

At the outset it is important to note that it is this Government’s view that the draft clauses do meet both the substance and the spirit of the Smith Commission, however we recognise there are some areas where the Scottish Government have a different interpretation of the Smith Commission recommendations and we encouraged the Scottish Government to provide comments at official level on both technical and policy views on the draft clauses. In addition we initiated the establishment of a Joint Ministerial Working Group on Welfare to allow the detail of these issues to be discussed. That Group has met twice since publication of the draft clauses. This Group serves not only as a forum to discuss the clauses, but also crucially the detailed operational and policy requirements that the Scottish Government will need to develop in order to take on these substantive new powers. DWP officials have arranged a series of workshops and are exchanging information with officials in the Scottish Government who will need to learn about the existing schemes, in order to develop the capacity to consider alternatives and identify options for operational delivery. This is very similar to the exercise conducted between HMRC and Scottish Government officials as a result of the Scotland Act 2012, where new skills and IT capability were required to be developed by the Scottish Government. Now, as then, the UK Government stands ready to provide the information and support necessary to enable the Scottish Government to take on these areas of responsibility in a successful way.

You ask specifically about the definition of a carer and of disability in the draft clauses and the payment of a DLA/PIP replacement to the terminally ill. On 23 March the Secretary of State for Work and Pensions wrote to you setting out a response to these and a number of other questions relating to the welfare clauses. The Secretary of State’s letter also addresses the points you raise about employment support and the focus on the long-term unemployed. I am attaching a copy of the Secretary of State’s letter and in this letter I will focus on addressing those areas not covered by that response.

Your letter makes reference to the power to make discretionary payments. As the Committee will be aware, the Scottish Government already has the power to make payments to people in devolved areas such as health and education – no change in powers is required to enable the Scottish Government to do this if they wished, and if they could identify the resources to do so. Clauses 16, 17 and 19 will enable the Scottish Parliament to replace benefits and payments for which powers are being devolved with any of its own design as long as they specifically relate to areas of welfare responsibility that are devolved. This will enable the Scottish Government to introduce new benefits or payments in devolved areas of competence, tailored specifically to local circumstances. In addition Clause 18 will provide the Scottish Parliament with the power to legislate for discretionary payments to people in any area of welfare. This means Scottish Parliament will be able to set up a system to identify where there is a risk to the well-being of an individual and for a payment to be made to that person to address this short-term need.
You refer to a so called ‘veto’ power. You will of course be aware that the UK Government does not agree with the use of this term. As we set out in the draft clauses, the Command Paper and on the day of publication, there is no veto. The clauses are quite clear that the Secretary of State will not unreasonably withhold his consent; the provision simply recognises the fact that Universal Credit will remain a reserved benefit administered by the UK Government – something that was agreed and signed up to by all parties to the Smith Commission – and as a result there is a need to ensure that Scottish Government proposals can be delivered effectively as part of an integrated delivery plan. This drafting mechanism simply reflects the reality of the close inter-governmental working that will be required, and I have every confidence that officials in both Governments will be able to work together constructively in practice.

Finally in this section you raised the question of mechanisms to be put in place to ensure Scottish Parliamentary scrutiny can take place. I have received a similar question from the Public Audit Committee and attach my response to them for your information.

**Taxation and Borrowing**

You highlight the need for close inter-governmental engagement on taxation matters; that is something on which I am sure we can all agree. The Commission’s report set out Lord Smith’s personal recommendations and the areas of agreement between all the parties, including on inter-governmental working. We expect that implementing those recommendations and agreements will form a central part of our wider work on Smith going forward and as I detail later in this letter, work on this is already underway with officials having begun a constructive dialogue around revising inter-governmental relations and working practices, and ways in which these might be improved. However, you highlight in this context the recent changes introduced by this Government relating to Stamp Duty, stating that this Government’s change of policy necessitated a change to the Land and Buildings Transaction Tax soon to commence operation by the Scottish Government. I do not agree with this assessment, indeed I find it rather curious. It is an inherent part of devolution that there can be different policies on devolved areas between Devolved Administrations and the rest of the United Kingdom. Indeed if there were not to be the opportunity to make policy changes, it might beg for some the question as to why a particular issued needed to be devolved. The decisions relating to the Land and Buildings Transaction Tax are entirely a matter for the Scottish Government; if they choose to change policy to bring it more in line with changes made by the UK Government, it is of course entirely open to them to do so. It is equally open to them to continue with their alternative policies. This kind of policy divergence is already a feature of the current devolution settlements and the Smith Commission will have noted it when determining which taxes should be devolved to the Scottish Parliament.
Turning to the assignment of VAT I can confirm that VAT assignment will link the Scottish Government’s budget with economic activity in Scotland, providing incentives for growth. The amount of VAT to be assigned to the Scottish Government’s budget will be based on an estimated share of the total VAT generated in the UK. The Scottish Government will be assigned the first 10 percentage points of the estimated VAT revenue generated by standard rated economic activity in Scotland and the first 2.5 percentage points of the estimated VAT revenue generated by reduced rated economic activity in Scotland, with corresponding adjustments to the Scottish block grant. The inclusion of the 2.5 percentage points reduced rate element enables assignment of precisely 50% of Scottish VAT receipts on the basis of current VAT rates. The UK and Scottish Governments will need to agree a methodology for estimating how much of that VAT is generated by Scotland and how much by the rest of the UK. The UK and Scottish Governments will also need to agree the operating principles, including mechanisms for verifying that the methodology has been applied correctly and how any adjustments might be carried out and arrangements for audit and transparency, including publication of results.

You ask a number of questions relating to borrowing. Additional borrowing powers will need to be agreed between the UK and Scottish Governments and will depend on the funding and fiscal framework which will be agreed between the UK Government and the Scottish Government. We will review further what primary and secondary legislative changes may be needed in light of an agreement on the overall Scottish fiscal framework, including additional independent scrutiny of the Scottish Government’s public finances.

Crown Estate

You make reference to the ability of the Crown Estate in the rest of the UK to continue to invest in Scotland after the transfer scheme has been exercised. The Smith Commission did not suggest that the remaining Crown Estate should be prohibited from making future investments in Scotland. In fairness, I do not think anyone had considered this at the time. I suspect that if they had done so then it would have featured in my first appearance before your Committee.

I am sure you will agree with me that one of the benefits of the United Kingdom is our single domestic market which makes it simple for people and organisations from one part of the United Kingdom to invest in another part of the United Kingdom. That applies to all investors, including institutional investors like the Crown Estate.

It is correct that, in theory, the Crown Estate will still be able to make commercial investments in Scotland as and when suitable investment opportunities arise just like any other business. Taking a different approach would be to turn away potential inward investment in Scotland. This has not, however, been a particular feature of the way that the Crown Estate has operated over the year.

Any future investments in Scotland by the Crown Estate would continue to be made in accordance with its commercially independent investment strategy which reflects the requirements of the Crown Estate Act 1961. The Act requires a commercial return to be secured from investments, but does not preclude joint investment with any fully compatible party.
The net revenue (profit) generated by the Crown Estate Commissioners in managing the Crown Estate is paid to Treasury and forms part of the UK Consolidated Fund. This arrangement would remain in place for revenues from any future investments, for the benefit of the UK as a whole, and would include any revenues from any future investments in Scotland made by the remaining Crown Estate.

The Government’s Command Paper and draft clauses on the further powers coming to Scotland, published on the 22 January, set out that it will remain possible for the Crown Estate to make investments in Scotland should the business identify commercial opportunities in line with its investment strategy. I would have thought that any concerns surrounding the management of any future assets acquired in this way would be capable of being addressed by the Scottish Government and the Commissioners. That would, in my view, allow the possibility of continued investment while allowing for any issues about accountability to be resolved.

You make particular reference to the Treasury’s discretion to make a scheme for devolution of the Crown Estate. The UK Treasury’s discretion to make the scheme is there in order to facilitate agreement between Scottish and UK Ministers. Draft clause 23 provides that the Treasury may not make a scheme without the agreement of the Scottish Ministers. The majority of the scheme should be non-contentious (it will simply transfer the management of the Scottish assets) but for those aspects which need to be negotiated we think it right that agreement is reached. The use of ‘may’ and the requirement for the consent of Scottish Ministers achieves that. No timescale has been included as it will first be necessary to have the legislation enacted and commenced, and the date of transfer will depend on many factors including the readiness of the transferee. Nonetheless, we are looking to implement the transfer as soon as possible after the Royal Assent subject to the preparedness of the Scottish Government.

A transfer scheme has been chosen for a number of reasons. Clause 23 in the Command Paper will operate to transfer all the Commissioners’ functions of managing the Scottish assets. It will enable the rights and liabilities which are transferring to be identified in detail so that the ‘starting point’ for the management of the Scottish assets in Scotland is made clear in a public manner. It will enable provision to be made for the protection of strategic UK assets. It will also enable the employment rights of those Crown Estate staff who are connected with the management of the Scottish assets to be protected. This is essential to ensure that the Commissioners are able to transfer a viable on-going enterprise to Scotland.

The Scotland Act 1998 is amended by clause 23. This amendment (to Schedule 5 to the Scotland Act 1998) dovetails with the transfer of the functions of managing the Scottish assets which the transfer scheme will effect. This means that the outcome, after everything is commenced, will be a clear entry in Schedule 5 as to the Crown Estate, and the transparency and necessary protections delivered by the terms of the transfer scheme.

The MoU will establish ways of working and common intent. However, it cannot provide the legal protection that defence, national security, strategic energy and telecommunications require - including not being legally binding on the signatories, nor on successors in title to management rights over Crown land.

In relation to your final query regarding the Crown Estate, the management of all the Crown Estate’s wholly-owned Scottish assets will be transferred under the transfer
scheme. This does not include Fort Kinnaird. The Crown Estate holds an interest in an English limited partnership which owns property in different parts of the UK including Fort Kinnaird in Scotland.

Inter-Governmental Relations

Your letter refers to the Smith Commission’s recommendation on the need to improve intergovernmental relationships, with particular reference to how this will work in the context of the no detriment principle set out by the Commission.

The UK Government and devolved administrations have acknowledged the need for change and are jointly committed to reviewing how relations between the different administrations operate. This work is already underway. Officials from all four administrations have begun a constructive dialogue around revising intergovernmental relations and working practices, exploring ways in which these might be improved and taken forward. I am sure this work will include consideration of the points raised by the committee, including transparency.

These discussions are continuing, though as the UK Parliament will shortly be dissolved ahead of the UK General Election, any decisions to change formal intergovernmental machinery will be for the incoming administration to address.

Constitutional Issues

In relation to the queries you raise about clause 1, as outlined in my previous correspondence Clause 1 expresses in law the understood position: that the Scottish Parliament and Government are permanent parts of the UK’s constitutional arrangements. There can never be any question: Holyrood is here to stay. In considering of what the Parliament should be a permanent part, it was important to reflect the will of people living in Scotland. They voted on the 18 September to retain a Scottish Parliament and remain part of the UK. The clause reflects this by recognising it, and a Scottish Government, as part of the “UK’s constitutional arrangements.”

Sewel Convention / Legislative Consent Memoranda

You ask particularly about the use of the word “normally” and phrase “it is recognised” in clause 2 on the Sewel Convention.

The Sewel Convention refers to the statement made by Lord Sewel during the passage of the Scotland Bill 1997/8 that he would “expect a convention to be established that Westminster would not normally legislate with regard to devolved matters in Scotland without the consent of the Scottish Parliament.”
As successive UK Governments have adhered to the Sewel Convention, the language that forms the basis of the Sewel Convention was adopted in the draft clause. For the same reason i.e. because of that adherence to the general principle, there has been no need to unpack the words “not normally”. It was not intended by Lord Sewel to carry a technical meaning and, similarly, the expectation is that the phrase in the clause will take its ordinary English language meaning. The draft clause published on 22 January places the Sewel convention on a statutory footing and therefore delivers the recommendation in the Smith Commission Agreement.

Equalities

You refer in your letter to clause 24 on Equal Opportunities. This draft clause delivers the Smith Agreement recommendation that the Scottish Parliament will have powers to introduce gender quotas in respect of public bodies in Scotland. On this, and all the clauses we have produced, we are considering any feedback we have receive as we refine the draft clauses.

Additional issues raised by the Smith Commission for consideration

Finally you raise the additional issues for consideration identified by the Smith Commission and progress on this work. As outlined in the Command Paper there have been a series of meetings between UK and Scottish Government officials across all the subjects in the Smith Commission Agreement, including issues that were raised as additional issues for consideration. I can confirm discussions between officials are on-going.

Yours ever,

Alistair

Rt Hon Alistair Carmichael MP
SECRETARY OF STATE FOR SCOTLAND
Devolution (further powers) committee

Thank you for your letter of 13 March following the Committee's February meeting where you considered the draft clauses relating to welfare. I am happy to provide clarification on the points raised in your letter and, more generally, to support the Committee in constructive working between our Governments.

Disability, Industrial Injury and Carer’s Benefits – use of definitions

With regards to the definitions of “Disability benefit” and “disabled person”, you mention differences between the definitions in clause 16 (Disability, industrial injuries and carer’s benefits) and the definitions in clause 22 (Employment support).

There are indeed differences in the proposed definitions, but the legislative and factual context of clause 16 is different from the context of clause 22. The two clauses are drawn up differently for the purpose of meeting differing issues of devolution.

Clause 16 transfers powers in terms of the recommendations of the Smith Commission set out at paragraph 49(1), that is, to devolve competence in relation to Attendance Allowance (AA), Carer's Allowance, Disability Living Allowance (DLA), Personal Independence Payment (PIP), Industrial Injuries Disablement Benefit/Allowance and Severe Disablement Allowance. These are all social security cash benefits. AA, DLA and PIP are “disability benefits” for the purpose of the clause, and the definition at clause 16(4) is intended to broadly define the primary characteristics of those benefits without being too prescriptive as regards any new benefits or services the Scottish Government may wish to introduce to replace them. The definition includes a provision to the effect that the adverse effects or needs arising from an individual’s health condition or disability – the common key feature to the benefits – must not be short-term, that is of a more or less transient nature; but the wording is not otherwise prescriptive.
Clause 22 follows the definitions of “disabled person” and “disability” used in the Equality Act 2010, which are generally speaking prescriptive in nature, that is to say, the person must have a physical or mental impairment that has a ‘substantial’ and ‘long-term’ negative effect on his or her ability to do things and undertake normal daily activities. “Long-term” in this regard is usually taken to mean 12 months or more, but some specific conditions such as a diagnosis of cancer or AIDS/HIV do not have to pass this test. Furthermore, the test under this heading is enabling, in the sense that it is concerned with providing assistance (namely, “employment support”) to certain groups, including disabled people, and hence “disabled” is defined broadly but with reference to the key piece of equalities legislation that is relevant to disabled people.

Putting this another way, clause 22 is not a provision concerning the kind of social security benefits covered by clause 16, so the definitions of “disabled person” and “disability” need not necessarily be tied in to those which apply for benefits purposes.

Furthermore, I assure you that under both definitions people with terminal cancer, MS or other fluctuating conditions, or who are terminally ill, would not be excluded from entitlement to either a disability benefit or employment support.

With regards support for carers, taken together with existing devolved powers in areas like social care, the clauses do ensure that the Scottish Parliament will have the powers to set out the way in which support is provided for carers, including the rate at which it is paid, whether it is paid as a benefit or whether support is provided in some other way, and there is also a very broad definition of the “disabled person” in respect of whom a carer’s benefit can be paid.

I believe we fully meet the intent and spirit of the Smith Commission report as far as the “structure and value” is concerned. There are many areas in which we have framed the clauses in a way which allows flexibility to the Scottish Parliament to depart from other eligibility rules in the existing benefits – to give just one example, the clauses do not require them to maintain the rule that Carer’s Allowance is only payable to one carer in respect of each disabled person. Thus the detail in the clause is to provide a structure within which the Scottish Parliament can work and reflects some long-standing principles about how people are supported in different circumstances.

Discretionary Payments/Discretionary Housing Payments

Your letter sought clarification on clause 18 which provides the Scottish Parliament with powers to make discretionary payments line with the recommendation made by the Smith Commission. Discretionary payments are not the same as benefits and as social security remains reserved more generally it is important to ensure that any
power for discretionary payments does not inadvertently allow for new benefits to be created in areas of welfare that have not been devolved. The clause has therefore been drafted to give the ability to make a payment in any area of welfare but without giving the ability to create benefits, hence the reference to meeting a 'short-term need' within the draft clause.

You sought clarification on the relationship between the draft clause 18 and the current exception to the social security reservation under which the Scottish Welfare Fund operates. The draft clause does broaden the current exception in that, as you noted, there will no longer be a requirement for a person's need to have arisen out of an exceptional event or circumstances. As such, a payment can be made to meet any need related to an individual's well-being as long as it does not create an ongoing entitlement (which would be more akin to a benefit rather than discretionary payment).

The only exception to this is if the need has arisen as a result of a sanction to a reserved benefit as the sanctions and conditionality policy remains reserved to the UK Government. However, the clause provides for a payment to be made where a person has been sanctioned if it is to cover an immediate short-term need that arises from an exceptional event or exceptional circumstances. This replicates the existing power for the Scottish Welfare Fund which requires the need to be immediate and short-term and to arise out of an exceptional event or exceptional circumstances. We therefore do not consider that the draft clause restricts the existing powers.

With regards Discretionary Housing Payments (DHP), clause 19 provides for the devolution of powers to provide DHPs as they currently apply in England, Wales and Scotland. As a result, the restrictions set out in the draft clause already exist with respect of DHPs and are not new. The Scottish Parliament will have great freedom to design and deliver a system of support for people who need help with their housing costs.

**Employment Support**

You have raised the scope of the clauses and the focus on support for the long-term unemployed. Claimants receive support from different organisations at different points in their journey towards work. In the early stages of their claim they receive support from Jobcentre Plus, which is also able to make use of short-term contracted provision, such as Mandatory Work Activity, as a tool to support claimants into employment. The Jobcentre Plus element of the claimant journey remains reserved under the recommendations of the Smith Commission.

If a claimant is at risk of long-term unemployment, they are referred onto longer term support, such as the Work Programme or Work Choice. Here, responsibility for supporting the claimant back into work is transferred entirely to the programme provider.
The criteria in the draft clauses create a clear distinction between the Jobcentre Plus elements of the claimant journey and what will be the Scottish Government led elements of the claimant journey. This will allow Jobcentre Plus to access the tools they need when they are leading on a claimant’s support whilst also giving the Scottish Government clear space in which to develop its own programmes. This will create a smoother and more efficient claimant journey, and will allow both the Scottish Government and Jobcentre Plus to operate together more effectively.

In all of this, there is still a need for the Scottish Government and UK Government to work together to agree the fiscal framework this will operate in; and that any decisions the Scottish Government make will need to keep within the overall financial settlement or raise further revenue.

I trust that this provides you and the Committee with the clarification you seek.

I am copying this letter to the Secretary of State for Scotland.

Rt Hon Iain Duncan Smith MP
SECRETARY OF STATE FOR WORK AND PENSIONS
Dear Paul,

Thank you for your letter dated 10th March, relating to the audit and accountability issues that result from the further devolution of powers to the Scottish Parliament set out in our Command Paper *Scotland in the United Kingdom: An enduring settlement*.

As you are aware, immediately after the Scottish Independence Referendum in which over two million people living in Scotland made clear they wished to remain a part of the United Kingdom, the Smith Commission was set up to consider further devolution to Scotland; strengthening the Scottish Parliament within the United Kingdom, as had been promised by the leaders on the three main pro-UK parties.

All five of Scotland’s main parties participated in the Smith Commission’s work and all five signed up to the Heads of Agreement published on 27 November 2014. The UK Government accepted the Heads of Agreement and committed to produce draft clauses within the agreed timetable to deliver the Agreement. Our Command Paper published on 22 January 2015 met this commitment.

In addition to the preparation of draft legislation to be taken forward following the UK General Election, you are right to highlight that there will need to be an assessment of existing audit and accountability arrangements, just as took place during the discussions on the Scotland Act 2012. The 2012 Act provided the Scottish Parliament with significant new financial powers, the first of which go live from 1 April this year when the Scottish Government take on full responsibility for land and buildings transaction tax and landfill tax in Scotland. In the run up to the introduction of these two taxes there has been extensive engagement between officials and Ministers in the UK and Scottish Governments. As you will appreciate it is rightly for the Scottish Government to assure themselves that they are ready to implement the new taxes, and the Deputy First Minister has given this assurance to the UK Government and Scottish Parliament, but in advance there has been significant inter-Governmental work to build up the relevant expertise and capacity within the Scottish Government in these new areas of responsibility. In addition there has been and will continue to be significant joint working between UK and Scottish officials in preparation for the planned implementation of the Scottish rate of income tax from April 2016.
The Smith Commission proposals go further, with extensive new responsibilities for the Scottish Parliament and Government in relation to taxation – including income tax rates – and welfare. Both of these areas will involve further new areas of responsibility for the Scottish Government and the UK Government stands ready to provide such assistance again wherever necessary to build capacity, share knowledge and support the development of the official structure required to take on these new powers.

You have asked about the oversight arrangements that are envisaged to support the operation of these new powers. It is worth saying at the outset, that the arrangements will themselves depend in part on policy choices that the Scottish Government wish to take with their new powers and the degree of inter-governmental working that is envisaged. The Scottish Government have yet to bring forward any proposals for how they plan to use the new powers set out in the Smith Commission report, but as with the preparation of the Scotland Act 2012, the UK Government stands ready to provide advice if required.

The detailed arrangements will require discussions between the UK Government and the Scottish Government. As the UK Parliament will shortly be dissolved ahead of the UK General Election, this will be a matter for the incoming administration to address. I am sure that they will wish to keep your Committee appraised of the arrangements agreed between the Governments.

Yours ever,

Alistair

Rt Hon ALISTAIR CARMICHAEL MP
SECRETARY OF STATE FOR SCOTLAND