

SUBMISSION FROM SCOTTISH GOVERNMENT

You will recall that, when I appeared before the Welfare Reform Committee on 1 May, I made an undertaking to come back to Committee with further information, with regard to a number of points which were raised during our discussion. The attached submission provides that further information, in the hope that it will be of use to Committee in preparing its Stage 1 report on the Welfare Reform (Further Provision) (Scotland) Bill. I trust this will be the case.

As I said on 1 May, we will share as much information with Committee as we can, as soon as we can. I know my officials maintain regular contact with your clerking team and will continue to do so, with a view to keeping Committee up to date on our emerging thinking and any further information from the UK Government that we are able to share.

I remain grateful to Committee for the time and effort it has expended on considering the Bill, to the challenging timetable required to keep pace with the deadlines set by the UK Government's implementation programme and I look forward to seeing further progress in due course.

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WELLBEING AND CITIES STRATEGY
SCOTTISH GOVERNMENT
MAY 2012**

Introduction

- At her appearance to give evidence on 1 May, the Cabinet Secretary for Health, Wellbeing and Cities Strategy offered to provide Committee with further information and clarification, as follows:
 1. To provide a comprehensive list of engagement between the Scottish Government (SG) and the Department for Work and Pensions (DWP), noting that here has been extensive engagement at ministerial level and between officials, and that is on-going.
 2. To double-check if the SG held information on modelling or proposed modelling to which Committee was not privy and to make Committee aware of anything that would be helpful to it.
 3. To re-examine the evidence provided in a submission by Professor Paul Spicker and to advise Committee of the SG's position on that submission, with particular reference to the SG's approach to putting in place successor arrangements for those elements of the discretionary Social Fund, for which responsibility will be devolved
 4. To confirm that the SG would be undertaking analytical and/or modelling work which would look at the wider economic and social impacts of the UK Government's welfare reforms and the impacts on devolved services

List of Engagement

- A list of engagement between SG Ministers and their UKG counterparts is set out at **Annex A**.
- It is not possible to provide a list of engagement at official level. This is because official level engagement with DWP goes on across the SG on an extremely frequent basis. No central records are kept of this engagement and, if there were, it would be extremely difficult to filter out engagement that specifically pertained to matters of welfare reform from that which was required as part of the ordinary conduct of SG business. This is reflected by the evidence given by Mr Neil Couling, DWP Director of Benefits, to the Health and Sport Committee on 22 November 2011 when Mr Couling advised that Committee that "We [DWP] are in regular contact and the Scottish Government is engaged in all our major governance structures in and around the big reforms, including the universal credit and DLA/PIP¹".

Information on Modelling

- The SG notes that Committee is aware of the modelling work that has been carried out by organisations such as the Institute for Fiscal Studies and Inclusion Scotland and is grateful to these organisations for carrying out and publishing the results.

¹ <http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=6766&mode=pdf>, col 645.

- In response to the specific request made to the Cabinet Secretary as to whether the SG knows if “DWP intends to do modelling”, the SG expects that DWP will undertake work along these lines, if it has not done so already, although whether the results will meet Committee’s requirement in setting out the “cumulative impacts of changes to benefits” remains to be seen. The SG has no further information on modelling which it is able to share with Committee at this time.
- The SG notes the letter sent by Committee’s Convener, Michael McMahon MSP to the Minister for Welfare Reform, seeking information on “over-arching modelling on the cumulative impacts of changes to benefits” and the SG supports Committee in making that request.
- The SG also intends to press DWP, at both official and Ministerial level for further assurances that they will undertake and publish modelling work on the impact of their welfare reforms.

Submission from Professor Paul Spicker

- The SG’s position on Professor Spicker’s submission is that his analysis of the power to promote well-being, specifically as enabled by section 20(2)(b) of the Local Government (Scotland) Act 2003 is generally consistent with our own analysis of the operation of this power under the existing devolution settlement.
- As the Cabinet Secretary made clear to Committee on 1 May, the SG intends to work with the UKG to bring forward an order under section 30 of the Scotland Act, to ensure that the desired policy can be delivered using the power to promote well-being and we will notify Committee of progress with this work, in due course.

Analytical Work

- On the question of the whether the SG will be undertaking analytical and/or modelling work which would look at the wider economic and social impacts of the UK Government’s welfare reforms and the impacts on devolved services, the SG refers Committee to the analytical work plan which was provided to the Welfare Committee in March 2012 which set out the work we would be undertaking as follows:
 1. Analysis of the impact of the reforms on Scottish individuals and households:
 - Examination of specific reforms as and when further detail becomes available, for example the transition from Disability Living Allowance to Personal Independence Payment.
 - Building a cumulative picture of the impact on the reforms on specific households in Scotland through case study examples
 2. Tracking and responding to the roll-out of Universal Credit:
 - Monitoring the impacts on devolved Scottish Government services. In particular the impacts on passported benefits under the remit of the Scottish Government.

3. Providing analytical support in light of the Welfare Reform (Further Provision) (Scotland) Bill
 4. Analysis surrounding the successor arrangements for the Social Fund and Council Tax Benefit.
 5. Assessing the impact of the reforms on Scottish Government targets and measures:
 - Including an examination of the changes to Official Statistics which will be brought about by the introduction of Universal Credit
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- In addition to this, it is also the Scottish Government's intention to assess the analysis produced by the Welsh Assembly Government and, where this points to work which has not already been carried out or which is not reflected in the current analytical work plan, to consider whether it should carry out equivalent analysis. The SG will keep Committee apprised of this work as it develops.
 - The committee has also expressed an interest in the use of multipliers to examine the impact of the welfare reforms on incomes and spending. Scottish Government has not considered multipliers in this context as the use of multipliers does not consider the wider economic implications. Reduced public expenditure might be offset by reduced taxes or public sector debt repayment which will also have benefits to the wider economy. To consider just the impact of the reduced income, together with the multiplier effects of the reduction in associated spending, only represents part of the economic picture.
 - In the hope that Committee will find it helpful, a further analytical paper is also attached to this submission, at **Annex B**

ANNEX A

Date (2010)	Activity
October 2010	Mr Neil and Cllr McGuigan met Mr Grayling on housing benefit reform issues
20 December	Mr Neil and Cllr McGuigan from COSLA jointly wrote to Lord Freud on the issues of the threat to the 2012 homelessness target as a result of the reforms, specifically mentioning under occupation, shared accommodation rate changes, and LHA rates moving to 30 th percentile. A Scottish Impact assessment was forwarded on shortly after the letter.
Date (2011)	Activity
14 January	Letter from Chris Grayling MP advising that UKG will be taking the Welfare Reform Bill forward and seeking support for required LCM.
27 January	<ul style="list-style-type: none"> • Telephone call between Lord Freud, DFM and Ms Constance • DFM pressed for greater DWP engagement
9 February	Letter from Ms Sturgeon to Chris Grayling MP confirming that officials will work to progress LCM and expressing concerns around the lack of detail
2 February	Ms Hyslop and FM attended JMC(D), where Lord Freud presented an agenda item on the WRB
16 February	Letter from the SoS, enclosing an “in confidence” version of the Bill
3 March	Scottish Government lodge initial Legislative Consent Memorandum (without a draft Motion) with Parliament
15 March	Letter to the SoS, confirming that SG have lodged the Memorandum, seeking agreement for continued official-level engagement and inviting the SoS to visit Scotland after the elections
13 April	Letter from the SoS confirming commitment to official-level engagement and accepting the invitation to visit
24 May	Letter from the SoS extending congratulations on re-election and advising that Lord Freud would be in touch to discuss progressing matters on the Bill in more detail
24 May	Letter from Lord Freud confirming areas of the Bill requiring legislative consent and seeking support for a Motion
June	<ul style="list-style-type: none"> • Welfare Reform Bill initially assigned to the Health and Sport Committee • The Committee did not discuss the Bill before dissolution

4 June	Letter from the DFM to Lord Freud advising SG position on the LCM remains as stated previously and seeking greater commitment to substantive engagement at official-level
16 June	1 st Reading in HoL
16 June	Very brief teleconference between DFM and Lord Freud. No specific discussions or actions arising.
7 July	Letter from Lord Freud seeking views on the work needed to progress the LCM
11 July	Joint letter with CoSLA to the SoS advising concerns with regard to the Bill
27 July	Mr Neil wrote jointly with Cllr McGuigan to Lord Freud on Housing Benefit reform impacts – including under occupation and work incentive issues.
11 August	Letter from the SoS seeking to address concerns and confirming commitment to continued engagement
6 September	Mr Brown met with Grant Shapps (UK Minister for Housing and Local Government) on a range of housing issues including housing benefit reform.
7 September	Mr Matheson letter to Sarah Teather (Minister for Children and Families) outlining SG concerns regarding nature and extent of scrutiny that proposed reformulated Social Mobility and Child Poverty Commission (SMCPC) would have in respect of Scottish child poverty strategy.
13 September	<ul style="list-style-type: none"> • 2nd Reading and debate in HoL • Committee Stage expected to start after conference recess (House returns on 10th October) with 3rd Reading and Report in December
14 September	IDS to Michael Matheson re child SMCPC – letter did not address substantive concerns regarding legislation, but did suggest adopting a cooperative approach to appointment to the SMCPC.
15 September	<ul style="list-style-type: none"> • Iain Duncan Smith visits Scotland and meets with DFM and Mr Swinney
22 September	<ul style="list-style-type: none"> • Follow up letter from DFM to IDS
4 October	Letter from Mr Brown to Grant Shapps on a range of housing benefit issues following up on September meeting.
5 October	<ul style="list-style-type: none"> • Welfare Reform debate in the Scottish Parliament. Scottish Government support Labour amendment, to the effect that, “and is

	otherwise minded, subject to consideration by the appropriate committees, to oppose the forthcoming legislative consent motion pertaining to the Welfare Reform Bill”
5 October	<ul style="list-style-type: none"> • Letter from DFM to IDS advising him that, as things stand, she is not able to support legislative consent
11 October	Mr Brown wrote to Lord Freud on housing benefit changes in respect of supported housing proposals
25 October	Michael Matheson response to IDS letter of 14 September – restating concerns that were not addressed from letter of 7 September. Stating that not able to support legislative consent for these amendments.
1 November	<ul style="list-style-type: none"> • SG lodges Supplementary Legislative Consent Memorandum with Scottish Parliament • The Supplementary Memorandum would set out the SG’s asks with supporting evidence and provide the text for a draft Legislative Consent Motion.
10 November	Michael Matheson phone call with Maria Miller (Minister for Disabled People) where UK Government agreed to amend the Bill so that the SMCPD “describes measures taken” by SG rather than offering “views on implementation”.
14 November	<ul style="list-style-type: none"> • IDS response to DFM letter of 22 September advising that he does not consider request for legislative concession appropriate due to reserved nature of the Bill. • Reconfirms offer to update Concordat to strengthen communication and consultation and include additional section on Welfare Reform and Universal Credit. • Seeks response by 18 November and includes Annex detailing implications of removing relevant provisions from the Bill.
14 November	<ul style="list-style-type: none"> • Maria Miller follow up letter to phone call of 10 November, confirming willingness to amend legislation, reiterating non legislative suggestions that Scottish and UK Ministers should consult each other on appointments to the SMCPD and stating that UK Government intends to consult Devolved Administrations on the SMCPD terms of reference. • Seeks response by 18 November indicating that SG will support legislative consent for the legislation with establishes the SMCPD.
22 November	Deputy First Minister gives evidence to the Health and Sport Committee on the Bill
14 December	<p>DFM telephone call with IDS.</p> <ul style="list-style-type: none"> • DFM advised Scottish Government will be inviting Parliament to support legislative consent for certain provisions in the Bill but to decline consent in those areas which give rise to the greatest concern. • IDS already aware SG would not be supporting a ‘full’ Legislative Consent Motion for the Welfare Reform Bill so it did not come as a

	<p>surprise.</p> <ul style="list-style-type: none"> IDS noted that SG would be supporting legislative consent in respect of certain provisions in the Bill. He also said he wanted the 2 administrations to work together to ensure that timing of the Scottish and UK legislation would work.
15 December	<ul style="list-style-type: none"> Letter received from Lord Freud outlining the deduction rates for under-occupation in the Social Rented Sector and additional money to the Discretionary Housing Payments budget. Propose that
16 December	Michael Mundell regularly scheduled telephone call with Bruce Crawford.
22 December	<ul style="list-style-type: none"> Scottish Parliament debate on the Legislative Consent Motion Enable Parliament to fulfil its Sewell obligations (deadline final amending stage at Westminster)
29 December	Mr Brown reply to Lord Freud letter 15 December seeking reassurances that vulnerable people will be protected and raising points put to NS at Health Committee Scrutiny of Welfare Reform.
Date (2012)	
5 January	<ul style="list-style-type: none"> IDS letter re data sharing arrangements
11 January	<ul style="list-style-type: none"> DFM reply to IDS letter 14 November, conversation on 14 December and data sharing letter 5 January. Confirmed outcome of Legislative Consent Motion and suggested alternative wording in relation to data sharing provision in the Bill.
16 January	<ul style="list-style-type: none"> 2 letters received from Lord Freud in response to Mr Brown letter of 29 December – under-occupancy and Housing Demonstration.
31 January	Joint letter from Mr Brown and COSLA sent on under occupancy measures in WRB as amended by Lords.
February	<ul style="list-style-type: none"> HoL 3rd Reading and Report debate 3rd Reading is the final amending stage and therefore the deadline for the Bill to secure legislative consent from the Scottish Parliament
3 February	<ul style="list-style-type: none"> DFM letter to IDS – further to letter 11 January. Suggested meeting to discuss next phase of work re implementation and roll-out of Universal Credit
23 February	1 st Meeting of Scottish Parliament Welfare Reform Committee.
8 March	UK Welfare Reform Bill gains Royal Assent
13 March	2 nd Meeting of Scottish Parliament Welfare Reform Committee – Stakeholder Evidence session
15 March	<ul style="list-style-type: none"> DFM telephone call with Leighton Andrews, Welsh Minister for Education and Skills. Discussion on recent Remploy announcement and DFM agreed to work together and share

	information on welfare reform where appropriate and helpful.
15 March	<ul style="list-style-type: none"> • DFM meets IDS to discuss next phase of work re implementation and roll out of UC.
29 March	3 rd Meeting of Scottish Parliament Welfare Reform Committee – Officials Evidence session.
9 April	<ul style="list-style-type: none"> • Letter from DFM to Maria Miller MP responding to letter 26 February 2012 about the impact on related entitlements to Blue Badge and Concessionary Travel schemes in Scotland of the proposed introduction of Personal Independence Payment and for your letter of 26 March about a further consultation on the detailed design of this new benefit. Suggested meeting after closure of the consultation.
16 April	<ul style="list-style-type: none"> • Letter from IDS to John Swinney concerning funding arrangements following the abolition of CTB.
17 April	4 th Meeting of 3 rd Meeting of Scottish Parliament Welfare Reform Committee
24 April	5 th Meeting of Scottish Parliament Welfare Reform Committee
01 May	6 th Meeting of Scottish Parliament Welfare Reform Committee – DFM Evidence session
2 May	<ul style="list-style-type: none"> • Letter from Welfare Reform Committee to Lord Freud requesting provision of a deadline by which all necessary information from the DWP will have been provided to the Scottish Government
8 May	<ul style="list-style-type: none"> • Letter from Maria Miller advising the SG of the UKG response to the 7th Report of the Work and Pensions Select Committee

Main Messages:

- The impact of welfare reforms are complex and vary by household type, including whether households have children and where they sit on the income distribution, and work status.
- Scotland has a higher dependence on welfare benefits than Great Britain as a whole.
- Households in Scotland are expected to lose slightly less of their income on average than the UK, Wales and Northern Ireland as a result of tax and benefit changes by 2014-15.
- The poorest households in Scotland will lose more income on average from the benefit reforms than richer households.
- However, IFS analysis indicates that poorer households in Scotland will lose less on average than poorer households in both Wales and Northern Ireland. Poorer households in Scotland also lose less on average than poorer households in the UK as a whole.

1. Introduction

The purpose of this paper is to summarise the main messages from the analysis produced by the Institute for Fiscal Studies (IFS); and to identify IFS analysis around how Scotland compares to the other regions of Great Britain.

The paper is structured as follows: firstly, the main messages from each of the IFS reports are identified:

- Universal Credit: A preliminary analysis
- Tax and Benefits reforms due in 2012-13 and the outlook for household incomes
- Impact of tax and benefit reforms by sex
- Impact of tax and benefit reforms in Northern Ireland
- Impact of welfare reforms in Wales

Secondly, the IFS reports listed are used to highlight analyses for Scotland, where this exists.

2. Main Messages from IFS Analysis

The main messages from each IFS report are summarised below.

(a) Universal Credit: a preliminary analysis (Brewer et al, 2011)

This report presents analysis by the IFS that examines how Universal Credit will affect household incomes and financial work incentives in Great Britain. It compares a 2014-15 tax and benefit system with Universal Credit against a situation where Universal Credit was not introduced.

The main messages from Brewer et al (2011) are:

- Universal credit will be introduced in Great Britain from 2013 and will integrate all means-tested benefits and tax credits for working-age adults. It replaces income support, income-based Jobseeker's Allowance and Employment and Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit; and will be administered by the Department for Work and Pensions on a monthly basis.

- The objective of Universal Credit is to “strengthen the incentives to work for those who currently have the very weakest incentives to work”.
- Universal Credit will result in “winners” and “losers”. Overall, 2.5 million working-age families will gain; 1.4 million will lose out in the long run; and 2.5 million will stay the same. The total gain of the “winners” is £3.6 billion per year; while the total loss of the “losers” is £1.9 billion per year.
- There are also winners and losers by family type. In the long run, lone parents are the group that will suffer most. On average, couples with children will benefit more than couples without children, who in turn benefit more than single adults. Single-earner couples (with or without children) will benefit substantially from the reform.
- Universal Credit is anticipated to affect participation in the labour market. While it strengthens the incentive for single adults to do low-paid work, it weakens the incentive for both members of a couple to work. It does, however, strengthen the incentive for couples to have one person in work rather than none. Overall, IFS suggest that the tax and benefit changes, including Universal Credit, to be introduced by 2014, will, on average, strengthen the incentive for the population as a whole to undertake paid work.

(b) Tax and Benefits reforms due in 2012-13 and the outlook for household incomes (Joyce, 2012)

This IFS briefing note discusses tax and benefit reforms due in 2012-13 and estimates their likely impact on households. IFS’s calculations are based on their tax and benefit model, TAXBEN, which is run on data from the 2009-10 Family Resources Survey and the 2009 Living Costs and Food Survey.

The main messages from Joyce (2012) are:

- There is estimated to be a net ‘takeaway’ of around £4.1 billion from tax and benefit reforms to be introduced in 2012-13.
- Households at the lower end of the income distribution are the most likely to lose out from tax and benefit reforms to be introduced in 2012-13. They will lose out primarily because of lower benefit rates that arise from using the CPI rather than the RPI, and from cash freezes to Child Benefit and Working Tax Credit.
- The impact of the reforms also varies by household type and work status. On average, the gainers are pensioner households. Among working-age households, it is households with children that will tend to lose the most.
- IFS estimate that, on average, households with children will lose about 1.4% of their net income (about £530 a year) as a result of the modelled reforms; working age households without children will, on average, lose about 0.5% of their net income (about £150 per year); while pensioner households will, on average, gain about 0.5% of their net income (about £110 per year).

(c) Impact of tax and benefit reforms by sex (Browne, 2011)

This report presents the results of analysis undertaken by IFS that looks at the impact of tax and benefit reforms on men and women. Analysis is performed for all tax and benefit changes to be introduced between 2010-11 and 2014-15 excluding Universal Credit, using the IFS tax and benefit model on data from the Family Resources Survey and the Expenditure and Food Survey.

The main messages from Browne (2011) are:

- Tax and benefit reforms to be introduced between 2010-11 and 2014-15 will cause a larger loss for households with a single woman than a single man. This is largely driven by losses for lone parents, over 90% of whom are women.
- There is relatively little difference by sex when looking at the impact of tax and benefit reforms on couples, both in terms of single earner couple households according to whether the man or the woman is the earner, or between two-earner couples households according to whether the man or the woman is the higher earner on average.

(d) Impact of tax and benefit reforms in Northern Ireland (Browne, 2010)

This paper examines how the average loss from tax and benefit reform to be introduced between 2010-11 and 2014-15 (excluding Universal Credit) is different in Northern Ireland to the UK average. IFS calculations are made using the TAXBEN model using data from the 2008-09 Family Resources Survey and the 2008 Expenditure and Food Survey.

The main messages from Browne (2010) are:

- Overall, there is little variation across regions when looking at the average impact of tax and benefit reforms to be introduced between 2010-11 and 2012-13.
- However, when analysis is extended to include measures to be introduced in 2013-14 or 2014-15, Northern Ireland loses more on average than most other regions and constituent nations of the UK, including Scotland².

(e) Impact of welfare reforms in Wales (Welsh Government, 2012)

This report examines the combined impact of tax and benefit changes in Wales. Although produced by the Welsh Government, it primarily uses analysis by the IFS, comparing the estimated impact of welfare reforms in Wales to the UK as a whole and to the other regions and nations of the UK. The Welsh Government draw on the previous analysis by IFS presented in this paper.

The main messages from the Welsh Government (2012) are:

- Variations in the impact of tax and benefit reforms across the nations and regions of the UK are due to differences in the characteristics of households.
- Wales has a greater dependence on welfare benefits than the UK as a whole. Analysis by the IFS suggests that as a consequence of the tax and benefit changes to be implemented by 2014-15, on average, households in Wales can expect to lose 4.1% of their income (or £1,100 per year). This is compared to a UK average loss of 3.8% (or £1,170 per year).

3. Implications for Scotland

Analysis produced by the IFS includes some findings on how Scotland compares to the other regions (and nations) of Great Britain (and Northern Ireland). This section presents any analysis by the IFS that is specific to Scotland. Two caveats should be noted when considering the results of this analysis: (1) IFS assume that there is 100% take-up of benefits pre and post introduction of welfare reforms; and (2) any

² Scotland-specific analysis from Browne (2010) is identified in the 'Implications for Scotland' section below.

changes to household behaviour as a consequence of tax and benefit reforms are not included in their model. That is, IFS assume that individuals do not change their behaviour in response to welfare reforms.

Taking these limitations into account, IFS analysis for Scotland is presented below. This is grouped under: (1) benefit claimants in Great Britain, England, Scotland and Wales; (2) the impact of Universal Credit; (3) the effect of tax and benefit changes by UK region; and (4) the effect of tax and benefit changes by UK region and income quintile.

Benefit claimants, Great Britain:

Table 1 shows the rate and number of working age (16-64) benefit claimants for Great Britain, England, Scotland and Wales by statistical group and is an update version of the table presented in the paper by the Welsh Government. Presenting the claimant numbers by statistical group according to a hierarchy avoids double counting of claimants. The hierarchical order is as shown in the table (ie Jobseeker followed by incapacity benefits etc). This means that a person claiming both incapacity benefits and Lone Parent benefits will be recorded only under incapacity benefits.

Table 1: Benefit Claimants aged 16-64 by Statistical Group, August 2011								
	Great Britain		England		Scotland		Wales	
	Caseload	Rate	Caseload	Rate	Caseload	Rate	Caseload	Rate
Job Seeker	1,482,600	3.8%	1,266,790	3.7%	140,110	4.1%	75,700	4.0%
ESA & incapacity benefits	2,572,540	6.6%	2,113,730	6.2%	280,100	8.2%	178,720	9.4%
Lone Parent	595,250	1.5%	516,590	1.5%	47,790	1.4%	30,870	1.6%
Carer	465,750	1.2%	394,590	1.2%	41,560	1.2%	29,600	1.6%
Others on income related benefit	180,060	0.5%	154,860	0.5%	15,680	0.5%	9,520	0.5%
Disabled	412,620	1.1%	347,530	1.0%	39,060	1.1%	26,030	1.4%
Bereaved	78,180	0.2%	66,090	0.2%	8,090	0.2%	4,000	0.2%
Total	5,787,000	14.8%	4,860,180	14.4%	572,390	16.7%	354,430	18.7%

Source: DWP Benefits, Nomis

Note: Totals may not sum due to rounding

Table 1 shows that:

- Scotland has a higher dependence on welfare benefits than Great Britain as a whole. In August 2011, 16.7% of the working-age population in Scotland were claiming benefits compared to the Great Britain average of 14.8%. The main reason for the higher benefit claimant rate in Scotland is the higher proportion of people claiming Employment and Support Allowance (ESA) and incapacity benefits, and Jobseeker Allowance.

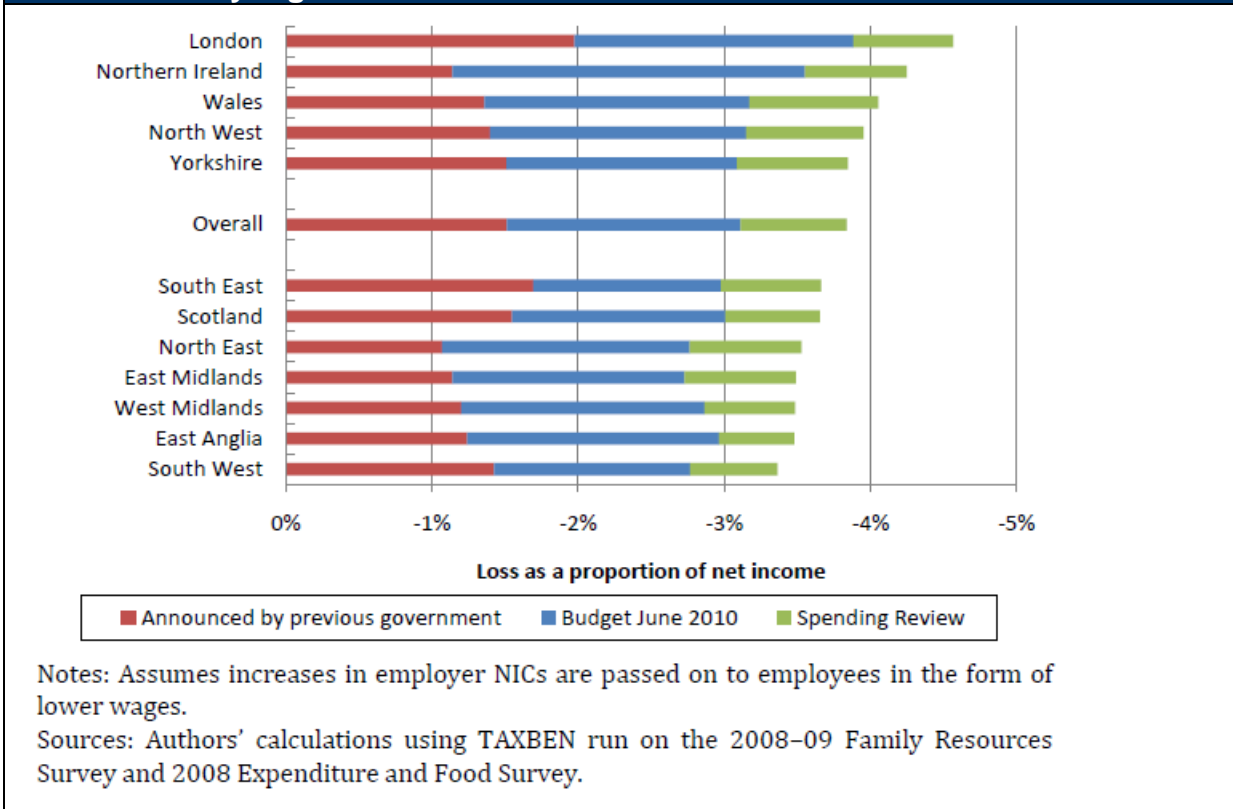
Impact of Universal Credit:

- IFS estimate that around 1.4 million working-age families will lose out in the long-run. It is expected that the effects by income group and household type identified by the IFS will be largely the same in Scotland as in Great Britain, with approximately 140,000 households in Scotland losing out (assuming 10% of the Great Britain figure) (Employability, Skills and Lifelong Learning Analysis Internal Paper, 2011).
- IFS find that Universal Credit strengthens the incentive for couples to have one person in work rather than none. Scotland has a higher rate of workless households (where no adults in the household are working) than Great Britain, with data for April to June 2011 showing that in Scotland the workless household rate was 19.8% (359,000 workless households), compared to 18.8% (3,756,000 workless households) in Great Britain (Employability, Skills and Lifelong Learning Internal Paper, 2011). It can be assumed, therefore, that Universal Credit may impact on improving Scotland's workless household rate, by increasing the number of households that have at least one person in work.

The effect of tax and benefit changes to be introduced between 2010-11 and 2014-15 by UK region:

Figure 1 illustrates the effect of tax and benefit changes to be introduced between 2010-11 and 2014-15 by UK region.

Figure 1: Effect of tax and benefit changes to be introduced between 2010-11 and 2014-15 by region.



Source: Browne (2010, 6)

Figure 1 shows that, by 2014-15:

- Households in Scotland are expected to lose around 3.7% of their income on average as a result of tax and benefit changes. This compares to a UK average loss of 3.8%, a loss in Wales of 4.1% and a loss in Northern Ireland of 4.2%. Therefore, households in Scotland will lose slightly less of their income than Wales, Northern Ireland and the UK average as a consequence of the tax and benefit changes.

The effect of tax and benefit changes to be introduced between 2010-11 and 2014-15 by UK region and income quintile:

Table 2 shows the expected impact of tax and benefit changes by income quartile³ for the regions of England and the devolved UK nations.

³ Income quintiles are derived by dividing all households into five equal-sized groups according to income adjusted for household size using the McClements equivalence scale. Quintile group 1 contains the poorest fifth of the population, quintile 2 contains the second poorest and so on up to quintile group 5, which contains the richest fifth (Welsh Government, 2012: 16).

Table 2: Loss as a percentage of net income from tax and benefit changes to be introduced between 2010-11 and 2014-15 (excluding Universal Credit) by income quintile and UK region.

Region	Poorest	2	3	4	Richest	All
North East	-5.1%	-4.6%	-3.9%	-2.9%	-2.8%	-3.5%
Yorkshire	-5.1%	-4.2%	-2.9%	-2.9%	-4.5%	-3.8%
North West	-5.6%	-4.6%	-3.8%	-2.9%	-4.0%	-4.0%
East Midlands	-4.6%	-3.8%	-3.5%	-2.8%	-3.3%	-3.5%
West Midlands	-4.9%	-4.4%	-3.4%	-2.7%	-3.2%	-3.5%
East Anglia	-4.6%	-3.6%	-3.3%	-2.9%	-3.6%	-3.5%
London	-5.3%	-4.6%	-4.2%	-3.6%	-4.8%	-4.6%
South East	-5.0%	-4.0%	-3.2%	-3.0%	-3.8%	-3.7%
South West	-4.8%	-4.0%	-3.4%	-2.9%	-3.1%	-3.4%
Wales	-5.6%	-5.4%	-4.0%	-3.2%	-3.8%	-4.1%
Scotland	-4.8%	-3.5%	-3.5%	-2.8%	-3.9%	-3.7%
Northern Ireland	-5.5%	-5.1%	-3.5%	-4.0%	-3.8%	-4.2%
All	-5.2%	-4.4%	-3.6%	-3.0%	-3.9%	-3.8%

Source: Browne (2010, 17).

Table 2 shows that, by 2014-15:

- The poorest households in Scotland lose more on average from the benefit reforms than richer households. That is, households in the poorest quintile in Scotland are expected, on average, to lose 4.8% of their income as a result of tax and benefit changes, while households in the richest quintile are expected to lose 3.9% of their income. Scottish households in the fourth richest quintile are expected to lose the least at 2.8% of their income.
- However, poorer households in Scotland lose less on average than poorer households in both Wales and Northern Ireland.
- Poorer households in Scotland also lose less on average than poorer households in the UK as a whole⁴.
- Income loss for the poorest four quintiles is lower for those in Scotland than the average for the UK as a whole and the same for the richest quintile.

4. Conclusions

This paper has summarised the main messages from analysis reports produced by the IFS; and identified where there is IFS analysis around how Scotland compares to the other regions of Great Britain.

The main messages of relevance for Scotland are:

⁴ Reasons for this are not explored in the IFS analysis.

- The impact of welfare reforms are complex and vary by household type, including whether households have children and where they sit on the income distribution, and work status.
- Scotland has a higher dependence on welfare benefits than Great Britain as a whole.
- Households in Scotland are expected to lose slightly less of their income on average than the UK, Wales and Northern Ireland as a result of tax and benefit changes by 2014-15.
- In terms of loss of income across the income distribution, it is the poorest households in Scotland that will lose more on average from the benefit reforms than richer households.
- However, IFS analysis indicates that poorer households in Scotland will lose less on average than poorer households in both Wales and Northern Ireland. Poorer households in Scotland also lose less on average than poorer households in the UK as a whole.

Welfare Analysis
19 April 2012

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