



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### FINANCE COMMITTEE

Tuesday 26 June 2012

Session 4

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website -  
[www.scottish.parliament.uk](http://www.scottish.parliament.uk) or by contacting Public Information on 0131 348 5000

---

## **Tuesday 26 June 2012**

### **CONTENTS**

	<b>Col.</b>
<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	1421
<b>WELFARE REFORM ACT 2012 .....</b>	1422

---

### **FINANCE COMMITTEE** **20<sup>th</sup> Meeting 2012, Session 4**

#### **CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

#### **DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

#### **COMMITTEE MEMBERS**

\*Gavin Brown (Lothian) (Con)

\*Mark McDonald (North East Scotland) (SNP)

Michael McMahon (Uddingston and Bellshill) (Lab)

\*Elaine Murray (Dumfriesshire) (Lab)

\*Paul Wheelhouse (South Scotland) (SNP)

\*attended

#### **THE FOLLOWING ALSO PARTICIPATED:**

John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

#### **CLERK TO THE COMMITTEE**

James Johnston

#### **LOCATION**

Committee Room 5



# Scottish Parliament

## Finance Committee

Tuesday 26 June 2012

[The Convener opened the meeting at 14:00]

### Decision on Taking Business in Private

**The Convener (Kenneth Gibson):** Good afternoon and welcome to the 20th meeting in 2012 of the Scottish Parliament's Finance Committee. I remind all members and everyone else present to switch off mobile phones, pagers, BlackBerrys and so on. We have received apologies from Michael McMahon, who is at the Subordinate Legislation Committee.

Under agenda item 1, do members agree to take items 3 and 4 in private?

**Members** indicated agreement.

### Welfare Reform Act 2012

14:00

**The Convener:** Item 2 is evidence from John Swinney, the Cabinet Secretary for Finance, Employment and Sustainable Growth, on the financial implications of the Welfare Reform Act 2012. I welcome the cabinet secretary, who is accompanied by Susan Anton, Beverley Francis and Scott MacKay from the Scottish Government. I remind members that the cabinet secretary has to attend the Cabinet this afternoon and will therefore need to depart by 3.15 pm. I invite the cabinet secretary to make a short opening statement.

**The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney):** I welcome the opportunity to give evidence to the committee. At the outset, I make it clear that the Government is committed to making available as much information as possible on the financial implications of the Welfare Reform Act 2012, but I acknowledge that, as I think has been shared with the committee in relation to its analysis of the Welfare Reform (Further Provision) (Scotland) Bill, we require further detail to enable us to provide all the information and the financial assessment that we would want to provide to the committee. However, I am committed to providing that and I will work to ensure that that happens.

We have been pressing United Kingdom ministers to provide details on their proposals. That was most recently communicated by Mr Matheson at the joint ministerial committee in London on 23 May. Some of the information is beginning to become clearer, particularly in relation to universal credit, with the publication of draft regulations by the Department for Work and Pensions. There was also an invitation to my officials to participate in a DWP workshop on 15 June to discuss a series of regulations. We are in dialogue with the DWP on issues in connection with data sharing, which is absolutely material to the analysis.

Having said all that, I point out that we still do not have full clarity on all aspects of universal credit, which makes it difficult for us to provide the type of financial assessment in which the committee has a legitimate interest. However, I can share some of the financial implications with the committee. We can see a reduction of approximately 7 per cent in the social fund budget from previous years; a shortfall against current levels of spend of potentially up to £250 million when the personal independence payment replaces disability living allowance; and a reduction of about 10 per cent, or about £40 million, following the decision to abolish council tax

benefit and to transfer the budget to the Scottish Government. In our view, the budget transfer should reflect the level of need in Scotland and the full administrative costs of implementation. That is of course an issue that has been pursued with the United Kingdom Government.

There is also the estimated potential removal of about £100 million a year from the Scottish economy as a result of the reforms to housing benefit, and that figure does not take account of the potential knock-on effect on landlords' rental incomes, an issue that has been raised with the committee.

The Administration has taken several steps to try to mitigate the effects of welfare reform in Scotland. We have taken action to provide universal free prescriptions and to provide early learning and childcare opportunities for vulnerable two-year-olds, a programme that will be expanded following a £1.5 million a year investment by the Government in the next three years. Members will also be aware of the council tax freeze, and we have taken actions to tackle homelessness. We are working with the Convention of Scottish Local Authorities to develop a better understanding of the impact of universal credit on local authorities. We expect there to be some local authority-led pilots in Scotland to test universal credit delivery models. The housing demonstration project in Edinburgh will also help us to better understand the impact of universal credit on the ground, which will help in our further analysis.

Those are some of my comments at the outset. As I said, I remain committed to providing a robust analysis of the implications for our budgets and programmes of the welfare reform programme. However, we rely on the UK Government for some further detail and information to enable us to do so.

**The Convener:** I will begin by asking some questions before opening the session out to colleagues on the committee. The questions will be based on the evidence that the committee has received as well as on some of your comments.

I am glad that some progress has been made on data sharing, as concerns about that have been raised with the committee. There are, of course, other concerns.

On tax relief, Highland Council said that there was an issue with the breaking of the direct link between the value of benefits paid and grant received to compensate. It noted that every pound of benefit that is paid by a council is a direct cost to that council, and said that that

"therefore provides a disincentive for councils to promote additional benefits take-up, as this means additional costs to the council."

It continued:

"There is therefore the potential for councils to accept lower levels of tax collected, and higher levels of bad debts, rather than promote further benefits take-up, as this may actually save the council more in financial terms."

What concerns do you have about the issue? Have you or your staff had discussions with local authorities or COSLA about it?

**John Swinney:** Last week, I talked to the Local Government and Regeneration Committee about a legislative consent memorandum that will enable data sharing of HM Revenue and Customs data, in particular, as there has been no legal gateway for that to be shared with Scottish local authorities. That provision has now been made, and that will enable that work to be undertaken. That is welcome.

On your question about the arrangements for council tax collection and the uptake of benefit, council tax benefit is being abolished and a sum of money is being transferred to the Scottish Government for onward transfer to local authorities in Scotland. Essentially, we are operating in a different environment, where such provision for council tax benefit will no longer exist. We will be designing a system of relief for the payment of council tax, dependent on individuals' circumstances.

The Government will work with and assist local authorities on all of that, to ensure that they are able to maximise council tax payment levels so that public services are properly funded and supported at a local level and to ensure that those who have genuine difficulties in paying council tax are adequately and properly covered by the council tax relief scheme that is put in place. We have in place a temporary arrangement for 2013-14, and we are embarking on consultation and working with local government to work out the long-term approach that we will take to that issue.

The final point is that we have to be careful as we embark on a new regime that we do not in any way create unintended consequences as a result of the steps that are taken. From our point of view, we are dealing with a situation in which council tax benefit is being abolished, and some support must be put in place for individuals who find it impossible to pay their council tax, given their circumstances. That will be the focus of the discussions that we take forward with local government in Scotland.

**The Convener:** The difficulty is that, if that is a fixed amount, the councils will fear that, if they promote benefit take-up, they will be expected to go beyond that and will not have the funds that are required to meet those payments. That might be a disincentive.

**John Swinney:** You are correct in the sense that, once a transfer of resources has been made

to local government, we have to be certain that the appropriate level of transfer from the UK Government to the Scottish Government has been made in the first place. That is the first transfer that will take its course and we have to be clear that it has been properly and effectively calculated to reflect the circumstances in Scotland. I have, of course, been making representations to the UK Government not to pass on what is apparently 90 per cent of the council tax benefit sum but 100 per cent of it because, in my view, there is no justification for that reduction in payment.

The second thing that we must be mindful of is the fact that, with that transfer of function and responsibility comes a transfer of risk, because there is a risk that there might be a growth in demand for such financial support. With that scheme having been abolished, the risk has essentially been transferred to local government in Scotland.

**The Convener:** In its written evidence, the Scottish Federation of Housing Associations stated that it expects the combined consequence of the direct and indirect impacts on housing associations, particularly the impact of direct payments, to be around £221 million in 2016-17. When I pressed the SFHA on how it came up with that amount, it said that it just took a figure of about 10 per cent. It said that there will be a loss in rental income because of the difficulty in getting rents from people who traditionally have had their rent paid directly and will now have to pay it themselves. Throughout the exercise, one of the committee's concerns—I am sure that colleagues feel this as much as I do—is that it is difficult to get a handle on what the financial impact will be. I am sure that you feel that more than any of us. You mentioned the sum of £250 million earlier. What are the parameters on the financial impact? What could the highest and lowest costs to Scotland be? It seems to me to be a moveable feast. It could be £50 million or £100 million either way. I am trying to find out where the boundaries might be.

**John Swinney:** It is difficult to answer that question, for all the reasons that you have given. We do not know all the detail about universal credit. We do not know what the behavioural reactions will be to the changes. For example, in housing, if there is an underoccupancy penalty, people might change their behaviour. All sorts of things might change and it is very difficult for us to predict that.

I assure the committee that, as the detail becomes clearer, we will start to firm up our estimates of the impact and will happily share those with the committee and a wider audience. Our estimates are there to be scrutinised and tested by public opinion, and we will make sure

that they are formulated effectively so that they can inform the debate.

**The Convener:** Are there no upper or lower limits at this stage?

**John Swinney:** In my opening remarks, I gave certain examples of where we can see particular costs and make estimates, but we need further detail to enable us to make a global assessment.

**The Convener:** In its evidence, the Scottish Council for Voluntary Organisations expressed concern

"that the Scottish Government's commitment to prevention may be heavily impacted by the effects of welfare reform"

and that organisations might use money that should be spent on prevention to fill gaps in service provision. What monitoring is being done to ensure that that does not happen? How do we prevent it from happening? If organisations are strapped for cash, they might feel that they have to spend that money on something other than prevention.

14:15

**John Swinney:** There are two essential points to make there. First, the change funds that the Government is proposing are predicated on emerging projects that are designed to be preventative spending measures. The money will not be allocated unless it is for preventative spending projects. I concede that that is a minority of the budget, but those are explicit preventative spending funds.

Secondly, I fundamentally disagree with that analysis. Anybody who looks at the welfare reform and demography challenges that we face and thinks that the answer lies in not pursuing preventative spending approaches is completely missing the point. The Finance Committee has marshalled evidence on that point comprehensively over a long period. The focus that goes into policy making, the guidance that is given on the formulation of single outcome agreements and the guidance that is being put together to support the work of community planning partnerships—which are crucial to the preventative spending agenda—are all designed to ensure that we can deploy preventative spending interventions as effectively as we can.

**The Convener:** The SCVO talked about the impact that the legislation will have on agencies that provide advice to people. It said that Pollok carers centre has had an

"83% increase in enquiries around welfare benefits ... and a 250% increase in referrals for support during the last quarter alone",

and that the centre

"expects the increase in referrals ... to increase to over 100%."

COSLA talks about a £50 million deficit per annum. The SFHA said that it encourages

"the Scottish Government to consider assisting financially and in brokering improved arrangements",

and the Parliament's Welfare Reform Committee suggested that the Scottish Government use the powers offered

"to mitigate, in so far as is possible within the powers of the Scotland Act 1998, and within its fixed budget, the negative impacts of the UK Welfare Reform Act."

When you look at things such as the potential impact of rent losses to the public sector, the drop in council tax benefit and the increased demand on advice agencies, where do you see the Scottish Government's priorities lying? Quite clearly, you cannot necessarily mitigate the impact of all those changes. What will the Scottish Government's mitigation priorities be?

**John Swinney:** The Government's short-term priorities will be to take action, in the fashion that we have done on council tax benefit, for example, to deal with quite a sharp adjustment and to provide a short-term approach that will enable us to consult on longer-term solutions. In partnership with local government, we have taken a similar approach to the social fund, to ensure that we can take adequate and appropriate steps in that direction. The Government will use as its guide the structure of the national performance framework and we will act to avoid any deterioration in the outcomes that we consider to be important for Scotland. In essence, that will drive the ways in which we formulate a response and any mitigating action to try to ensure that our interventions support the direction of policy, which is represented by the national performance framework. If you are asking whether I believe that with the resources available to the Government we can insulate everybody from the effects of the welfare reform agenda so that there is no impact on them, I am afraid that I cannot give you that assurance. The scale of removal of support is of such an order that, given the resources available to the Scottish Government, it is not possible for us to give that assurance.

**The Convener:** I did not think that you would be able to do that, and I certainly was not asking for that, because I think that it is almost like amputating someone's arm and then putting a sticking plaster on it. I wanted to look at the Scottish Government's priorities.

I will open the session up to colleagues.

**Elaine Murray (Dumfriesshire) (Lab):** Last week, the SFHA spoke about, among other things, its concerns about housing benefit ultimately becoming part of universal credit and being paid

monthly in arrears. It believed that that may lead to a greater incidence of rent arrears among tenants and a loss of income to housing associations. That is probably included in the figures that you mentioned.

The SFHA also cited the statistic that 96 per cent of its tenants who receive housing benefit would opt to have the benefit paid directly to the landlord and not to be responsible for that. When I met Scottish Women's Aid in my constituency at the end of last week, exactly the same concern was expressed. The SFHA thought that it might be possible for the Scottish Government to negotiate to enable the housing benefit component to continue to be paid directly to the landlord. It did not seem to know how that might be done, but it thought that that might be possible. Have you learned anything about the UK Government's proposals on universal credit that suggests the possibility of doing that in Scotland?

**John Swinney:** I completely agree with the point that Dr Murray and the SFHA have made. There is a great risk, which can have significant consequences. If some of the revenue stream for housing associations is in doubt, their ability to take further financial action on the basis of a pretty guaranteed—if not 100 per cent guaranteed—flow of income becomes slightly weaker. The SFHA's point is strong and substantial.

We are not at the point when we can say definitively that the opportunity exists for making a separate arrangement under which a direct payment might still be possible, but the Scottish Government will certainly pursue that opportunity in discussion with the DWP. Such a payment would in no way undermine the concept of universal credit. The housing element will be part of a universal credit payment that is made to each individual.

Work is being undertaken through the housing demonstration project to test whether the proposed way of proceeding is practical. The Government will continue to pursue that actively, because it represents a sensible way of proceeding to try to avoid the creation of unnecessary risk as a consequence of the steps that are being taken.

**Elaine Murray:** The housing benefit element for people who are of pensionable age could still be paid directly to landlords, so there must be a mechanism for that. I am not sure whether the Scottish Government can implement that at a Scotland level.

**John Swinney:** The concept of paying the housing element directly to the individual is not a material part of universal credit. I can see how it is a component on which to report to a member of the public, but I do not see how it is a material

point in the structure of universal credit. I hope that we will get to an arrangement that avoids us creating an undesirable and unintended consequence. Dr Murray offered sound examples of what the implications might be.

**Elaine Murray:** I was shocked by the DWP's assumption that 80 per cent of people would be able to apply for their benefits online and that only 20 per cent of applicants would need face-to-face advice. That seems very optimistic, for all manner of reasons. COSLA or a local authority drew that to our attention and said that local authorities do not seem to have a statutory duty to provide advice services. In Scottish legislation that flows from the changes, are you considering creating a statutory duty on somebody to provide advice services?

**John Swinney:** I do not think that a statutory duty for advice services from local government is required. In my experience, most local authorities are involved in such activity. Local authority advice services represent a substantial proportion of the advice that is made available to the public.

I very much agree that the expectation of 80 per cent applying online is on the optimistic side. Of course, that means that there might be consequential impacts on face-to-face services. Therefore, we must ensure that we are properly engaged in the discussion about what provision is required to meet the needs of people who are in vulnerable financial situations and whom we do not want to get into more vulnerable financial situations because they cannot access proper advice.

**Elaine Murray:** Part of the local authorities' concern was that, because housing benefit piggybacks on council tax benefit, which will no longer exist, local authorities might lose some of the ability to provide advice in an efficient way and it might become more expensive.

**John Swinney:** I readily concede that efficiency is an issue. If somebody is in receipt of council tax benefit and housing benefit, the local authority can have a combined conversation with that individual about their financial affairs. If we remove the housing benefit element completely from the local authority domain and put it into universal credit, which is the proposal, that will leave the council tax relief or reduction scheme as the one remaining compartment of the discussion that the member of the public has with local authority staff. Therefore, the opportunity for an efficient, rounded and comprehensive financial advice service is undermined by the proposals.

**John Mason (Glasgow Shettleston) (SNP):** I want to continue on the issue of housing associations, on which we have had quite a lot of evidence. Elaine Murray touched on some of

those issues and you agreed that, potentially, if housing associations' arrears go up, there will be less money for them to invest in new housing or in refurbishing their stock. There has been debate about housing association reserves. Some associations appear to have quite a lot of reserves, but their argument is that much of what is held in reserve is specifically for repairs and replacements and so on and is not free. Do you have a view on whether that is the case or whether housing associations have more scope than they are leading us to believe?

**John Swinney:** There will be a spread of categories of housing association reserves that covers all the points that Mr Mason raises. Some reserves will be earmarked for specific projects, for which there might be an assumption about future sources of funding that might make a development possible. Some reserves might be prudentially retained for maintenance and other activities, and some will be a contingency to deal with the inevitable eventualities that affect housing. Then there will be some free reserves that do not yet have a destination. I cannot today give the committee an assessment of the balance in the housing association reserves, but I am pretty certain that there is a range of that character within them.

**John Mason:** Registered social landlords, which include housing associations and councils, have made the point that there are not enough one-bedroom properties. Universal credit is to be reduced for people whose accommodation is underoccupied, but there might not physically be other suitable accommodation nearby. Particularly in rural areas, suitable accommodation might be a long way away. Glasgow Housing Association is talking about building one-bedroom flats or houses for the first time since it was set up, but I presume that the Government will not be able to provide extra support to housing associations for that purpose. Do you agree that we have a problem with the stock?

14:30

**John Swinney:** As I am sure Mr Mason will appreciate, I am not a housing expert, but my understanding of the priorities in the housing programme over many years is that they have not been expressly to construct many one-bedroom properties—in fact, that has been the antithesis of policy. We estimate that 95,000 tenants in the social rented sector in Scotland will be affected by the underoccupancy penalty and might lose between £27 and £65 a month, which is a significant sum for people in such financial circumstances.

Our housing stock does not naturally lend itself to protecting people from an underoccupancy

penalty. Having been in many socially rented properties myself, I am well aware that two-bedroom properties are not enormous and that people do not have loads of spare space to rattle about in. These welfare reforms throw up some difficult issues for individuals, who will have to choose between a loss of resources and other things. That brings me back to the point that I made to the convener at the very beginning of the meeting about the difficulty of assessing the impact of these reforms on people's behaviour.

It is also difficult to expect social landlords to suddenly start constructing mainly one-bedroom properties. It is going to take us quite time to construct housing stock that will avoid the underoccupancy penalty—and, in any case, we do not inherently believe such stock to be desirable. It strikes me as a very strange approach to policy.

**John Mason:** As you suggest, and as I think the committee will probably agree, there are lot of imponderables out there and we do not know how people will react. Will the Government, the local authorities and registered social landlords be able to see quickly how things are going after the new rules come in and ensure that we jointly feed that information to the UK Government?

**John Swinney:** The process has different stages. My commitment to the committee is that we will be very attentive to all data and information that emerge with regard to the universal credit regulations and other changes and will formulate as early as possible a clear set of indications about likely patterns and impacts to inform the committee and a wider audience as quickly and efficiently as possible. Moreover, an amendment that we have lodged to the Welfare Reform (Further Provision) (Scotland) Bill commits us to reporting annually on the impacts of the UK act from 2013 to 2017. That means that, at the very least, there will be an annual statement of that impact.

**Paul Wheelhouse (South Scotland) (SNP):** I am aware from evidence that Children 1st provided to all MSPs, not just the Finance Committee, that there is already a low take-up—or, should I say, underclaim—of council tax benefit in Scotland. Given the implication that people are not getting the support that they deserve or are entitled to and given the 10 per cent top-slice that will hit us when the UK Government transfers responsibility for this matter to us, are you concerned that we should be doing more to ensure that people claim council tax benefit?

**John Swinney:** We take a number of steps to encourage the take-up of council tax benefit; for example, Welfare Rights is actively pursuing individuals in that respect. In some circumstances, payments are made almost automatically, which makes things more straightforward. Nevertheless,

individuals in our country are not claiming the council tax benefit to which they are entitled and through a number of devices and working with local government we try to encourage uptake as much as we can.

**Paul Wheelhouse:** Given your comments to Mr Mason and others, are you concerned that the move to universal credit might make it more difficult for individuals to get such benefits automatically and that it might become more difficult to identify the people who are entitled to them?

**John Swinney:** I do not think that identification will necessarily be a problem because people's circumstances will be assessed in assessing their eligibility for the universal credit. That can then be used as a driver in our approach to council tax reduction, subject to wider dialogue, discussion and consultation. What is a problem is the issue that the convener raised with me at the outset. If there is an increase in the number of people who are unable to pay their full council tax, resulting in an increase in the demand for relief, then, depending on how the transfer of resources is undertaken in relation to the sum of money around council tax benefit, that will put a financial strain on the system.

**Paul Wheelhouse:** Last week, we spent quite a lot of time discussing with NHS Highland and the SCVO the impact of welfare reform on preventative spending. The convener touched on that earlier, but I will take a slightly different angle on it. The convener talked about the diversion of funds away from what we would regard as preventative spending towards the sustaining of existing activities, but I am interested in the second-order impacts of the changes to welfare benefits.

As NHS Highland indicated, there is the potential for increased problems with mental health, alcohol abuse, drug abuse and even teenage pregnancy, which Gavin Brown touched on. As witnesses have suggested to us, there is the potential for many negative social outcomes from the Welfare Reform Act 2012. Those outcomes may have financial consequences for the NHS and other service providers. Can we learn anything from the modelling that has been done in Wales, for example, about what the impacts might be?

**John Swinney:** There must be a danger of all that happening. I read NHS Highland's evidence and it presents a strong argument that, if an individual is not in or able to be in effectively remunerative employment, the possibility arises of adverse consequences for them, possibly involving mental or physical wellbeing. There are well-analysed patterns of deterioration in individuals if they do not have the focus of

employment to support their wellbeing. That is not opening up a new area of analysis; it is simply confirming some pretty well-established analyses of those linkages and the dangers that exist for members of the public.

**Paul Wheelhouse:** We also heard evidence last week about the provision of data by the Government and the availability of data. We touched on the Scottish index of multiple deprivation, which has income deprivation as one of its criteria. We have received evidence in a private session from the Joseph Rowntree Foundation and others about the higher cost of living in rural areas. We do not know the precise figure, but it is suggested that it is at least 10 per cent higher because of fuel costs, the need for private transport and so on. It can also be more difficult to find employment. Is there any potential for looking at the impacts of welfare reform on rural Scotland and the difficulties that it might present?

**John Swinney:** We will have to maintain a very clear oversight of the implications of welfare reform in a variety of areas. Through the local authority pilots, there are opportunities to include rural areas and to create a picture of the different ways in which the different parts of the country are affected. There will be similar lessons to learn in respect of different urban areas, which will present different challenges and require different responses.

**Paul Wheelhouse:** Given everything that we have just discussed, how worried are you about the implications of the second spending review that the UK Government might carry out this side of the UK election, or shortly afterwards, for further welfare reform and the impact that that might have on Scotland, in particular?

**John Swinney:** It is clear from the Chancellor of the Exchequer's budget announcements that it is being assumed that there will be a further reduction in welfare expenditure in the next spending review period. It is pretty clear from all that has been said that the UK Government's programme will involve a further significant reduction in welfare support. What is less clear is whether that would need to be advanced from the next spending review to the present spending review. We monitor such issues carefully. I assume that there would have to be a deterioration in the strength of the public finances for that to happen.

**Mark McDonald (North East Scotland) (SNP):** Paul Wheelhouse touched on NHS Highland's evidence. The Government's preventative spend agenda will cover smoking prevention efforts and the encouragement of better lifestyle choices on diet and so on. NHS Highland said that the impacts of the welfare reform changes might

include people smoking more and people choosing to consume less-healthy food, on the basis that it is cheaper than some of the healthier foods. Given what NHS Highland said, are you concerned that the welfare reform changes might be counterproductive and might act against some of the preventative spend agenda?

**John Swinney:** I think that I dealt with some aspects of the impact on the preventative spend agenda in my earlier response to the convener. The point that I was trying to make was that I did not think that it was a given that preventative spend measures would be undermined by the budget pressure that exists. I expressly made the point that anyone who thinks that that area of spending should be the first port of call is making a fundamental mistake about long-term budget and public service planning.

If there is a deterioration in mental and physical wellbeing, for all the reasons that we have touched on, I think—I come to this view by broadly accepting the NHS Highland analysis—that that will undoubtedly increase the scale of the challenge that has to be overcome through preventative interventions and other public service inputs. That relationship makes the task all the greater as a consequence of the implications of the welfare reform agenda.

**Mark McDonald:** That was the direction that I was coming from; I was not suggesting that the Government should realign its priorities.

As far as the wider impact is concerned, we have had evidence that suggests that there will be a secondary impact on, for example, carers. We have just had carers week, which focused on the health and wellbeing of Scotland's unpaid carers. It has been suggested that if there is a deterioration for people who are cared for, there could be a consequential deterioration for the people who care for them, but that that might not be picked up in the initial assessment. Has any analysis been done of what the impact might be on unpaid carers? Might such analysis be of benefit?

**John Swinney:** It certainly would be of benefit. Ensuring that we properly assess those implications will be a characteristic of the work that we undertake. Our work has not yet become as specific as to look at the circumstances of carers, but I give the committee an assurance that we will consider that fully as part of the analysis.

14:45

**Mark McDonald:** If people receive less in benefit, they have less money available to spend. Often people receive benefit as a supplement to other income and that income may need to be redistributed to cover a shortfall in the benefit

received. Do you have concerns about the possible impact on the wider economy if, in effect, people have less money available to them?

**John Swinney:** The removal of expenditure from the economy reduces the amount of economic activity. The reduction in benefits is part of a long-term programme to reduce public spending and, as a consequence of all that, there will be an effect on economic performance.

**Mark McDonald:** Welfare reform has been touched on in various announcements and the Prime Minister made a speech yesterday in which he outlined some of the potential welfare reforms that he foresees—not just beyond the next election. He also spoke about wanting to work on some of the reforms in advance of the next election. Potentially, some of those reforms will move further forward within the spending review window. The things that were announced included regional benefit capping and the removal of housing benefit from the under-25s. Will the Scottish Government consider doing some scenario planning around those proposals so that we have an idea of what the implications for Scotland will be if some of those proposals are brought forward by the UK Government within the spending review window?

**The Convener:** Assuming that we are still in the union after 2016.

**John Swinney:** You make a significant and valid point, convener. Some of the points articulated by the Prime Minister are worthy of serious consideration by members of the public in Scotland in terms of whether they want to have those characteristics as part of the welfare regime of the United Kingdom. I certainly do not fancy it at all.

I have given the committee an assurance that we will assess the financial implications of that agenda for Scotland. We will continue to do so and report to the committee as fully as we can about the emergence of our thinking and the quantification of any of those questions.

**Gavin Brown (Lothian) (Con):** Cabinet secretary, in your budget speech you said that you were going to

“hold in reserve some revenue consequentials—about £20 million in 2012-13—until the picture becomes clearer.”—*[Official Report, 8 February 2012; c 6154.]*

You made reference to the economic climate and welfare reform. Has there been any update on that £20 million since February?

**John Swinney:** Yes. The Government announced in April that it would be allocating £23 million to mitigate the effects of council tax benefit abolition. That was what I had in mind when I gave that statement to the Parliament and it has been

fulfilled. Local government has agreed to provide £17 million, which creates a fund worth £40 million for 2013-14. That fund will mitigate those effects.

**Gavin Brown:** My second question is on data sharing, which was touched on in your initial speech and also in answer to the convener earlier. In giving evidence on the social fund, the Glasgow City Council representative said:

“One of the key things”

that we need to consider is

“the trends of budgeting to try to ensure that we spread the money throughout the year, taking into account past seasonal trends.”

We therefore need

“the historical information from the Department for Work and Pensions”

so that we can

“take an informed view”.—*[Official Report, Finance Committee, 13 June 2012; c 1346.]*

Are you aware of any update on that—whether that is likely to be taken forward or where we are with it?

**John Swinney:** A good amount of practical work is under way with local government on preparing for the approach to the social fund issue. I am not aware of whether agreement has been reached with the DWP on access to historic information, but I will certainly check that point and make any information that I receive available to the committee.

**Gavin Brown:** Earlier, you said that you would be happy to share information with the committee when it is made available to you. At this stage, can you point us to the most comprehensive analysis of welfare reform that the Scottish Government has published? You have given us some statistics, which are helpful, but are there any published documents that the committee should be aware of at this stage?

**John Swinney:** All relevant documents are on the Government’s website. We supplied the Welfare Reform Committee with information when it was considering the Welfare Reform (Further Provision) (Scotland) Bill, stage 3 of which will take place in Parliament on Thursday. Some of that information will also have been discussed by this committee.

**Gavin Brown:** A couple of members mentioned the evidence that we heard from NHS Highland, and you have put forward the Government’s position on that. I was somewhat confused by some of the evidence that we got from NHS Highland. In its written submission, it said that its view is that there would be a decrease in alcohol consumption as a consequence of the welfare reforms, but the representatives who spoke to the

committee seemed first to argue that there would be an increase in alcohol consumption, but then semi-reverted to accepting that there might be a decrease. Does the Government have a view on whether there will be an increase or a decrease in alcohol consumption?

**John Swinney:** On the general point, there is a pretty well-proven connection—which has been articulated powerfully by the chief medical officer, Sir Harry Burns—about the relationships between inequality, deprivation, low incomes and low self-esteem and the spiral that those factors tend to lead to in terms of a variety of undesirable social consequences that are damaging to people's health, such as excess alcohol consumption or smoking. Any form of smoking is bad for people: that includes some smoking as well as excessive smoking. I accept the analysis that there are relationships between all those factors, and that the welfare reform agenda could impact negatively on all those factors.

**Gavin Brown:** I accept that increased stress might lead to an increase in smoking; that point is clear enough to me. However, welfare reform cannot both increase and reduce alcohol consumption. Is the Government's view that it will reduce alcohol consumption, as outlined in the written evidence from NHS Highland, or increase it?

**John Swinney:** I doubt that welfare reform would reduce alcohol consumption.

**Paul Wheelhouse:** My understanding of the evidence is somewhat different from Mr Brown's. NHS Highland said that people may experience a reduction in income through the welfare reform changes, which might suggest that people would reduce their consumption of alcohol because they would have less money. However, it suggested on the other hand that, because of the pressures of stress and other mental health issues, there is an increased likelihood of addiction to alcohol that might have the countereffect of people spending a larger proportion of their income on alcohol. Do you agree that that is a potential scenario?

**John Swinney:** I can see how, if people who are on benefits experience an abrupt reduction in benefits and find themselves in financial difficulties because of that, their stress levels will increase, along with their propensity to indulge in inappropriate alcohol consumption.

**The Convener:** I was going to come in on that issue as well, but I think that we have covered it.

Now that committee members have finished their questioning, I will ask a couple of final questions. The UK Government has announced its intention to reduce expenditure on disability by 20 per cent, with the broad assumption that some people who currently receive disability benefit will

not do so under the new regime. What discussions have you had with the UK Government on that aspect of welfare reform?

**John Swinney:** It would be fair to say that in our discussions with the UK Government there has been no meeting of minds on that question. It will form part of the dialogue about our clearly being in a different place from the UK Government on the welfare reform agenda.

I also think that there is something difficult to evidence in respect of an abrupt statement about reducing disability benefits by 20 per cent. It raises a question: How? One can, of course, reduce any budget by 20 per cent, but on what basis will the reduction be made? On what grounds? What approach will be taken? What is the evidence? Not only is the figure quite arbitrary, but the statement itself is likely to cause very real alarm. As we know, there are people in our society who, for entirely understandable reasons, are utterly dependent on disability benefits and we know that some people on such benefits could be supported back into employment. However, to state that disability benefits are going to be reduced by 20 per cent only raises a lot of questions about the basis on which the decision has been taken.

**The Convener:** On the administration subsidy from the DWP to administer housing and council tax benefit, we have been advised in evidence that "there is almost no additional cost involved in administering the current"

council tax benefit

"scheme, as it 'piggy backs' onto the HB claim. Therefore, Local Authorities could be faced with reduced admin subsidy but still have the same costs in administering the scheme."

Basically, councils will still have to lay out the same amount of money to administer the scheme, but the UK Government will give them less money for that purpose. Given COSLA's great concern about the impact of such a move on local authorities, has the Scottish Government discussed the issue?

**John Swinney:** Those are material points in the discussion about the transfer of administrative costs from the DWP to local government in Scotland, and we continue to have a dialogue on that with the DWP.

However, I want to make what I think is a material point that should guide our thinking on the matter. I refer the committee to the UK Government document, "Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly: Statement of Funding Policy". Although I am not a signatory to that document—it is signed by the Chief Secretary to the Treasury and the Secretary of State for

Scotland—and although it does not have my consent, it nevertheless applies to me and my approach. Subparagraph 8 of paragraph 3.2 of the document says:

“where decisions taken by any of the devolved administrations or bodies under their jurisdiction have financial implications for departments or agencies of the United Kingdom Government or, alternatively, decisions of United Kingdom departments or agencies lead to additional costs for any of the devolved administrations, where other arrangements do not exist automatically to adjust for such extra costs, the body whose decision leads to the additional cost will meet that cost”.

**The Convener:** Do you expect the DWP to honour that?

**John Swinney:** I expect the DWP, as would be consistent with the statement of funding policy, to honour its commitments to fully fund administrative costs in Scotland. Anything else would be a very serious breach of that statement.

**The Convener:** Is there any sign that the DWP will honour the commitment?

**John Swinney:** The issue is still under discussion.

**The Convener:** Finally, a lot of concern has been expressed in evidence about the timing of the reforms and whether everything will be in place. We began our discussion on data, and I have to say that there is a lot of concern about implementation. I realise that one or two changes have come through already, but how confident can we be—whether or not we agree with the changes—that they can be implemented by 1 April and that local authorities and other agencies will be able to cope?

**John Swinney:** To be frank, I think that there are many challenges to face. For example, with regard to the council tax benefit issues that reside within my portfolio, statutory instruments that we will lay before Parliament later this year will essentially set out the design of the council tax relief arrangements that will be put in place. However, we are having to formulate them without having clear information about the details of universal credit. Although the draft regulations that the DWP has made available have helped, they do not give us a definitive proposition. The approach that I am talking about will have to be in place in about 10 months. In the grand scheme of things, the process is not enormously complicated; there is far more complicated stuff than that to come, and it will all begin to be rolled out on 1 April 2013. As a result, I think that there are some very significant issues about which we should be very concerned.

**The Convener:** I thank the cabinet secretary and his colleagues for attending the meeting.

We move into private session.

15:01

*Meeting continued in private until 15:50.*

---

Available in e-format only. Printed Scottish Parliament documentation is published in Edinburgh by APS Group Scotland.

All documents are available on  
the Scottish Parliament website at:

[www.scottish.parliament.uk](http://www.scottish.parliament.uk)

For details of documents available to  
order in hard copy format, please contact:  
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000  
Textphone: 0800 092 7100  
Email: [sp.info@scottish.parliament.uk](mailto:sp.info@scottish.parliament.uk)

e-format first available  
ISBN 978-1-4061-9220-9

Revised e-format available  
ISBN 978-1-4061-9231-5