



The Scottish Parliament  
Pàrlamaid na h-Alba

## Finance Committee

### Report on Welfare Funds (Scotland) Bill

The Committee reports to the lead committee as follows—

#### INTRODUCTION

1. The [Welfare Funds \(Scotland\) Bill](#) (“the Bill”) was introduced into the Scottish Parliament by the Scottish Government (“the Government”) on 10 June 2014. The Bill was accompanied by a Financial Memorandum (FM) (at page 9 of the [Explanatory Notes](#) which set out the estimated financial implications of the Bill.
2. Under Standing Orders Rule 9.6, the lead committee at Stage 1 is required, to consider and report on the Bill’s FM. In doing so, it is required to consider any views submitted to it by the Finance Committee (“the Committee”).
3. The Committee issued a call for written evidence in June 2014 and received [22 responses](#), the majority of these being from local authorities. The Committee also received responses from the [Scottish Public Services Ombudsman](#) (SPSO) and the [Scottish Parliamentary Corporate Body](#) (SPCB) in relation to the costs associated with the SPSO taking on the function of a second tier review body for applications made for support from the fund.

#### THE INTERIM SCOTTISH WELFARE FUND

4. An interim Scottish Welfare Fund (SWF) has been in operation since April 2013. The interim SWF was established following the changes to the discretionary elements of the Social Fund under the Welfare Reform Act 2012 and the extension of the Parliament’s legislative competence “so that it can legislate in relation to the provision of welfare assistance in case of a crisis or to help maintain and establish a settled home”.<sup>1</sup> The purpose of the Bill is to create a specific statutory basis for the SWF.
5. The SWF provides for two forms of assistance, a crisis grant and a community care grant. The FM describes these forms of assistance as being “to provide a safety net in an emergency when there is an immediate threat to health and safety through the provision of a non-repayable grant” (crisis grant) and to “enable people to live independently, or to continue to live independently, preventing the need for institutional care, through the provision of a non-repayable

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<sup>1</sup> [Policy Memorandum, paragraph 4](#)

grant... This includes providing assistance to families facing exceptional pressures. For example, where there has been a breakdown in family relationships, perhaps involving domestic abuse, which is resulting in a move.”<sup>2</sup>

## ADMINISTRATION FUNDING

6. One of the main areas addressed in the responses received by the Committee was the level of administration funding that has been made available to local authorities in connection with the SWF. All but one of the local authorities that submitted a response highlighted concerns about this matter. In both 2013/14 and 2014/15, the Scottish Government provided overall administration funding of £5 million. The FM indicated that the level of funding for 2015/16 was to be confirmed but that it was anticipated to continue at a similar level.<sup>3</sup>

7. The evidence provided by local authorities was that they are already in a position where they were supplementing administration funding from their own budgets. For example, Fife Council stated that it had received funding of £267,000 but that its overall requirement was £553,000 while Highland Council identified staffing costs directly attributable to SWF at £149,000 against available administration funding of £117,000.

8. Glasgow City Council did not express concern about its current level of administration funding. It did, however, state that “currently only applications with a priority level of high are being approved to remain within programme funding” and that further welfare reform changes that are due to take effect “would have pressures for both the programme funding and also the administration funding if local authorities were faced with increased applications.”<sup>4</sup>

9. COSLA commented that the “administrative funding provided to councils fall somewhat short of the actual costs associated with the service being delivered.” COSLA went on to say that “Failure to address the concerns highlighted around administrative funding could potentially jeopardise the wider outcomes the Welfare Funds (Scotland) Bill is trying to achieve.”<sup>5</sup>

10. The Committee asked the Scottish Government Bill team about the kinds of activities involved in administration of the SWF, including the level of administration funding as a proportion of programme funding, and about how the distribution of administration funding to local authorities was decided.

11. In response to questioning about spending £5 million to distribute £33 million and the question of the value for money this represents, the Bill team outlined the activities involved in administering the Fund as follows—

“Initially, there is the first level of call handling and taking applications. That is the simplest, up-front element of the administration. Beyond that, local

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<sup>2</sup> [Financial Memorandum, paragraph 7](#)

<sup>3</sup> The budget line for the Scottish Welfare Fund in the Draft Budget 2015/16 is set at £38 million. As programme funding has been confirmed at £33 million it may be assumed that the level of administration funding will continue at £5 million for 2015-16.

<sup>4</sup> [Glasgow City Council, written submission](#)

<sup>5</sup> [COSLA, written submission](#)

authorities find that they are incurring quite significant costs in taking forward the awards. In cases where local authorities are providing goods, for instance, there are issues around receipting, arranging deliveries and ensuring that things are being followed up, and then reconciling everything at the end of the process. That adds on costs for local authorities.

The other element on which local authorities have suggested that they are using time and resource is that of trying to fulfil the holistic nature of the welfare fund by passing applicants on to other areas of the local authority that might be able to help them, or signposting them to third sector services that might exist in the area.”<sup>6</sup>

12. In relation to distribution of the funding, the Bill team explained that the basis of distribution was agreed in the joint COSLA and Scottish Government settlement and distribution group and that the agreement reached was that “the administration funding should be based on the historical pattern of applications at local authority level under the old DWP scheme, according to the data we had available”.

13. The Bill team further explained that agreement has been reached to carry forward the original basis of distribution for a further year, “predicated on the basis that, the next time we discuss the matter, we will consider what is actually happening on the ground in local authorities and try to identify appropriate indicators to assess need and demand by local authority area”.<sup>7</sup>

14. The Bill team also highlighted work that is being undertaken across local authorities to look at the options for administration funding—

“COSLA is undertaking a benchmarking exercise to look at the true costs, at what some local authorities might learn from others that are delivering within their admin funding and at the areas where the costs are not being captured quite as they should be. The DFM said that she will be willing to consider the evidence that comes from that benchmarking in looking at future admin funding.”<sup>8</sup>

**15. The SWF has been designed to be holistic in nature and to offer local authorities an opportunity to signpost applicants to other sources of support and assistance beyond immediate crisis. The function of the SWF as being to help people “manage their lives more effectively and avoid crisis in the future” was noted by the Bill team. As such the SWF can be considered as a preventative tool that can play a role in preventing future, potentially more costly, demands falling on public services. Given this, the Committee considers that it is vital that administration of the fund is supported by the appropriate resource levels and that growth in demand for assistance be recognised.**

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<sup>6</sup> [Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col 7](#)

<sup>7</sup> [Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col 39](#)

<sup>8</sup> [Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col 45](#)

16. **The evidence received from local authorities reflects their significant concerns that the level of administration funding has not been sufficient to meet the actual costs of providing the service. If the number of applications for support from the fund is anticipated to increase it would seem reasonable to assume that the costs of administering those applications will also rise.**

17. **The Committee welcomes that benchmarking exercise that is being undertaken in relation to this element of the overall funding of the SWF and invites the lead committee to seek further information from the Minister as to when the outcomes of the exercise are expected to be known.**

18. **Notwithstanding the findings of the benchmarking exercise, the lead committee may wish to ask the Minister to provide further detail about the process for setting the level of administration funding and whether any increase in that funding will be considered in response to the concerns raised by local authorities.**

#### SECOND-TIER REVIEW FUNCTION FOR THE SCOTTISH PUBLIC SERVICES OMBUDSMAN

19. The other main issue raised in written evidence was the costs that will be associated with establishing the second-tier review function within the Scottish Public Services Ombudsman.

20. Under the interim SWF, local authorities have been undertaking second-tier reviews of decisions on applications. The Bill proposes that this role be taken on by the SPSO. The FM notes that the “new powers diverge from SPSO’s traditional role in dealing with maladministration and require a different approach”.<sup>9</sup>

21. The FM estimated costs to set up and run a separate unit within SPSO to carry out this function. The FM estimated set-up costs of £60,000-£100,000 which would fall in 2014/15. Two estimates were provided in the FM for the annual running costs of SPSO delivering this function—

- £400,000 per year for an annual caseload of 2,000 reviews
- £250,000 per year for an annual caseload of 400 reviews.

22. The estimated running costs have been based on the costs of delivery of a similar function by the Office of the Social Fund Commissioner for Northern Ireland and will be subject to review as the new process is established.

23. The FM states that the Government will transfer the funding to the Scottish Parliamentary Corporate Body for set up costs in 2014/15 and running costs in 2015/16. The FM notes that beyond 2015/16 “permanent arrangements will be put in place for funding”<sup>10</sup>.

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<sup>9</sup> [Financial Memorandum, paragraph 18](#)

<sup>10</sup> [Financial Memorandum, paragraph 18](#)

24. As a result of uncertainty about the number of reviews, the FM states that there are “significant uncertainties” relating to the estimated costs. The FM states that there may be a reduction in costs if the number of reviews does not rise as expected but that “the reduction in costs would not be in direct proportion to the reduction of cases”. This is explained as being because “fixed costs would remain” and “to ensure quick turnaround of cases a minimum staffing level would be required”.<sup>11</sup>

25. Another issue in relation to the uncertainties is identified in the FM as being “the possibility that the SPSO may have to physically expand their estate to accommodate the expected number of staff required to undertake reviews”.<sup>12</sup> The FM states that expansion of the SPSO estate “would be subject to interactions with its current functions and staffing levels and the costs relating to second tier review functions would be subject to negotiation”.<sup>13</sup>

### **Second-tier review caseload**

26. The FM states that the “Government does not have full data for second-tier reviews under the interim arrangements but estimate that there will have been fewer than 500 reviews in the first year of running”.<sup>14</sup> Argyll and Bute Council provided a figure of 144 second-tier reviews having been carried out across Scotland in 2013/14. This seemed to be confirmed by the Bill team which stated that “I think that we had 120 second-tier reviews for community care grants and only 24 for crisis grants.”<sup>15</sup> The Bill team went on to comment that “The informal feedback that we have had from local authorities this year leads us to expect that the numbers will probably double by the end of the second year of the scheme.”<sup>16</sup>

27. The nature of the scheme was suggested by the Bill team as one reason why the number of second-tier reviews may have been lower to date than under the previous DWP scheme—

“The way the scheme works is potentially why we are seeing fewer reviews than we might have seen under the previous DWP scheme. If an applicant is refused, the hope is that they will be referred or signposted to another service, either within the local authority or within the local area, that is able to help them. Applicants are not just getting a flat refusal, so we hope that they are having a better experience and getting a better outcome from the scheme.”<sup>17</sup>

28. The FM notes that it is anticipated that “there will be more reviews conducted by the SPSO than the number of second-tier reviews the Scottish Government has seen so far in the interim scheme”.<sup>18</sup> The Scottish Government’s view that the

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<sup>11</sup> [Financial Memorandum, paragraph 50](#)

<sup>12</sup> [Financial Memorandum, paragraph 50](#)

<sup>13</sup> [Financial Memorandum, paragraph 50](#)

<sup>14</sup> [Financial Memorandum, paragraph 45](#)

<sup>15</sup> [Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col 44](#)

<sup>16</sup> [Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col 44](#)

<sup>17</sup> [Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col 49](#)

<sup>18</sup> [Financial Memorandum, paragraph 47](#)

number of reviews will increase is supported by COSLA. The Government has used a planning assumption of 2,000 reviews per year.

29. The Committee asked the Bill team for a further explanation of how it arrived at the planning assumption of 2,000 reviews per year. The Bill team explained that—

“The short answer is that we had a lot of discussion with COSLA, local authorities and the Independent Review Service, which used to provide the same type of service under the old DWP scheme. It was not quite a finger-in-the-air process to arrive at the figure of 2,000, because it seemed a reasonable number. The numbers for this year, for example, have been very low; I think that we had 120 second-tier reviews for community care grants and only 24 for crisis grants, which was very low and probably lower than we expected. The informal feedback that we have had from local authorities this year leads us to expect that the numbers will probably double by the end of the second year of the scheme.

We took a view that 6,000 seemed far too high given the experience of what is happening now in Scotland, and we arrived at the figure of 2,000, which is somewhere in the middle, in consultation with stakeholders.”<sup>19</sup>

30. In relation to the difference between the higher and lower estimates, and the reduction in costs that may be realised if a lower number of reviews are carried out, the FM states that “the reduction in costs would not be in direct proportion to the reduction of cases, as fixed costs would remain”.<sup>20</sup>

31. Both the FM and the submission from the SPSO note the intention to undertake a review of the funding required for SPSO to fulfil second-tier function.

32. In its written submission, Falkirk Council commented that “The costs associated with the SPSO administering 2<sup>nd</sup> Tier reviews (£250-400k per annum) seem to be relatively significant, given that within this Local Authority we have managed to meet the requirement around 2<sup>nd</sup> Tier reviews within our existing budget.”<sup>21</sup> Comparing SPSO costs with their own administration funding, Fife Council stated “Given the work that Fife Council is to undertake for less than £300,000 this seems generous – or more likely amplifies the argument made above that local authorities are not given sufficient administration funding.”<sup>22</sup> Moray Council commented that “Care should be taken in allocating additional funds to the Ombudsman until a reliable assessment of the volume of referrals can be made.”<sup>23</sup>

33. If an equal cost per review was to be assumed, the estimates in the FM would give ‘unit costs’ of undertaking reviews at £200 per review for 2,000 reviews per year and £625 per review for 400 reviews per year. Some local authorities commented on the consideration of value for money in these unit costs compared

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<sup>19</sup> [Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col 43](#)

<sup>20</sup> [Financial Memorandum, paragraph 51](#)

<sup>21</sup> [Falkirk Council, written submission](#)

<sup>22</sup> [Fife Council, written submission](#)

<sup>23</sup> [Moray Council, written submission](#)

with the value of payments that are issued from the Scottish Welfare Fund. The FM itself does not provide details of the average value of payments that have been issued.

34. North Ayrshire Council commented that the unit cost at 400 reviews per year “which is more than the average cost of a community care grant in Scotland in 2013-14 (£613)...does not demonstrate value for money when compared to the cost of this service being provided by Scottish Councils.”<sup>24</sup>

35. East Ayrshire Council provided average values for payments it has made under the interim scheme of £505 for community care grants and £76 for crisis grants and states that “proportionality must remain a consideration for the scheme.”<sup>25</sup> Argyll and Bute Council’s submission stated average values of £644 for a community care grant and £71 for a crisis grant. On the basis of the figure of 144 reviews carried out in 2013/14, it went on to note that the lower cost estimate of £250,000 would represent a cost per review of £1736.

36. The Committee pursued these issues with the Bill team. In relation to the unit cost, the Bill team referred to the Business and Regulatory Impact Assessment that had been prepared in relation to the Bill stating the SPSO option was the least costly of the options considered—

“Based on 2,000 cases a year, the estimated cost per case was £202 for the SPSO; £413 for the tribunal; and between £420 and £520 for the local government panel.”<sup>26</sup>

37. The Committee notes that comparable estimates for the tribunal and local government panel at 400 cases per year were not provided in the impact assessment.

**38. The Committee considers that, as with all elements of the SWF, second-tier reviews should be delivered in a way which delivers the best value for money. The Committee recognises that both the Government and COSLA expect that the number of second-tier review cases will increase from the levels experienced in the operation of the SWF to date.**

**39. However, the Committee considers that greater detail and analysis could, and should, have been provided as to why a caseload of 2,000 reviews per year has been used as a planning assumption given that only 144 reviews were carried out in 2013/14. On the basis of the information that has been made available so far, the Committee is not in a position to assess whether this planning assumption is reasonable or not.**

**40. The Committee suggests that the lead committee may wish to seek clarification as to why funding has been made available for 2,000 cases per year.**

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<sup>24</sup> [North Ayrshire Council, written submission](#)

<sup>25</sup> [East Ayrshire Council, written submission](#)

<sup>26</sup> [Scottish Parliament Finance Committee, Official Report, 1 October 2014, Col 44](#)

41. **The Committee notes that the Government will transfer funding for the SPSO to the Scottish Parliamentary Corporate Body (SPCB) for the years 2014/15 and 2016/15. The Committee’s role includes scrutinising the SPCB’s budget, and, in that regard, the Committee expects the SPSO to provide details of the number of second-tier reviews that it has considered when making its bid to the SPCB in relation to its budget for 2016-17 and beyond.**

#### **Ongoing local authority costs in relation to second-tier reviews by the SPSO**

42. The FM states that following the set-up of the review function within the SPSO, local authorities will no longer have to meet the costs associated with undertaking the second-tier reviews themselves, noting that these costs have included “the associated costs of arranging and supporting panel meetings” and that authorities have “absorbed these costs into administration costs”.<sup>27</sup> However, in relation to whether local authorities will realise savings as a result of this change, Aberdeenshire Council stated that “It does not seem appropriate to expect savings in administration costs from the removal of the second tier review function as this has been such a small part of the Scottish Welfare Fund workload to date.”<sup>28</sup>

43. COSLA noted that the FM suggests that following the review role being taken on by the SPSO “local authorities will no longer have to meet and costs associated with these reviews” but that local authorities will “still be required to perform the first stage review and to prepare and respond to those cases which progress to 2<sup>nd</sup> stage via the SPSO”.<sup>29</sup>

44. This view was echoed in the submission from Dundee City Council.

#### **CONCLUSION**

45. **The lead committee is invited to consider this report as part of its scrutiny of the Welfare Funds (Scotland) Bill’s FM.**

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<sup>27</sup> [Financial Memorandum, paragraph 39](#)

<sup>28</sup> [Aberdeenshire Council, written submission](#)

<sup>29</sup> [COSLA, written submission](#)