The Scottish Parliament
Pàrlamaid na h-Alba

SOCIAL SECURITY COMMITTEE

By email:

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11 November 2020

Dear Shirley-Anne

Pre-budget

As you know, around this time of year Committees consider the delivery, impact and funding of existing social policy priorities and write to their Cabinet Secretaries with any observations and recommendations to feed-in to budget preparations for the forthcoming financial year. Alongside ongoing work, the Committee recently held two evidence sessions to assist its deliberations. The official reports of those meetings can be found here:

http://www.parliament.scot/parliamentarybusiness/report.aspx?r=12865

http://www.parliament.scot/parliamentarybusiness/report.aspx?r=12890

In the midst of this unprecedented and potentially accelerating global pandemic, we acknowledge that there is great uncertainty and that the Scottish Government's budget is likely to be delayed. The Committee's comments and recommendations, as set out in the attached annexe, are made in that context.

Yours sincerely

Bob Doris

BOB DORIS MSP
CONVENER

In last year's pre-budget letter, we recognised that this year's social security budget would be substantial. We called for a review of the Scottish Welfare Fund and asked that the Scottish Government work with COSLA undertake this.

We sought clarity on "policy spill-over" effects in the fiscal framework and procedures for in-year budget management. In doing so, we noted that the Fiscal Framework was due for review this year. This review will now to be undertaken next year. We contributed to the recently-published joint report, led by the Finance and Constitution Committee setting out what we want to see included in the review.

In your response to our pre-budget letter, you drew attention to increased funding for the Scottish Welfare Fund, as previously called for by the Committee, together with other spending commitments, but you did not commit to a review.

Clarification of "policy spill-over" effects was received from the UK Government, removing any question of potential risk from Scottish Government efforts to increase benefit take-up.

The 2020-21 budget published in February included:

- The block grant transfer of £3.2bn for devolved benefits administered by DWP under agency agreements (PIP, Attendance Allowance, Disability Living Allowance and Carer's Allowance)
- £126m for benefits and payments directly administered by Social Security Scotland.
- £108m for devolved benefits administered by local authorities which was around £440m if council tax reduction is included
- £186m for the administration of Social Security Scotland
- £175m for development of future Scottish social security

Most of the total budget (85% of £3.75bn) was for devolved benefits still administered under agency agreements. The £126m included provision for the first payments of the new Scottish Child Payment. As a Scottish Government-specific policy, this is not covered by any block grant transfer.

Developments this year

No-one could have predicted that a few months into this financial year, we would be facing an ongoing global pandemic. The health, social and economic impacts have been sudden and could continue for years. The pandemic has had a major impact on the current year's Scottish budget. Overall, the Scottish Government has, to date, been guaranteed an additional £8.2bn in Barnett consequentials arising from additional spending by the UK Government. This represents an increase of 24% in the Scottish Government's resource budget for 2020-21. We do not yet know how much of this has been allocated to the social security budget. It is difficult to predict how things might look next year but there will undoubtedly be a major impact on next year's budget and the performance of the labour market will have an impact on demand for social security.

In response to the pandemic, we welcome the additional £350m provided by the Scottish Government, through the Communities Fund, which includes additional monies for the Scottish Welfare Fund. The £350m comprises:

- £50 million for local authorities to support local resilience, support and hardship plans.

- £45 million for the Scottish Welfare Fund.

- £70 million Food Fund to address issues of food insecurity

- £50 million Wellbeing Fund to help charities and others who require additional capacity to work with at-risk groups, including homeless people and those experiencing fuel poverty

- £40 million Supporting Communities Fund to support community efforts at a local level, including supporting people at risk because of age, isolation, carers, homeless people and asylum seekers and signposting people to sources of help such as applying for benefits

- £50 million to meet an anticipated increase in applications for the existing Council Tax Reduction Scheme and Scottish social security benefits

- £20 million Third Sector Resilience Fund, to help ensure the health and continued viability of the third sector organisations affected by cash flow and other problems

- £25 million reserved to allow swift and flexible responses to rapidly changing circumstances

We also welcome the additional £27.6m for increased free school meal provision over the summer, more recently increased by a further £10m to cover Christmas, Spring and Easter holidays. Also welcome were the extra £8m allocated to Discretionary Housing Payments and the new Coronavirus Carer's Allowance Supplement payment of £230 for unpaid carers.

More recently, you announced the Self-Isolation Support Grant of £500, to be delivered by local authorities through the Scottish Welfare Fund, the cost of which you estimate at £11m. We await confirmation of whether Barnett consequentials will be received in this respect.

Set against the additional funding are the delays in the introduction of planned changes to some disability benefits and to the start date for Scottish Child Payment.

Budget 2021-22

The social security budget for 2021-22 will be set using Scottish Fiscal Commission forecasts. This year we saw outturn figures for Best Start Grant and Best Start Foods significantly higher than forecast. The Scottish Fiscal Commission explained this was due to higher than expected take-up, Scottish benefits being more generous (paid to a wider range of people and with a higher cash value), a simpler application process and greater awareness due to advertising by the Scottish Government.

As smaller benefits, the sums involved were relatively modest but for larger more complex benefits, errors could have a significant impact. The Scottish Fiscal Commission has amended its forecast model and we re-state the importance of effective and regular communication between the Scottish Government and the Scottish Fiscal Commission.

We expect eligibility for low income Scottish benefits such as Best Start Grant and Funeral Support Payment to increase and higher spending on DHPs. The large increase in claims for Universal Credit is likely to filter through to Scottish benefits passported from Universal Credit (UC). We know the number of people in Scotland claiming Universal Credit has nearly doubled from 264,117 in March to 477,164 in September. Although social security spend will continue to increase, the net effect to the Scottish budget is not yet known. It will largely depend on any difference in Scottish spend relative to spending on equivalent benefits in England and Wales. The UK Government's autumn budget was cancelled but OBR forecasts are expected shortly and should confirm the block grant adjustment for 2021-22.

Universal Credit

Universal Credit (UC), a reserved benefit, will play a large part in the economic response to the ongoing pandemic. since March an additional 213,000 people in Scotland have received support through UC. In April, the UK Government moved swiftly to provide a temporary 12-month uplift of £20 per week for those eligible for UC. This is due to end in March 2021.

Together with our witnesses, we welcome the support provided by UC and the speed with which DWP processed the unprecedented increase in claims. However, we are also aware that UC is usually only available to those aged 18 and over. Only a very small number of 16- and 17-year olds who have left school are eligible to claim. The Poverty and Inequality Commission point out that this restriction may leave families (where a 16 or 17-year-old still lives in the family home) and many young people without any income.

Some of the newly created Scottish social security benefits are conditional on being in receipt of a qualifying benefit, UC or one of the legacy benefits. Scottish Child Payment (SCP) is one.

Scottish Child Payment

First payments of SCP (an extra £10 per week for each child under six in families in receipt of qualifying benefits) will be made in February, two months later than previously announced. From April 2022, the payment will be uprated in line with inflation. Additional data from DWP is needed to extend SCP, through Social Security Scotland, to older children. The Committee notes in response to a recent PQ you advised that access to data from both the DWP and HMRC is required to verify parental responsibility and that the DWP has so far declined to provide you with the relevant data for 6 -16-year olds. As a consequence, in the first two years, SCP will stop when children reach their sixth birthday and payment for older children is to be rolled-out by the end of 2022. The Committee acknowledges concerns around this. Spend on SCP in future years is now likely to be higher due to increasing numbers of children living in households in receipt of qualifying benefits and greater awareness of SCP. The Scottish Fiscal Commission suggests there has been a 14% increase in eligible children since June 2019. SCP spend in 2021-22 is forecast to be £77 million.

When SCP was announced in June 2019, it was expected to contribute around 3% to reducing child poverty. This year has brought a sudden and unprecedented change to the economic landscape. The Joseph Rowntree Foundation points to the potential further two-year wait before SCP is extended to older children. It accepts payment of SCP cannot be made any faster through Social Security Scotland but has called for money to be routed to low-income families through other channels, such as existing council routes used for school clothing grants and free school meals.

Disability Benefits

Responsibility for disability benefits and the corresponding block grant adjustment transferred to the Scottish Government in April. Scottish disability benefits are now administered by DWP on behalf of the Scottish Ministers and for now policy is unchanged. DWP has suspended face to face assessments. Historically, around 50,000 new claims for PIP are made a month. During the initial months of the pandemic, the number of new claims dropped. The reason for this is unknown but applications are rising again.

Implementation costs

In addition to the amounts spent on benefits themselves, the social security budget must cover the administration costs of developing and delivering the benefits. This year the budget for social security administration was £368.5m (compared with £125.5m in 2019-20), including £84m to cover the cost of agency agreements. This covers the cost of implementing Scotland's social security system (including £84m for agency agreements with the DWP), the operation of Social Security Scotland, and the administration of the Scottish Welfare Fund and Discretionary Housing Payments.

The Scottish Welfare Fund and Discretionary Housing Payments

Councils administer the Scottish Welfare Fund (SWF) and Discretionary Payments. This year around £65m is being provided to the SWF. This includes the £2m underspend carried forward from last year and £5.5m for administration. In response to the pandemic, an additional £45m was allocated to the SWF and councils were given more flexibility to ensure they can fully support people in financial crisis, including workers in the 'gig economy'.

The Poverty and Inequality Commission published a report raising concerns about a lack of knowledge and awareness of the SWF, a variation in how the SWF is promoted across local authorities, barriers to making an application, an apparent suspension of community care grants and whether local authorities have sufficient administration resources. The Commission pointed out that the additional Scottish Government funding did not include any extra monies for administration costs. We know that the new Self-Isolation Support Grant is to be delivered through the SWF. At present, demand is unknown, but it will be even more important to ensure that local authorities have the resource and capacity to meet demand.

This year £81.8m is being provided for DHPs including £1.2m for administration. This includes the additional £8m allocated in May. These monies assist those in receipt of housing benefit or the housing element of universal credit and who have difficulty meeting their rent payments.

We were told of concerns around eligibility for DHPs and other barriers to accessing these monies. More people are struggling to pay their rent, but current rules mean some, for example most students, those with savings above a certain amount or high recent earnings and those without recourse to public funds, are not eligible.

Uncertainty, risk and borrowing

Social security is demand-led. Demand-led budgets are, by their very nature, uncertain. Any increase in Scottish social security spend must be managed by the Scottish Government within the overall budget. The Scottish Government has limited borrowing powers; up to £300m to cover forecast error and access to the Reserve in certain circumstances. We know the Scottish Government is making the case for increased resource borrowing powers and other fiscal flexibilities to help it deal with the volatility in the budget resulting from the pandemic.

In the early stages of the pandemic, as the UK Government's response package rapidly evolved, the Scottish Government was regularly being notified of additional Barnett consequentials due as a result of the UK government's spending decisions. While welcoming the additional allocations, the Scottish Government argued for greater certainty over additional allocations to allow it to plan its own response package more effectively.

In response to this request for greater certainty, the UK government agreed an upfront guaranteed total for coronavirus-related Barnett funding. Initially this guaranteed sum was set at £6.5bn but it has since increased to £8.2bn. While this guarantee provides greater certainty for Scottish Government budget planning, it results in less transparency in respect of the individual spending announcements from which the Barnett consequentials arise. While it is for the Finance and Constitution Committee to address the broader issues of fiscal transparency, we note that the reduced transparency makes it harder for this Committee to scrutinise individual spending decisions and how these are being funded.

For example, it is not clear what Barnett consequentials (if any) resulted from the UK Government's self-isolation grant scheme and therefore it not possible to know whether the equivalent Scottish Government scheme has been funded through Barnett, or whether funding will need to be found from elsewhere in the Scottish Government budget.

Summary / Conclusions

A key purpose of the social security budget is to contribute to the "Poverty" National Outcome. Social security alone cannot address poverty, but it plays an important part.

Most indicators underpinning this national outcome have shown a stable performance until now (relative poverty, wealth inequality, cost of living, unmanageable debt, satisfaction with housing) with the exception of the 'persistent poverty' indicator. In the face of what could be an unprecedented jobs crisis, there is a high risk that these indicators will start to show a worsening picture.

When considering the delivery, impact and funding of existing Scottish Government social security priorities and whether to propose any change of emphasis, we acknowledge the balance to be struck between crisis intervention and preventative spend.

Our recently launched inquiry will provide an opportunity for the Committee to consider these issues in more detail over the medium to longer term.

With specific reference to the budget for 2021-22, the Committee:

1. **Joins calls for the UK Government to retain the £20 increase to the standard allowance in UC and working tax credits, apply this uplift to legacy benefits and review the policy that 16- and 17-year olds are not usually eligible to claim UC.**

2. **Notes that the first Scottish Child Payments will be made February 2021 and that it is intended to be uprated in April 2022. Citizens Advice Scotland has estimated it would cost an additional £4m in a full year to uprate Scottish Child Payment in line of inflation from the point when the £10 per week payment was first proposed. The Committee calls on the Scottish Government to look at whether uprating could be brought forward and to consider, given the expected timescale for receiving data from DWP on older children, what could be done, for example through other channels, to make payment for older children more quickly.**

3. **Draws attention to the evidence from the Scottish Fiscal Commission that the fall in applications for disability benefits may be due to the reduced availability of advice. Widely available welfare advice, particularly delivered locally, plays an important role in raising awareness of benefits, assisting people to claim all they are entitled to and ensuring higher rates of take-up. We welcome the statutory duty on the Scottish Government to promote take-up of benefits and re-state our previous recommendation that there should be a holistic approach to take-up strategies for devolved and reserved benefits. Our view is that both the Scottish and UK Governments should work together and agree appropriate funding for a concerted effort. We would welcome the Scottish Government taking the lead on this work and recognise its successful campaigns on newly created devolved benefits such as Best Start Grant.**

4. **Agrees with the Poverty and Inequality Commission that the Scottish Government should work with COSLA to consider resourcing for the administration of the Scottish Welfare Fund. The Committee would wish to better understand how the money already provided to administer the**

SWF is being used, before any additional resource is provided. If any additional funds are made available for administering the fund, it should be on the understanding that councils properly and consistently promote the SWF and the different ways an application can be made to ensure people are aware there are options other than online application.

5. **Notes that the allocation for DHPs may need to be revisited in light of any assessment of unmet housing needs. The Committee also agrees with the Joseph Rowntree Foundation that, given current circumstances, it would be timely to consider how best to assist with housing costs, including looking at take-up of DHPs and any patterns of need being seen by local authorities that cannot currently be met.**