



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# WELFARE REFORM COMMITTEE

Tuesday 16 April 2013



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**WELFARE REFORM COMMITTEE**

**8<sup>th</sup> Meeting 2013, Session 4**

**CONVENER**

\*Michael McMahon (Uddingston and Bellshill) (Lab)

**DEPUTY CONVENER**

\*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

**COMMITTEE MEMBERS**

\*Annabelle Ewing (Mid Scotland and Fife) (SNP)

\*Linda Fabiani (East Kilbride) (SNP)

\*Iain Gray (East Lothian) (Lab)

\*Alex Johnstone (North East Scotland) (Con)

\*Kevin Stewart (Aberdeen Central) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Margaret Burgess (Minister for Housing and Welfare)

Professor Steve Fothergill (Centre for Regional Economic and Social Research, Sheffield Hallam University)

**CLERK TO THE COMMITTEE**

Simon Watkins

**LOCATION**

Committee Room 5



## Scottish Parliament

### Welfare Reform Committee

*Tuesday 16 April 2013*

[The Convener *opened the meeting at 10:01*]

### Decision on Taking Business in Private

**The Convener (Michael McMahon):** Good morning, everyone, and welcome to the Welfare Reform Committee's eighth meeting in 2013. I ask everyone to switch off any electronic equipment that they have, such as mobile phones.

Agenda item 1 is a decision on taking in private item 5, which is consideration of a draft motion for a forthcoming debate. Do members agree to take item 5 in private?

**Members** *indicated agreement.*

## The Impact of Welfare Reform on Scotland

10:01

**The Convener:** Item 2 is consideration of research on the impact of welfare reform on Scotland. The committee commissioned a report from Sheffield Hallam University, and we have with us Professor Steve Fothergill, who is one of the academics who carried out the research. We extend our thanks to him for that work.

I will hand over to you, professor, to give a presentation and talk us through the research document that you produced. After that, we will have a discussion and questions on it, if that is okay.

**Professor Steve Fothergill (Centre for Regional Economic and Social Research, Sheffield Hallam University):** That is fine.

Good morning, colleagues. The research was a joint piece of work, by the way. You will see my colleague Christina Beatty's name on the front of the report, alongside mine. She is also a professor. The report was very much an effort by the pair of us, but I tend to be the one who does the fronting up at events such as this.

You are probably asking what an Englishman is doing here talking about the issue. Tina Beatty and I have done quite a lot of work on welfare reform. About 18 months ago, we did a study on the incapacity benefit reforms, which I think was particularly why the committee's clerk, Simon Watkins, approached us to do this piece of work. I am also no stranger to Scotland, so I am not entirely just some intruder.

Bear with me this morning, because I am suffering from something of a cold. If my eyes start streaming, it is not because I am crying about the welfare reforms.

I will make a few general points by way of introduction to the report. The first point, which is crucial, is that we were asked to document the impact of the welfare reforms but not to comment on their merits. Obviously, you as individuals—and even I as an individual—have views on the merits or otherwise of the reforms. However, that is not what the report is about. It is about tracking the impact of the reforms on Scotland as a whole and on each of the constituent local authorities in Scotland.

The work that the committee commissioned was part of a much bigger exercise. You might look at the report that you have got and think, "Wow! Did we really get that for £5,000?", which is I think what you put in. The answer is no. The work was

co-financed by the *Financial Times*—would you believe it?—and by my university, which is Sheffield Hallam University. At the same time as the report was issued last week in Scotland, a parallel report was issued that covered Great Britain as a whole, which got quite a lot of publicity south of the border.

I should apologise to the people at the back of the room, because they might struggle a little if they cannot see the screen. [*Interruption.*] That is good—they can see it.

A lot of things are going on simultaneously in welfare reform. In our report on Scotland, we cover nine reforms, including the housing benefit, incapacity benefits, disability living allowance and child tax credits reforms and the 1 per cent uprating in benefits.

As the committee will know only too well, some of those reforms have individual components. For example, the local housing allowance is the part of the housing benefit reform that applies to the private rented sector and it comprises several components, such as the shift from the 50th to the 30th percentile for setting rents, new rules on how old people have to be in order to have single occupancy of premises, the removal of what were called excess payments and so on. Even the reform of child benefit is an amalgam of a couple of individual reforms, such as the three-year freeze in the value of child benefit and the removal of that benefit from households with a high earner. There is a lot going on in that respect.

Anyone who looks down the list of reforms that we cover in the study will think, “Ah! Aren’t there some omissions?” There are, but they have been omitted for very good reasons. We did not include universal credit, for example, because it is best understood as a repackaging of existing benefits. Although it introduces new consistent withdrawal of benefit rates as a person’s income rises, the rules for accessing the different component parts of universal credit stay the same. Moreover, unlike the reforms that we cover in our report, universal credit is not expected to result in a net reduction in benefit entitlement. It is being introduced slowly and gradually, and we will not see its full impact until about 2018.

We did not cover council tax benefit. The issue is very important in England, but I note that Scotland has found its own solution to the 10 per cent reduction in council tax benefit that the Westminster Government has imposed.

There have been changes in the rules on income support for lone parents. For someone to qualify for IS as a lone parent, their youngest kid now has to be under five rather than under seven. On the other hand, if someone does not qualify for

IS as a lone parent, they will be eligible for jobseekers allowance at exactly the same rates.

We did not cover the move from the retail prices index to the consumer prices index for uprating, because that is a much wider public sector accounting reform that affects a wide range of public sector pensions, as well as benefits. Even so, our study covers a pretty formidable list of reforms.

How have we estimated the reforms’ impact? Ultimately, the figures in our report are all rooted in official Government statistics. For example, we know how much the Treasury in London expects to save from each element of the reforms, and we can build on that solid ground. We also have the Westminster Government’s impact assessments of each reform, which give us some guidance on where and how many people will be affected. Crucially, we also know from official statistics where the benefit claimants are, which enables us to begin to move from the big spending reductions that the Treasury expects to how much impact there will be locally.

At the risk of sounding like a statistical anorak, I should point out one or two things that members need to bear in mind as we run through the statistics. First of all, some of the welfare reforms affect households, whereas others affect individuals. For example, the incapacity benefit reforms are about individual entitlement, while the housing benefit reforms are about household entitlement. As a result, we will have to slip slide between the two a little.

We should also bear it in mind that some people will be hit by more than one element of the reforms. Their impact will almost exclusively and overwhelmingly be felt by working-age benefit claimants; they will barely touch individuals above state pension age. That said, those over 65 who receive housing benefit in the private rented sector will be affected.

We have calculated the impact when the reforms are fully implemented, which, in most instances, will be in 2014-15. Essentially, we have had to hold everything else constant in those calculations; for example, we have made no assumptions about the growth of the national or Scottish economy or the trajectory of unemployment here or across Britain. Of course, ministers in London have said that the welfare reforms will lead to a higher employment rate. I have to say that we are a bit sceptical about that claim, particularly given the context of weaker local economies at a time of slow growth in the national economy, but we have made no assumptions about the impact on employment.

Let us get into the numbers. First, on the overall impact of the reforms on Scotland, we estimate

that the reforms under way will take £1.6 billion in income out of the Scottish economy each year. Bearing it in mind that the figure for Britain as a whole is just under £19 billion, I think that that £1.6 billion seems pretty much in the right order of magnitude.

Some reforms will take out much more money than others. My next slide shows a table with columns; one sets out the absolute loss of money from the Scottish economy and another the average loss per adult in Scotland of working age—that is, between 16 and 64. That table contains a number of interesting aspects.

The “bedroom tax”—I put that in quotation marks; I know that it is not the proper name, but it is the term by which we generally understand the element of housing benefit reform that affects spare rooms in the social rented sector—is getting a lot of attention, but it is relatively small beer in the overall jigsaw of what is under way. The really big reductions are coming in particular from the reforms to incapacity benefits. Within that, I highlight the time limiting of entitlement to non-means-tested employment and support allowance for ESA claimants in the work-related activity group. The child benefit reforms, the 1 per cent uprating in benefits and the changes to entitlement to tax credits all take away more money than the bedroom tax or the overall household benefit cap.

Looking at the information from the angle of the number of households or individuals that will be affected and how much they stand to lose on average, I note that the child benefit reforms affect the most people; after all, everyone who receives that benefit has had it frozen. Some of the other reforms affect only quite small numbers in Scotland. The best estimate is that the household benefit cap, which was introduced for the first time in London yesterday, will affect only about 2,500 people in Scotland.

10:15

The different reforms will impact in large or small ways on the individuals concerned. The average incapacity benefit claimant who is adversely affected by the reforms can expect to lose something like £3,500 a year. If they are also a disability living allowance claimant and their disability living allowance is reduced, they might expect to lose a further £3,000 a year. Although the household benefit cap will affect a relatively small number of people, it will have quite a large impact on those households.

How does this pan out across the country? First, let us look at the loss per working-age adult per year for each of Scotland's constituent local authorities. Glasgow is up there at the top. We estimate that the average loss in Glasgow will be

£650 per working-age adult—averaging the reduction in benefit income across all the adults of working age living in Glasgow gives us the figure of £650. A number of other older industrial areas—particularly areas in the west of Scotland, such as Inverclyde, West Dunbartonshire, North Ayrshire and North Lanarkshire, and including Dundee—will also be hit quite hard by the reforms. At the other end of the spectrum, Aberdeen and its immediate hinterland will escape much more lightly.

Another way of looking at the same thing is through the absolute financial loss that individual local authorities in Scotland can expect—I mean not the loss to the local authority as an institution but the loss of income in each authority area. We expect nearly £270 million a year to be taken out of the Glasgow economy as a result of the welfare reforms. Slide 11 breaks down where the figure of £270 million for Glasgow comes from. The biggest single contribution is from the reform of incapacity benefits, which we expect to remove more than £90 million a year in benefit income from Glasgow.

There is a clear relationship between the scale of the financial hit, measured per adult of working age, and the extent of deprivation in each authority in Scotland. In the graph on slide 12, the vertical axis measures the financial loss per adult of working age and the horizontal axis measures the share of local data zones in the most deprived 20 per cent across Scotland. Glasgow is represented by the dot at the extreme right of the diagram.

Members will see that there is a very clear relationship: the more deprived a local authority area, the bigger the financial hit. I suppose that that is exactly what we would expect to find, as one of the reasons why some of those areas are relatively deprived is that they have high numbers of people who rely on benefit income. The same relationship exists elsewhere in Britain—it is not unique to Scotland.

How does Scotland compare with the rest of Great Britain? I will take the bottom line first. Scotland is not that far out of line with the GB average. We estimate that the loss to Scotland will be £480 per adult of working age, compared with a £470 average across Britain, so you are pretty much in line with the GB average hit. Some benefit reforms—notably the incapacity benefits reforms—will hit Scotland more, while other benefit reforms will hit Scotland rather less.

Of course, the council tax benefit reforms do not hit Scotland at all. Well, they hit the Scottish Government's budget—do they not?—but they do not hit benefit claimants. If you had not decided not to pass on the reduction in the council tax benefit, the figure of £480 for Scotland would have been about £490, so the gap would have been

slightly bigger between Scotland and the GB average.

How does Scotland compare with the English regions and with Wales? You are pretty much in the middle of that ranking. In truth, compared with northern England, Wales and London, Scotland is escaping surprisingly lightly. The north-west and north-east of England are being hit harder on a per capita basis by the welfare reforms than Scotland is. I presume that that is because, although Scotland these days has some economically weak areas with high levels of worklessness, you also have a number of areas that are quite prosperous. You are not uniformly poor, by any means. On the other hand, Scotland is being hit much harder than some parts of southern England, not least the south-east.

Members will not find the map on the slide entitled "Overall financial loss, by local authority" in the report that we sent to Simon Watkins and the committee. It is taken from the GB-wide report and it maps the overall financial loss per head by local authority across the whole of Britain. You will see that a big swathe of southern England outside London is white on the map, which is where the hit is relatively modest. Only Aberdeen and Aberdeenshire in Scotland manage to equal that part of southern England.

In Britain as a whole, the areas that will be hit most by the welfare reforms are the old industrial areas, such as Glasgow and some other parts of the west of Scotland; a number of seaside towns, interestingly, mostly down in England—Blackpool is the worst hit place of all, incidentally; and a number of London boroughs, where the housing benefit reforms bite very hard.

I will say just a quick word on how Scotland's cities compare with cities in England. Out of 379 local authority districts across Great Britain, Glasgow has the second-biggest financial hit. Only Birmingham has a bigger absolute hit, and of course it has a rather bigger population than Glasgow. On the average loss per adult of working age, out of the 379 districts across Great Britain, Glasgow comes in at 23rd and Dundee at 51st, but Edinburgh and Aberdeen are much further down the rankings at 238th and 299th, respectively.

For when we get into questions and discussions, I have brought along maps—which are fascinating—for each of the benefit reforms. They were not in the report that we sent the committee; they are lifted from the national report, which we also published last week. I will not go through all the maps now and I will try to wrap all this up with some overall conclusions.

First, let me be quite clear: Scotland has not been singled out. The impact of the welfare

reforms in Scotland is broadly in line with the GB averages and rather less than the impact in northern England. However, the impacts are still very substantial and a lot more than those in much of southern England.

Within Scotland, the more deprived areas are being hit hardest. A key impact of the reforms will be to widen the differences in prosperity, not only across Britain but within Scotland, between the best and worst local economies.

**The Convener:** Thank you, Professor Fothergill. Your report was fascinating and you have given us much food for thought.

Alex Johnstone is keen to ask the first question—I do not understand why, but I will let him do so.

**Alex Johnstone (North East Scotland) (Con):** Thank you, convener. When the report was published in Scotland, the media headlines were about a £1.6 billion loss to the Scottish economy. I have difficulty with how the effect was expressed, fundamentally because I think that the redistribution of wealth through taxation is ultimately a zero-sum game. Money that is channelled into benefits is money that is drawn from the economy through taxation, either now or in the future.

Can we explore where the estimate came from? Are we talking about money that is currently transferred into Scotland from somewhere else? Is it money that in essence is being borrowed and will have to be paid back at some point? Should the figure, by and large, be taken in the context of other changes and measures, which will leave substantially more money in the Scottish economy? I am thinking about changes to tax thresholds, for example.

**Professor Fothergill:** How the report was presented in the press was not necessarily of my making—do not hold me to account for the figures that the press decided to latch on to.

I want you to have confidence in the £1.6 billion figure, because it is deeply rooted in the Treasury's statistics. We know from Treasury figures that just under £19 billion a year will be taken out of the economy through welfare reforms. How much will be taken out of the economy in Scotland? I am very confident that £1.6 billion is in the right order of magnitude.

You raised wider macroeconomic issues, in a sense, which were not part of the report. It was not our job to ask what would have happened if the welfare reforms had not been undertaken. We were asked simply to document the impact of the reforms, not to set up a counterfactual on what would happen if they did not take place—whether taxes would have to be raised and so on. That



gets us into other territory—I could shoot from the hip on that, but it would be inappropriate to do so, because we were not asked to go into whether such a figure could be found through higher taxes, borrowing or whatever.

**Alex Johnstone:** However, in a macroeconomic sense, it would be reasonable to say that the figure should not be taken in isolation.

**Professor Fothergill:** No more so than any other expenditure, I suppose. In the report we documented the impact on Scotland and elsewhere of a particular set of actions. I accept that we looked at part of the jigsaw, not the overall jigsaw.

**Alex Johnstone:** Another conclusion that some elements of the media drew, which I found difficult to understand, was that welfare expenditure is a significant economic driver in some areas. It was argued that the removal of £1.6 billion from the Scottish economy would have economic impacts. I take it from the way in which you have presented the report and what you have said that you do not draw a conclusion about economic impact, in so far as you are not suggesting that the removal of that money from the economy is a negative economic driver.

10:30

**Professor Fothergill:** We are looking at one element of what is going on in the world. If that much spending power—income, in fact—is taken out of an economy, that will have a negative effect.

In a sense, you are asking whether we would have had to take the income out in some other way. We are looking at only one bit of the jigsaw: the scale of the reduction in income arising from the welfare reforms. That will affect local economies and it will have a bigger impact in some places than in others.

**Alex Johnstone:** I could take that further, but perhaps this is not the right forum in which to do so.

To return to what I said earlier, you have made it clear that, as a result of the change, there is no particular net transfer north or south of the border—the figures are roughly similar on either side.

**Professor Fothergill:** I am saying that the financial impact in Scotland is roughly in line with the average financial impact in England and Wales.

**Alex Johnstone:** I raised that point because, as my final question, I will ask you to say a little about the net transfer effect within Scotland of the changes. Can you say what the net transfer of wealth within Scotland is?

**Professor Fothergill:** We have documented what we believe to be the impact on individual local authority areas in Scotland. The impact will be far greater on a per capita basis in some areas than in others, so in that sense it will widen the differences in income between places. As slide 12 shows, there is a clear relationship between the impact of the reforms and the scale of deprivation. The reforms will have a bigger financial impact on the less prosperous and more deprived local authority areas in Scotland.

That is inevitable—in truth, a PhD in economics or something like that is not required to work out that welfare reforms will hit hardest where there are large numbers of people who claim welfare benefits. What we have done is to demonstrate and document the scale of the difference.

**Alex Johnstone:** So the net effect is more noticeable within Scotland than it is between Scotland and the rest of the United Kingdom.

**Professor Fothergill:** Yes, that is true.

**Kevin Stewart (Aberdeen Central) (SNP):** I thank Professor Fothergill for his presentation. I know that the professor was tasked with a specific job in producing the report, but we should highlight the fact that even though there are areas—including my constituency of Aberdeen—where the impact on the economy will be less than in many other places, that is not to say that there will be a difference in the impact on individuals and households who are affected by the changes. As I have said on many occasions in this place and elsewhere, it is sometimes worse to have poverty amidst plenty, as we have in the great city of Aberdeen.

My question is on the decision by Professor Fothergill and his colleagues not to deal with the RPI to CPI benefits uprating. Even though the UK Government had made those accounting changes, there is still that impact. If you were to go with what was the case before, what would the impact be on the economy in Scotland?

**Professor Fothergill:** Do you mean the impact of the RPI to CPI uprating?

**Kevin Stewart:** You said in your presentation that the Scottish Government figures, which include that uprating, expressed that difference. What do you estimate the difference would have been?

**Professor Fothergill:** I cannot pin that down precisely. In terms of the absolute amounts of money that we are talking about, the Treasury saves a substantial amount on the change from RPI to CPI uprating. However, it is a reform that affects things well beyond welfare benefits. Ultimately, for example, it affects my pension as a

university employee. It is a wider public sector accounting reform.

In fairness, we agonised about whether we should include the uprating; it strays over into being a wider reform beyond welfare benefits—we discussed this at some length with the *Financial Times* team, who sponsored the research, as well—so we decided that it was not appropriate to include it. The judgment was that the move from RPI to CPI is a public sector accounting reform rather than a welfare reform.

**Kevin Stewart:** That wider reform, which obviously has an impact on welfare as well as on a number of other things, has an even greater impact on the economy—for example, your spending power in the economy will go down in later years because your pension may not be as much as it was going to be. That change in the economy has an impact on welfare.

**Professor Fothergill:** Yes—there is an impact on welfare, but the impact goes far wider than welfare. It is hard to define where welfare reform starts and stops; when we got into the details, we realised that it is fuzzy at the edges.

**Kevin Stewart:** We recognise how difficult it is to assess the impact of the changes. You have not included the impact of the reduction in council tax benefit in Scotland because the Government here has mitigated that cost for folk who would have been affected. I think that you said that the total cost per head, if it had not been mitigated, would have been around the £490 mark. Is that correct?

**Professor Fothergill:** Yes—the cost would have been about £10 to £15 more per head if that step had not been taken. Of course, there is an impact on Scotland because the Scottish Government's budget is being reduced. Again, this is about fuzziness; we have to set boundaries on what we are trying to do and we have been trying to document the impact on people who are in receipt of welfare benefits.

**Kevin Stewart:** Again, however, there will be an impact on folks because although there has been mitigation, that money cannot be spent on other areas in Scotland—areas that it could have been spent on if not for the mitigation.

On the overall situation, just to put this point to bed—because there has been a degree of misreporting in the press, which has not been helpful—your report looks at people of working age as a whole, and it should be stated again and again that welfare reform will have the same effect on individuals across the country, whether they live in Aberdeen or Glasgow, if they are currently on welfare. Is that a true reflection of what is in your report?

**Professor Fothergill:** Yes, that is correct. A person who lives in Aberdeen who will be affected by an element of the reforms will not lose any less than a person in Glasgow who is affected, but in Glasgow far more people will be affected by the reforms. We had to scale the impact of the reforms against something; scaling the impact against the overall population of working age in each place seemed to give us the best measure of the intensity of the impact on particular places. That is not quite the same as the intensity of the impact of the reforms on individuals, which will be much the same everywhere.

**Alex Johnstone:** I want to raise a point about the difference between CPI and RPI. Last year we uprated benefits by inflation, which worked out at 5.2 per cent. To use CPI instead of RPI would reduce the amount by which benefits would rise. However, a 1 per cent cap defined through CPI is actually more generous than a 1 per cent cap defined through RPI. So, if we changed from CPI back to RPI we would actually be limiting the growth of benefits more than we currently are.

**Professor Fothergill:** No—it has been a flat 1 per cent increase. It is not related to RPI or CPI. We have broken from CPI.

**Kevin Stewart:** Absolutely.

**Professor Fothergill:** The decision of the Westminster Government has been simply to uprate by 1 per cent—not by CPI or by RPI.

**Linda Fabiani (East Kilbride) (SNP):** You are getting desperate, Alex.

**Jamie Hepburn (Cumbernauld and Kilsyth) (SNP):** I thank Professor Fothergill for his presentation. I want to return to the macroeconomic issues that Alex Johnstone raised. The point was made that the £1.6 billion that you identified is not being withdrawn from the Scottish economy. Surely that would be the case only if an equivalent £1.6 billion was being handed back to other people within Scotland. Broadly speaking, is that correct?

**Professor Fothergill:** Yes, I suppose it would be. We have been looking at just one piece of the jigsaw in isolation.

**Jamie Hepburn:** Indeed.

**Professor Fothergill:** We have been trying to document the impact of what is going on in terms of welfare reform. From the point of view of the Treasury down in London, it has to balance what it does in welfare reform with what it does in taxation and so on.

**Jamie Hepburn:** I accept that. I was just questioning the underlying assumption that the money could not be described as £1.6 billion being withdrawn from the Scottish economy. You have

confirmed that that would be the case only if £1.6 billion was returned in the same year—albeit not necessarily to the same people in Scotland.

I want to move on to the idea that welfare is not a significant economic driver. I have explored that in the Finance Committee with the Institute for Fiscal Studies, which is not exactly renowned for its left-wing approach to economics. It said that people who are in receipt of benefits are not saving the money for a rainy day but are spending it in the local economy. In your opening comments you questioned the underlying assumption that the welfare reforms are in themselves likely to lead to an increase in employment at a time of weaker local economies. I presume that there is the potential for local economies to be weakened by the withdrawal of £1.6 billion. I accept that some of that will be spent on housing costs, but would not some of it be income to be used as a significant economic driver?

**Professor Fothergill:** If we are assuming that the money that is being taken out through welfare reform is not being compensated for by money being put in by, let us say, lower taxes, there will be a significant loss of spending power. Although this is not territory that we have covered in the report, I am aware that plenty of research demonstrates that welfare benefit claimants actually spend most of, if not all, their income, whereas more affluent groups can afford to put some away for a rainy day. You would therefore expect most of that loss of income to feed through fairly directly to a loss of spending. That, in turn, will have a bigger impact in some places than in others. It will widen the differences in spending power across Scotland and across Britain as a whole.

10:45

**Jamie Hepburn:** I have a final question in relation to council tax benefit, on which Kevin Stewart remarked. You set out in table 3 in the report that there is no loss per working-age adult in Scotland but the average across Great Britain is £10 per adult per annum. What is the picture on an area by area basis in Great Britain? Council tax benefit has been very localised in England and some areas must be worse than others. Can you go into that a little?

**Professor Fothergill:** The map on slide 21 is a picture of the impact of the council tax benefit reforms. In Scotland and Wales the cut is not being passed on to claimants. In England there is a very variable picture that primarily reflects political choice. One or two parts of England have also decided not to pass on the reduction and to absorb the loss of income in local authority budgets. That has been the case in Northumberland and County Durham, for example.

In other instances, local authorities have made the judgment that they must pass on the cut because they cannot afford the loss of revenue. Of course, it can then be passed on only to working-age claimants because the Westminster Government has said that the reduction cannot be passed on to council tax benefit claimants of pension age. Depending on the structure of a population and claimant group, the impact will be harder in some places than in others. In some places, if an area has a large number of pensioners claiming council tax benefit, the full burden has to be shoved on to relatively small numbers of working-age claimants. The map on slide 21 is from the national report.

**Jamie Hepburn:** To clarify that, are you saying that some working-age recipients will be hit harder than the 10 per cent reduction?

**Professor Fothergill:** Yes. In fact, in areas where the council tax benefit reduction is being passed on, the impact will almost always be more than 10 per cent for working-age claimants, because local authorities cannot pass the reduction on—they are not allowed to pass it on—to pension-age claimants. Typically the reduction is more like 15 to 20 per cent of council tax benefit.

**Jamie Hepburn:** On the map on slide 21 that you helpfully put up for us, are the areas where the impact is greatest on working-age recipients just a reflection of demography?

**Professor Fothergill:** The map is a combination of demography and political choice. We can see the political choice in Scotland and in some counties in England. Elsewhere, the finer grain reflects demography, at least in part.

**Iain Gray (East Lothian) (Lab):** My question is probably not very fair but I am intrigued. You have explained clearly how you went about making your estimates of impact. Have you had the chance to look at any other estimates for comparison? Do not get me wrong—£1.6 billion is a huge amount of money, but there have been a couple of other recent estimates of the impact of welfare reform in Scotland in terms of what it will take out of the economy.

Citizens Advice Scotland estimated—this is from memory, so I may get it wrong—that the figure would be £2.5 billion. I think that the Deputy First Minister used a figure of £4 billion not so long ago at a conference. I am intrigued as to why there is a difference.

**Professor Fothergill:** I have had a look at those other statistics. Let me be clear that what we are talking about is an annual loss of £1.6 billion once the reforms are fully implemented. Some of the other figures that you quoted—I suspect that this applies in particular to the figures that were

quoted by the Deputy First Minister—are not annual but are cumulative over several years. I think that that explains the disparity between the £4.5 billion, which is the figure that I picked up in some press reports, and our figure of £1.6 billion.

The work that was produced by the Scottish local government forum against poverty and Rights Advice Scotland came up with a lower figure than we did. When we crawl over the statistics in that study—I am always keen to crawl over statistics and to understand why there is a disparity—we find that it did not include or fully cover several key elements of the reforms. In particular, it did not cover the incapacity benefit reforms as fully as it should have done.

The Treasury is talking about nearly £19 billion being taken out of the UK economy under the reforms, and Scotland accounts for about 8 per cent of the UK population, so that figure of £1.6 billion a year feels like it is in the right territory.

**Iain Gray:** You are pretty confident that that is the figure for each year, all other things being equal.

**Professor Fothergill:** I am very confident about the figure—although it will depend on the situation when the reforms are fully implemented. As I said earlier, for most of the reforms, that means 2014-15, but some of the incapacity benefit and disability living allowance reforms will come in a little further ahead. The full impacts of the DLA reforms will not come through until 2017-18, but they are coming in gradually. When all the reforms are fully in place, the figure will be of the magnitude that I suggest. I am very confident in that.

**Iain Gray:** Another point that you have made a number of times—Kevin Stewart rightly picked up on this—is that the figures are overall or local authority area figures. For some of the reform changes, the table suggests that the impact might not be nearly so much. However, the impact on the individuals or households who are affected by the cap or the 1 per cent uprating is very significant. Kevin Stewart eloquently made the point that the impact is just as bad for somebody who is affected even if they happen to be living in Aberdeen, which is a more prosperous city.

Even more strikingly, you pointed out in your presentation that some individuals might be hit by more than one of the measures. You gave the example of somebody who might—if I understood correctly—lose as much as £6,500, which I am sure represents an enormous amount to lose.

**Professor Fothergill:** Absolutely. One thing that we cannot do, because it would require a bigger research exercise than we have done, is consider the level of the individual and cases of

individuals who receive several of the benefits, and to work through the consequences for them.

We have considered the impact of each of the reforms in isolation—I refer back to slide 8. We know that somebody who is affected by the incapacity benefit reforms might lose £3,500. If they are also affected by the disability living allowance reforms, that is another £3,000. At the same time, they might also be affected by elements of the housing benefit reforms, so £6,500 is by no means the ceiling at the level of the individual. There is also the 1 per cent uprating. We know how many people claim each of the individual elements, but when it comes to adding the number of people claiming all the benefits and factoring in the 1 per cent uprating, we should be aware of the possibility of double counting.

**Iain Gray:** That relates to my question. The committee has been concerned to ascertain the impact on households and individuals. Generally, we have done that by taking evidence from individuals who are affected. My question to you is to ask whether there is a statistical methodology that would allow you to measure the impact in that way. Should we think about pursuing that with you as a follow-up?

**Professor Fothergill:** That could be done for Scotland as a whole, but not at the fine geographical scale on which we have carried out our analysis. I am not aware that the fine-grained data exist to allow it to be done for Glasgow, Aberdeen or Edinburgh. We have come at the issue from the particular angle of documenting the geographical impact. The Institute for Fiscal Studies, on the other hand, has come at it from the angle of documenting the impact on different sorts of individuals or households; however, it does not have any geographical information and therefore does not differentiate between Scotland and south-east England or between Glasgow and any other city. There might be a halfway house. We could probably crack it for Scotland but, as I have said, I doubt whether we could crack it for Glasgow.

**Annabelle Ewing (Mid Scotland and Fife) (SNP):** Good morning, Professor Fothergill. With regard to the stats on pages 8 and 9 of your report, would it be possible to ascertain the percentage reduction in spend per head of benefit claim? Did that form part of your methodology?

**Professor Fothergill:** We would be able to calculate a percentage. Given that we know how much benefit spend goes into each local authority area, I suppose that what you suggest would be possible—and, now that you have suggested it, I am wondering why we did not do it. The results of that exercise would be very interesting.

Very broadly—and I thought of this with regard to the grand picture—we know that about £90 billion of the £200 billion national welfare bill goes on working-age claimants. We are looking at a UK-wide reduction of £19 billion, which, as a rule of thumb, is about a 20 per cent cut in total benefit payments to working-age people.

**Annabelle Ewing:** Given the UK Government's various claims, I would be interested to learn the percentage per head of benefit claim to see what it is in fact doing as a matter of practice as it implements its policies. For example, it said that it wanted to shave 20 per cent off disability benefits—indeed, that was the stated policy intention—and it would be interesting to find out, as a matter of practice, whether that was the very figure that was shaved off or whether it was higher or lower.

I have to say that I am surprised at the figure for tax credits; indeed, I find it quite surprising that, as a matter of policy, one would wish to take away such a considerable sum of money from people who are actually in work, albeit in low-paid jobs and therefore in need of a top-up. Were you surprised by any of the sums in the table on page 9 of your report?

**Professor Fothergill:** Yes. I think that I was surprised by what the sums added up to at the end of the day. I am not sure that the Treasury has published a single figure in that respect; I have quoted £19 billion, but that figure has been totted up from lots of individual figures in lots of budget statements, autumn statements, spending reviews and so on. In that sense, it is an official figure. I did not realise that it would be quite as large.

The reduction in tax credits amounts to £3.6 billion in Britain as a whole, which approaches 10 times the amount of the bedroom tax. It is a very large figure indeed. Of course, tax credits tend to be spread across much larger numbers of individuals and the reform will not necessarily have such a hard impact on such a relatively large number of individuals. The average loss as a result of tax credit reform is £810, but the loss for those affected by DLA or incapacity benefit reforms is much bigger.

11:00

**The Convener:** I will allow a small supplementary from Kevin Stewart.

**Kevin Stewart:** I have a small supplementary question about the slide that contained a map showing the effect of the council tax benefit changes. Given that benefits such as council tax benefit can go to folks who are in work, has any analysis been done on what percentage of those who are affected by the changes are in work as opposed to out of work for whatever reason?

**Professor Fothergill:** We have not done that, but it would be possible. Let us not slip into the assumption that the welfare reforms all impact on claimants who are out of work. The reforms to child benefit will mostly fall on people who are in work. The changes to working families tax credit will affect those who are in work. Child tax credit can be claimed by people who are not in work, but it mostly goes to people who are in work. Some of the housing benefit payments are to people in low-wage jobs. It would be possible to do such an analysis, but we were not asked to do that for our report.

**Kevin Stewart:** Thank you for that. We certainly do not make that assumption. We know that working families are being particularly badly hit in many areas because of the reforms.

**Linda Fabiani:** I suppose that my question is quite apposite now, given that so many others have asked similar things. Professor, it struck me earlier that you became very involved in the research, as you would, and you are very interested in what you are doing. From your point of view—and from Christina Beatty's point of view—if you were commissioned to undertake further detailed work as a result of the report, what do you think it would be most useful to research?

**Professor Fothergill:** I suppose that a number of avenues have been identified in our discussion today. Perhaps working things through a bit more at the level of the individual or household would be an interesting area of research. However, I would not like to shoot from the hip in giving a definitive answer. I would need to think about that and discuss it back at base.

The reforms are a major change that will have an impact in Scotland and elsewhere in the country, and they need to be properly understood. As far as I am aware, this is the first time that we have had a comprehensive picture of where the impacts of the reforms will be felt. That is quite a step forward, but the report details just one part of an immense jigsaw.

**Linda Fabiani:** Further to that, at what point would it be academically right to go back and look at the actuality as compared to what is in the report?

**Professor Fothergill:** I have presented only forecasts, which are rooted in the forecasts produced by the Treasury or the Department for Work and Pensions for particular welfare reforms. In a couple of years' time, it would be very useful indeed to see whether those forecasts have proved correct.

It has certainly been the case that some of the initial forecasts about the incapacity benefit reforms, which have been going on since the previous Labour Government, have proved to be seriously wide of the mark. I remember that the

initial assessment was that the new medical test for incapacity benefit—that is, the work capability assessment—would result in only 10 per cent of incapacity benefit claimants no longer qualifying for the replacement employment and support allowance. In practice, that has been much more like 30 per cent, so the impact has been much more dramatic than was originally estimated. Therefore, yes, at some stage it would be very useful to go back and look at how things have worked out in practice.

For example, I notice that a couple of days ago the Government revised its figure on the number of people who will be hit by the household benefit cap. We have quoted a figure of 56,000 households in Britain as a whole, but the Government has revised that to 40,000, so things do move.

**The Convener:** I have a couple of questions on which I seek clarification. In the report, footnote 10 to the text accompanying table 4 explains that the Welsh Government carried out its own research in 2012. The final sentence of the footnote states:

“The present report also deploys more sophisticated methods for estimating the local impact of several of the reforms.”

Are you saying that your report employs more sophisticated methods than those of the Welsh Government?

**Professor Fothergill:** Yes. Let me nail my colours to the mast by saying that I think that we have done a very thorough job here. We have pushed the edges of the envelope in terms of what is possible in documenting the impact of welfare reform on places. We have brought to bear far more detailed information than in previous studies, which have nibbled at the edges of the issue. I am saying there that we have done a good job.

**The Convener:** To test the thoroughness of that, let me ask another question. The map on the slide showing the effect of the council tax benefit changes shows clearly that the council tax benefit reform has not had the same impact in all areas. Geographically, we can see that the cut was not passed on in Wales, where the Assembly Government made up the difference, or in Scotland or in some areas of England.

Presumably, the figures given in table 2 in the report, which show the loss per working-age adult by local authority area, are accurate in terms of the cost of that change for individuals. However, for the column giving the estimated loss per local authority, in Scotland the £40 million cost of ensuring that the council tax benefit cut was not passed on was shared between the Scottish Government and local authorities. The Scottish Government provided £23 million of that and the local authorities provided £17 million. Table 2 suggests that the estimated loss for Glasgow, for example, is £269 million. Does that include

Glasgow City Council's share of the £17 million, or would an extra sum need to be added on for its share of the £17 million?

**Professor Fothergill:** No, those figures do not include the £17 million. Our figures show the impact on the claimants or benefit recipients themselves. For Glasgow, you would need to add its share of the £17 million to those statistics.

Convener, can you indulge me for one second? Having brought along all these maps, I just want to flag up a couple of interesting ones that you can see on the slides. This map shows how the child benefit changes will have an impact mainly on the south of England, which is where the high earners are who will lose child benefit. This other map shows the geographical impact of the household benefit cap, which is what got all the publicity yesterday. The map shows that the household benefit cap really affects only London and is not an issue for Scotland.

**The Convener:** An awful lot of those interesting comparisons are made throughout the report. I am glad that we commissioned the study, which I think has been very helpful in helping us to get a clearer picture. I have no doubt that more work will need to be carried out in the years ahead. Now that we have discovered that we have a research budget available, we might tap into it again at some point in the future.

**Professor Fothergill:** Let me say that you got very good value for money, as the other players funded most of the research.

**The Convener:** We may not need such a substantial piece of work next time, but we may need to keep an eye on the issue and keep adding to it.

The work that you have produced is very much welcomed by the committee, and I thank you for the efforts that you put into it. I also thank you for your contribution this morning, which has helped to clarify some of the detail of the report.

**Professor Fothergill:** You are welcome.

**The Convener:** Our next item of business is subordinate legislation, which we have arranged with the minister to start at a certain time. Therefore, I suggest that we suspend the meeting for a few minutes and then go into private session briefly to deal with one of the items in private. Is that okay?

**Linda Fabiani:** When is the minister coming?

**The Convener:** She will be here at 11.30. I will suspend the meeting for two minutes. We will then go into private session to consider one item and then come back to hear from the minister in public at 11.30.

11:10

*Meeting continued in private.*

11:30

*Meeting continued in public.*

## Subordinate Legislation

### Welfare Reform (Consequential Amendments) (Scotland) (No 2) Regulations 2013 [Draft]

#### Education (Free School Lunches) (Scotland) Amendment Regulations 2013 (SSI 2013/64)

**The Convener:** Item 3 is consideration of evidence from the Scottish Government on two pieces of subordinate legislation. We will take evidence on the instruments, both of which relate to passporting from universal credit, from Margaret Burgess, the Minister for Housing and Welfare, and her officials. Once we move to item 4, which is formal consideration of a motion on the affirmative instrument, only the minister and members of the committee will be able to participate.

I welcome Margaret Burgess and her officials, and invite the minister to introduce the topic. We will then have a discussion, if members want to ask questions.

**Margaret Burgess (Minister for Housing and Welfare):** Thank you, convener. These regulations are necessary in order to take account of the introduction of universal credit and are primarily focused on maintaining access to income-related passported benefits during the universal credit pathfinder period. We could have taken the risk that nobody on the universal credit pathfinder scheme would claim passported benefits in Scotland and not undertaken what could be seen now as a procedural exercise. However, I am sure you will agree that we have taken the correct approach in ensuring that no one in Scotland is disadvantaged by being unable to access our benefits while the UK Government rolls out its reforms.

As the committee knows, our intention is to bring forward new qualifying criteria for income-related passported benefits prior to the roll-out of universal credit in Scotland. For the avoidance of doubt, this intention also extends to revisiting the Education (Free School Lunches) (Scotland) Amendment Regulations 2013, which prescribe universal credit as a qualifying criterion for free school lunches. We will be working on the new criteria over the summer and I will ensure that the committee is kept up to date with developments. I am happy to take any questions prior to moving the motions.

**The Convener:** Thank you, minister. When we have had discussions with the third sector about

the way things are moving forward, there has been a repeated message about the need for a review and for the involvement of as wide a range of stakeholders as possible. The evidence shows that the dialogue about those who are affected by the changes has been on-going. Can you reiterate your commitment to continue that dialogue? Secondly, will you give us a commitment that there will be a review at some point so that the implementation of the regulations and their effect are regularly monitored?

**Margaret Burgess:** The commitment to the stakeholders and the third sector that we gave at the very start will continue. We will have meetings in the summer to continue discussions with our stakeholders and that will continue throughout the process.

Your second point, which I have completely forgotten—

**The Convener:** The review.

**Margaret Burgess:** We intend to make regular reviews to see how the matter progresses and to monitor the impact. That will definitely take place.

**The Convener:** That will reassure those who have an interest in the matter.

As there are no questions from members, we move to the debate on the motion. I have had no indication from members that they wish to debate the motion.

*Motion moved,*

That the Welfare Reform Committee recommends that the Welfare Reform (Consequential Amendments) (Scotland) (No.2) Regulations 2013 [draft] be approved.—  
[Margaret Burgess.]

*Motion agreed to.*

**The Convener:** That completes the business. We will now consider our report on the instruments in private session.

11:35

*Meeting continued in private until 11:36.*





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