

Who will be affected by Scotland's new welfare powers?

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25 April 2016

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As a result of the Scotland Act 2016, the Scottish Government will take over a range of disability benefits and the regulated social fund. Together these benefits cost around £2.5 billion in 2013-14. Total spending on benefits, tax credits and pensions in Scotland by the Department for Work and Pensions (DWP) was around £17.8 billion in 2013-14, so those being devolved cover less than one sixth of total DWP expenditure in Scotland. The largest single component of DWP spending will remain the state pension, which cost £7.1 billion in 2013-14. Tax credits cost £2.2bn. They are not included in the analysis of benefits that follows.

We now know from the Fiscal Framework agreement that the increase in the block grant for devolved welfare payments in the first year of their operation will equal spending by DWP in these areas in the year prior to devolution. Subsequently, the block grant adjustment for the new welfare powers will be determined by the Barnett formula: the same mechanism that has been used since 1979 to allocate Scotland's block grant from Westminster. This means that the "welfare" component of the block grant will be incremented each year by Scotland's population share of whatever increase or decrease occurs in spending on the equivalent benefits in rUK. If Scotland's spending per capita on devolved benefits increases more rapidly than that in rUK, then additional funding will have to be found either from taxation or other public spending priorities.

There has been extensive debate around the potential for redesigning Scotland's welfare system. The SNP has extensive proposals which include linking payments of Scottish benefits to inflation, abolishing the bedroom tax, halting the replacement of Disability Living Allowance with PIP, and increasing Carers' Allowance. These will all come at some cost and, as mentioned above, may have to be found either from higher taxation or reduced spending elsewhere.

However, not much attention has been devoted to analysing the client groups who currently receive one or more of the welfare benefits that has been devolved to Scotland. This note attempts to pick out some key characteristics of these client groups. It does so by combining three years of Family Resources Survey (FRS) data. The FRS is an annual survey of incomes, benefits and household circumstances carried out by the Department for Work and Pensions. The Scottish sample comprises around 3000 households each year. After selecting the Scottish sample, benefits were classified as either "devolved" or "reserved" and allocated to adults, benefit units and households.

On the assumption that in the first instance the client groups that will receive the devolved benefits are the same as the existing groups, this note describes how both the devolved and reserved benefits will be distributed across the Scottish population.

Why is this important? Partly because of the political economy associated with any attempted redesign of Scotland's welfare system: if such change is conducted during a period when budgets are constrained, it may be difficult to enhance part of the system without affecting some of the incumbent welfare recipients and/or other parts of Scotland's public service provision. Simple loss aversion arguments suggest that this will be difficult.

In addition, attempts to quantify the "social wage" and how it is distributed across the Scottish population should include estimates of benefit receipt by different subgroups within that population. In addition to benefits and the state pension, the social wage will also comprise consumption of other public services such as health, education, transport et cetera. In relation to welfare benefits and the state pension, it is useful to distinguish between those benefits that are devolved and those that remain reserved, since the former will be amenable to policy influence by the Scottish Parliament.

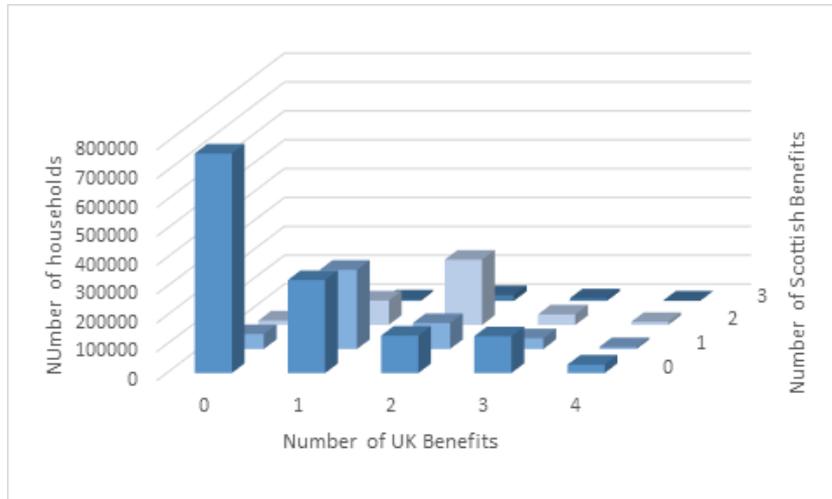
In this note, we focus on welfare benefits received by individuals categorised in a variety of ways. However we begin by making a point relating to the administration of a welfare system where households will receive benefit payments both from the Scottish and UK governments. This will make increased administrative demands on a system that is already highly complex. Thus we begin by investigating how likely it is that households receive benefits from both sources.

- 1. Around 35 per cent of households in Scotland will receive both devolved and reserved benefits. They will therefore receive payments both from DWP and from the new Scottish Social Security Agency (SSSA).**

Figure 1 below shows the distribution of Scottish households by the number of benefits that they would receive from DWP on the one hand and from SSSA on the other. Around 700,000 Scottish families, out of 2.4 million, don't receive any benefits at all. However, 900,000 households, comprising 35 per cent of all households, will receive benefits from both the SSSA and DWP.

Around 500,000 households will receive either one benefit from DWP and one from SSSA or two benefits from DWP and two from SSSA. One example of a common overlap is the state pension and winter fuel payments, both of which are payable to those over pension age.

Figure 1: Number of “Devolved” and “Reserved” Benefits Received by Scottish Households.



Source: Family Resources Survey

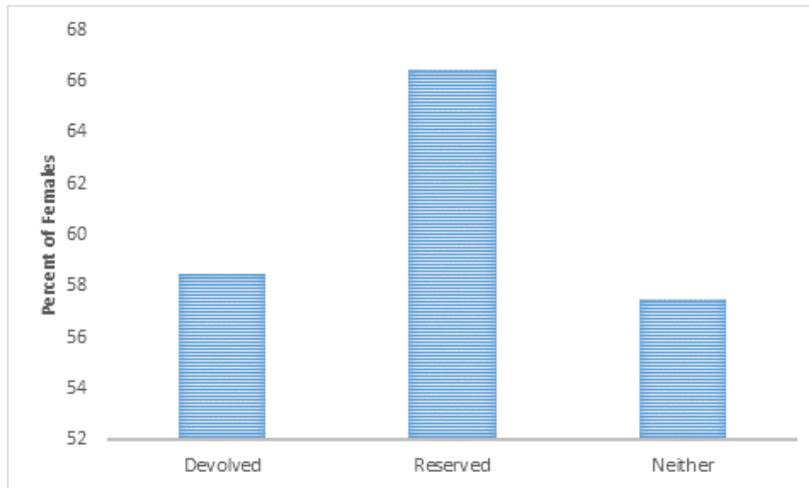
Such overlaps will substantially increase the complexity of Scotland’s new welfare system, particularly where benefits are income contingent and therefore dependent on all sources of income, or where the Scottish Government seeks to modify an existing DWP benefit. It is difficult to see how an effective system for delivery of benefits can be put in place without the closest of cooperation between the DWP and the SSSA.

2. The proportion of devolved benefit recipients that are female is not markedly higher than the proportion of females in the adult population that do not receive any benefits

Next we consider the gender balance of benefit receipts.

Figure 2 below shows the proportion of females that will receive benefits from DWP, from the SSSA and those who receive benefits from neither source. The male proportion can obviously be deduced by subtracting the female proportion from 100. Females are in the majority among Scotland’s adults, due to their greater longevity. However, although females account for 57% of adults who do not receive benefits, nearly 66% of recipients of reserved benefits are female. In contrast, the proportion of females receiving devolved benefits is only slightly above the proportion of females that do not receive benefits from either source. This may reflect the fact that DWP will continue to control benefits that involve children which are paid to the mother, whereas the devolved benefits, as we will see, rarely go to households where children are present.

Figure 2: Proportion of Females Receiving Benefits

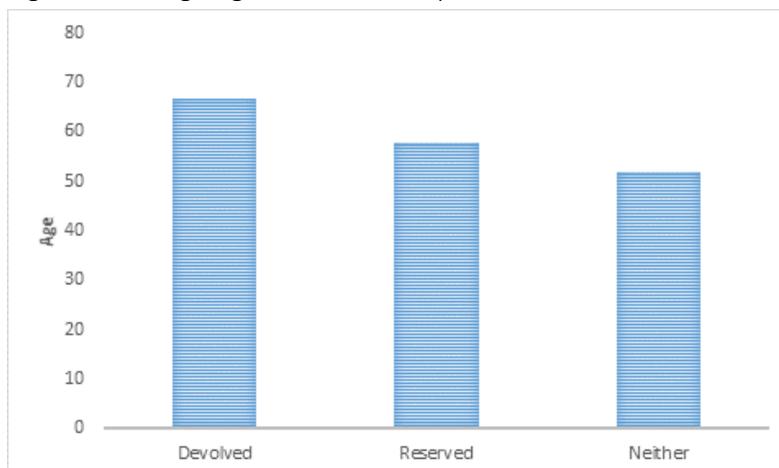


Source: Family Resources Survey

3. The average age of devolved benefit recipients is higher than that of the adult population.

Recipients of devolved benefits are older than the general population. Many of the devolved benefits relate to disability and given that health deteriorates with age, it is not surprising that the average age of devolved benefit recipients is significantly higher than that of those adults that do not receive benefits (see Figure 3). However, it is also true that the average age of devolved benefit recipients is higher than that for reserved benefit recipients. This may reflect the greater focus among reserved benefits on circumstances relating to low income and/or labour market disadvantage. Almost all Scots aged over 60 will receive Winter Fuel Payment, one of the devolved benefits. However, the state pension, payable by DWP to those above state pension age is reserved and it is payable to a client group that is only slightly smaller than those receiving Winter Fuel Payment.

Figure 3: Average Age of Benefit Recipients

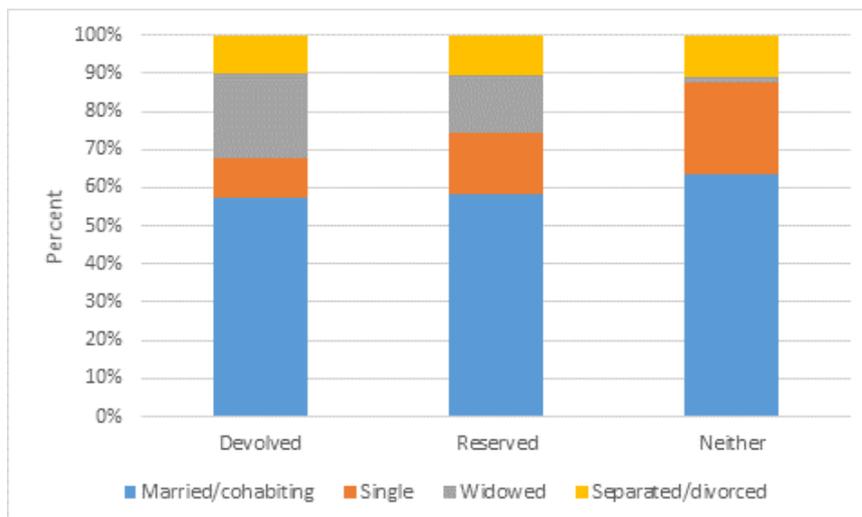


Source: Family Resources Survey

4. Relatively few single people will receive devolved benefits: many widows/widowers will. But the majority of benefits will be paid to those who are married or cohabiting.

Those that have been widowed are typically older. Thus it is not surprising, given our conclusions on the age of reserved and devolved benefit recipients, that quite a large proportion of devolved benefit recipients are widows/widowers. Again this is consistent with the older age profile associated with the devolved the benefits. A larger proportion of those receiving reserved benefits are single, but still less than the proportion of singles among those not receiving benefits. In contrast, the proportion who are married or cohabiting varies relatively little across benefit categories. And for all types of recipient, this group is in the majority, accounting for around 60% of recipients in each case.

Figure 4: Distribution of “Devolved” and “Reserved” Benefits by Marital Status



Source: Family Resources Survey

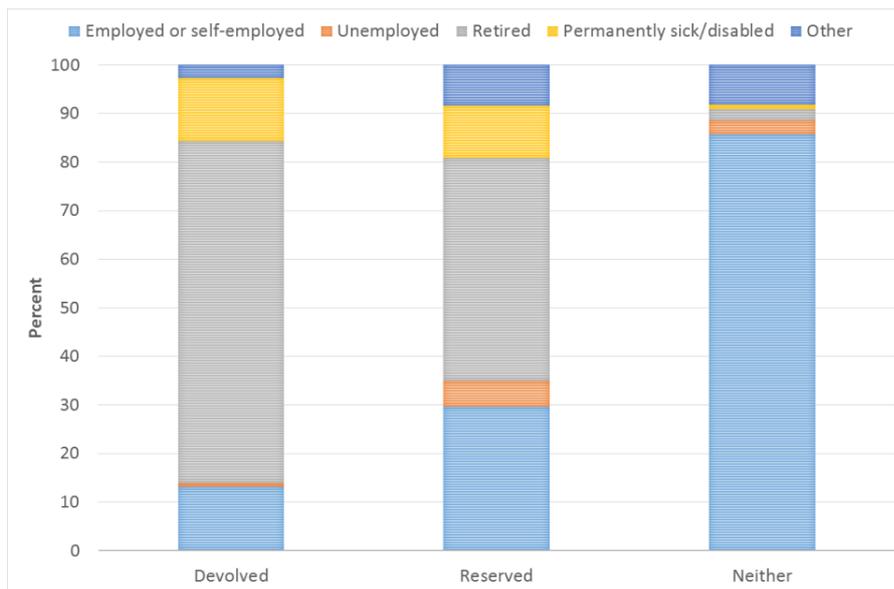
5. The majority of devolved benefit recipients will be retired. Less than 15% will be economically active.

Many of the devolved benefits relate to issues linked to older ages. Labour market activity tends to decline with age. Therefore it is not surprising that relatively few of those receiving benefits from the SSSA will be economically active. Figure 5 shows the proportion of benefit recipients that are employed, unemployed, retired or out of the labour market for some other reason. It is clear that a larger proportion of devolved benefit recipients will be retired compared with those receiving reserved benefits, which in turn includes a higher proportion of retired recipients than in the adult population who are not receiving benefits. This is perhaps the most marked of all the contrasts between those receiving devolved benefits, those receiving reserved benefits, and other adults.

A substantial majority of those receiving reserved benefits from the SSSA will be retired. Among those not receiving benefits, the inclusion of the state pension and Winter Fuel Payments among reserved and devolved benefits respectively, implies that very few of those not receiving benefits are likely to be retired.

One of the difficulties for the Scottish Government is that incomes among pensioners have been increasing relative to the rest of the population. In 1990 pensioner households were 30% poorer than non-pensioner households (at the median). In 2013-14 the median pensioner households had a higher income than the median non-pensioner household after accounting for housing costs . Increasing benefits to existing devolved benefit clients might be politically challenging; however, attempting to withdraw benefits from this group is also likely to be extremely difficult.

Figure 5: Distribution of “Devolved” and “Reserved” Benefits Employment Status

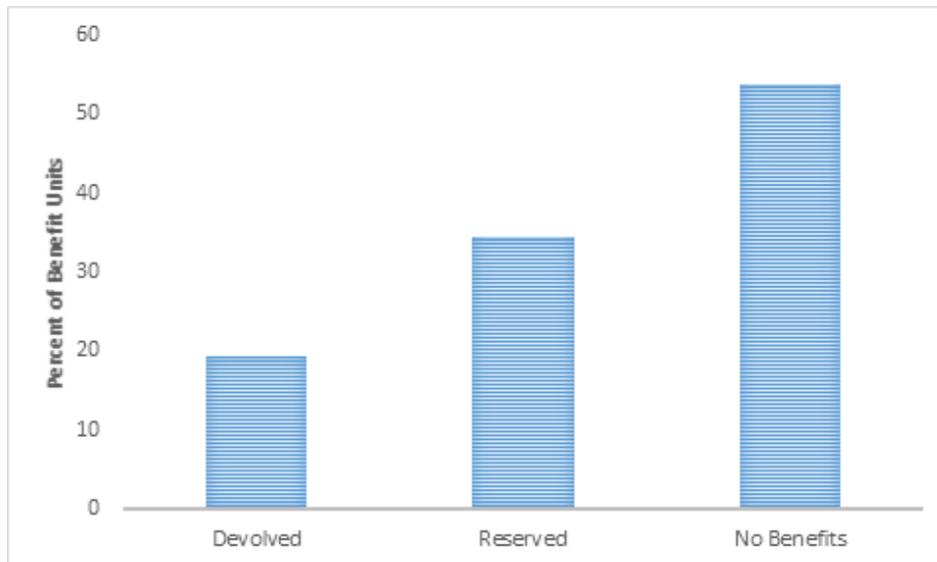


Source: Family Resources Survey

6. There are relatively families receiving devolved benefits in which children are present

Completing the picture of the devolved benefits largely addressing issues relating to age and ageing, figure 6 below shows the proportion of benefit units in which children are present. Whereas more than 50% of Scottish benefit units not currently receiving either devolved or reserved benefits have children present, only 19% of those benefit units receiving devolved benefits have children present. Those benefits which have been devolved to Scotland will have little impact on the life circumstances of Scottish children.

Figure 6: Percent of Benefit Units with Children by Type of Benefit Received



Source: Family Resources Survey

7. Families receiving devolved benefits are more dependent on benefit and pension income than those receiving reserved benefits.

Our final piece of evidence consists of data on the incomes of households receiving the different types of benefit. Figure 7 below shows the composition of household income for families receiving devolved benefits, reserved benefits or neither .

It is immediately obvious that those receiving devolved benefits have lower average household incomes than those in receipt of reserved benefits or no benefits at all. Secondly, this group is more dependent on pension income – it makes up a larger share of their total household income than either of the other groups.

Thirdly, earned income from employment comprises a much smaller share of the household income of households in receipt of devolved benefits than is the case for either households receiving reserved benefits or no benefits at all.

Figure 7: Average Household Income by Type of Benefit Received



Conclusions

This note has examined the evidence on the types of individual, benefit unit and household receiving the types of benefit that have been devolved to the Scottish Parliament. It seems clear that this group are typically older, more likely to be single following the death of a partner, not in employment and heavily dependent on benefits and pensions rather than earned income to make up their overall household income. Further, those receiving devolved benefits are much less likely to be in households where children are present.

The outcomes of this analysis are perhaps not surprising: the types of benefits that were selected for devolution following the Smith Commission report are heavily weighted towards assisting disabled and older people. Given the pressures of population ageing, the size of this group is likely to increase over time, suggesting that more, rather than less, funding will have to be used to support this group.

If it is the Scottish government's intention to develop a welfare system that casts a wider net to cover disadvantage faced by other groups of Scots, it is likely to have to extend its funding either by growing the economy so that tax revenues rise, increasing rates of tax or by reducing spending in other parts of the public sector.

Finally, it is also clear that there will be considerable overlaps between the devolved and reserved benefits, which will add significantly to the complexity of an already complex system which is currently itself being redesigned. There are substantial difficulties associated with the reforms being instigated at UK level: an effective handover from DWP to SSSA of the devolved benefits will require considerable resources and very close co-operation between DWP and SSSA.