



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

DEVOLUTION (FURTHER POWERS) COMMITTEE

Thursday 21 January 2016

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DEVOLUTION (FURTHER POWERS) COMMITTEE

3rd Meeting 2016, Session 4

CONVENER

*Bruce Crawford (Stirling) (SNP)

DEPUTY CONVENER

*Duncan McNeil (Greenock and Inverclyde) (Lab)

COMMITTEE MEMBERS

*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)

*Linda Fabiani (East Kilbride) (SNP)

*Rob Gibson (Caithness, Sutherland and Ross) (SNP)

*Alex Johnstone (North East Scotland) (Con)

*Alison Johnstone (Lothian) (Green)

*Stewart Maxwell (West Scotland) (SNP)

*Mark McDonald (Aberdeen Donside) (SNP)

*Stuart McMillan (West Scotland) (SNP)

Tavish Scott (Shetland Islands) (LD)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor David Bell (University of Stirling)

Dr Jim McCormick (Joseph Rowntree Foundation)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 2

Scottish Parliament

Devolution (Further Powers) Committee

Thursday 21 January 2016

[The Convener opened the meeting at 09:30]

Fiscal Framework and Welfare Powers

The Convener (Bruce Crawford): Good morning, colleagues. Welcome to the Devolution (Further Powers) Committee's third meeting in 2016. I remind members to please switch their mobile phones off or at least put them into a mode that means that we cannot hear them.

Agenda item 1 is an evidence session on Scotland's fiscal framework and welfare powers. I warmly welcome to the meeting two witnesses whom we have heard from before and whom we have always had good evidence sessions with: David Bell, professor of economics at the University of Stirling, and Dr Jim McCormick, associate director, Scotland, at the Joseph Rowntree Foundation. Thank you for coming along, gentlemen.

I will kick off with the no-detriment principle. I have been thinking about how workable that principle is in the context of any future welfare changes that the Scottish Government or the United Kingdom Government might introduce after the full package of Smith proposals becomes law. In particular, no-detriment principle 2 states that there should be no detriment as a result of either Government's policy decisions post devolution. Is that possible within the scope of what is intended without there being areas for potential disagreement? Is it realistic? I would like to get a better feel for that; we have had evidence on the subject, but we have not really got underneath it. Who would like to kick off?

Professor David Bell (University of Stirling): I will kick off. The simple answer is that it is not possible to enact the second form of the no-detriment principle without going into massively complex calculations that bring with them huge potential for dispute between the different authorities. The impact on Newcastle airport of Scotland deciding to reduce or eliminate air passenger duty is taken as a classic example of how we end up tying ourselves in knots in trying to figure out what the impact on the rest-of-UK Government would be, because it is necessary to imagine what would have happened if Scotland had not taken that decision. It is around such a

question, which we call a counterfactual, that all the uncertainty arises, because it relates to something that did not happen. It is not possible to know what would have happened if Scotland had not taken a policy decision that it has taken.

In such circumstances, people—mainly economists, I guess—end up arguing about what the impact might have been had the decision gone a different way. It is not clear that there is any easy way to resolve that. It might not be possible to resolve it at all, but it would certainly involve long and complex calculations.

I looked at the work that the House of Lords did on the issue. Its committee interviewed a man from the International Monetary Fund called Carlo Cottarelli, who said that no similar principle is in operation anywhere else in the world. That is the basis for my argument that it is unworkable.

Dr Jim McCormick (Joseph Rowntree Foundation): The fact that we are in uncharted territory internationally, as David Bell said and as we heard at the committee's most recent meeting, is significant. If we are to pursue the no-detriment principle, it is extremely important that some clear principles, such as transparency and—as far as possible—simplicity, underlie it. Transparency is about working methods; in other words, it is about one Government not trying to pull the wool over the eyes of another Government.

Proportionality is another aspect. The no-detriment principle cannot mean that minor changes in budgets are given the same prominence as, for example, a major incursion into tax territory. Income tax will be a shared tax base between the Governments. We have to understand that, with a shared tax base, one Government's actions versus another's could have substantial consequences. I do not think that we should give up on the principle; we just need to have proportionality and be able to distinguish between major detriment and more minor detriment. In fact, minor detriments might net off each other, plus or minus either side of the border.

I am in favour of shining a light on what appear to be the major risks and perhaps benefits for each Government and of building expertise to understand those major budget consequences. As I have said, those consequences potentially come from tax decisions as well as welfare spending decisions. We should build up our data and evaluation on those more major areas rather than fret about every potential consequence in our budgets.

Professor Bell: I agree with Jim McCormick on that point. If there was a decision about the size of the state that had a major impact on Scotland's block grant—let us say that the rest of the UK decided that the health service should be

privatised—we would want something to kick in to allow negotiations and consideration of the implications for Scotland’s funding. That takes us on to an issue that the committee will probably want to discuss later—how the block grant is adjusted and how the way in which it is adjusted could change in the light of such a decision.

The Convener: Malcolm Chisholm wants to ask about block grant adjustment but, before we get there, that point takes me on to an issue that David Bell mentions on pages 11 and 12 of his written evidence. You say that, if attendance allowance was devolved to local authorities in England,

“there would be no relevant data”

on which to calculate Scotland’s block grant adjustment for that benefit. Is either of the witnesses aware of any proposal to change the structure of devolved benefits in England that could have such an impact? That would be a big change.

Professor Bell: That is purely hearsay that I have heard when I have been down south—that is all. However, local government social care budgets in England are extremely cash strapped, and the UK Government might make a case for transferring some disability benefits budgets to local government budgets to build up that social care support. I guess that that would be a little like council tax benefit, which I also mentioned in my submission. It has been devolved to the local authority level in England, and local authorities can now no longer identify the part of their central Government grant that is associated with the payment that they got for council tax benefit. If the same thing happened with attendance allowance, there really would be very little to compare with Scotland’s attendance allowance.

The Convener: If that happened and there was no data, how could we adjust the block grant appropriately? Would there be a way to do that?

Professor Bell: The only thing that occurs to me—it is another thing that I mention in my submission—is that we might index to the so-called at-risk population. There are estimates of how many pretty severely disabled people there are—attendance allowance covers such conditions—in Scotland as against the rest of the UK and how those two figures are moving relative to each other. That would be a relatively objective way to assess the potential for attendance allowance claims.

However, claims behaviour differs. It is not just disability that matters; who claims, how they claim and whether they are encouraged to claim also make a difference to the ultimate cost of the budget.

The Convener: The bottom line is that you are saying that if the Department for Work and Pensions decided to devolve that budget, that would make sorting out Scotland’s block grant more complicated—that would be inevitable.

Professor Bell: Yes.

The Convener: We need to be aware of that when we draw up our report, so I am glad that you have told us about it.

Dr McCormick: We can perhaps expect over the next five years an interest on the part of the Treasury and the DWP in moving further in the direction of localisation of some benefits in England. How far that will go is unknown, but we can detect a broad interest in doing that. A complicating factor is variable localisation, with some cities in England having a different deal from the rest of local government in England and perhaps even cities here in Scotland having a different relationship with the Treasury.

The picture that emerges is one of genuinely variable geometry or variable deals for different tiers of government. I agree with David Bell that the only way through that is to look at aggregation of factors that affect potentially eligible populations, whether that is done by age or based on historical data. It certainly means that we need to use three to five-year rolling averages rather than cashing out in a single year.

The Convener: Can you say that bit again, please?

Dr McCormick: We should be measuring populations that might be eligible and the budgets that are attached to them over running averages of three to five years and not by taking a single baseline year as the best indicator that we have. This is about indexation in the future. It is important that we have the broad rolling averages as our measurements, because they can help to incorporate changes in data from year to year that are perhaps not typical.

Professor Bell: If we go down that route, which seems sensible, we must have the data. At a presentation yesterday, I was discussing the issue of data. In 2001, the labour force survey, which collects some disability and health-related information, had a sample of 10,000 each quarter in Scotland. Now it is down to just over 6,000 a quarter. If you go down the route of looking at eligible populations, there needs to be some kind of guarantee that the data will be adequate, so that you do not spend your time worrying about the quality of the data when big decisions are being made.

The Convener: I know that Linda Fabiani wants to ask questions about no detriment for individuals, but the current discussion naturally

flows into talking about adjusting the block grant. We will have to have some method for doing that if we are not to go into individual negotiations. Malcolm Chisholm has questions on that.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): What has been said is really interesting. I think that the theme of the presentations is the complexity of this area. It could become more complex; attendance allowance was mentioned, but that has been skewed in Scotland because of the free personal care issue that we all remember.

The point about the changing populations is interesting; I asked a question about that last week. I do not know whether you have seen the *Official Report* of last week's meeting, when David Phillips of the Institute for Fiscal Studies cut to the chase, in a way. I assumed that the method that has achieved a certain amount of consensus for tax—the per capita indexed deduction—would not be applicable to social security, but he surprised us by saying that we should just use it because, if we tried to do something else, all sorts of problems would be attached.

David Bell has mentioned the subject in his submission and, interestingly, he has pointed out that per capita indexed deduction would not work so well for us. The situation is the opposite of that for income tax, so indexed deduction would be better.

Cutting through all that is the question of what is reasonable for us. It is understandable that we want the best deal for both aspects but, given the difficulties that we will have in getting our desired objective for income tax, will it be reasonable that we work out some complex method that will give us the best deal for social security? Perhaps that is understandable and reasonable, but would it be that risky or that bad just to go for the per capita indexed deduction for social security in the same way as for income tax?

09:45

Professor Bell: There is a question about the deal that will be done and whether to get that a simple deal will be done. If a simple deal is done, one of the methods that have been discussed will be chosen and will apply across the tax and welfare horizon. In those circumstances, as far as Scotland is concerned, it is more important to get a good deal on the tax side than on the welfare side, because there will be £11 billion in income tax alone, and what we are talking about in relation to welfare is about £2.5 billion. If the income tax deal was less beneficial for Scotland, the costs would be greater overall for the Scottish budget. That would take away all the issues that

we have been discussing about indexing on relative populations at risk and so on.

The question is partly about what risks are being shared across the UK and what risks are not being shared. If we focus on the tax block grant adjustment, we are looking at the risk of Scotland performing economically at a different level from that for the rest of the UK. The block grant adjustments that are being proposed for income tax do not cover the risk relating to welfare. If you go for indexing on welfare separately, you are saying that the UK is willing to cover changes in population or changes in disability levels in Scotland, because the grant to Scotland will increase if Scotland becomes relatively more disabled. In other words, Scotland would have an insurance policy against increases in disability levels. The issues that such principles involve were never set down as the negotiations went on through the various stages or, indeed, in the Scotland Bill, so we are left scrabbling around trying to figure out what things it would be better to share at the UK level in terms of what Scotland would get out of that and what it would be better not to share.

That is a long-winded answer to your question, but my basic point is that, if a simple deal has to be done, the focus has to be on the tax powers rather than on the welfare powers.

Malcolm Chisholm: To go back to your initial thoughts on using relative populations that are at risk, one of the arguments that are used against that is that that takes away the incentives in terms of the relationship between disability and health. However, that might be marginal for a lot of people with disabilities.

Another question is whether we can predict the distribution across the population. You have said that the main client group for the welfare benefits that are being transferred to Scotland is older people. Is that in fact the case? The biggest benefit by far that is being transferred is disability living allowance, which is for people who are under 65. Unless you have a rather broad definition of older people, I question whether the main client group is older people.

Professor Bell: Disability living allowance is awarded on the basis of a person's age at the time of their claim. If they subsequently pass the age of 65, they will continue to receive DLA.

Malcolm Chisholm: You mean attendance allowance.

Professor Bell: No—disability living allowance.

Malcolm Chisholm: Really?

Professor Bell: Yes.

Malcolm Chisholm: I thought that the benefit became attendance allowance at 65.

Professor Bell: No—it does not become attendance allowance, which is paid to those aged over 65 who become in need of personal care after reaching pension age. Disability living allowance can initially be paid only to those who are aged under 65. If someone becomes 65 during the course of their claim, they will receive disability living allowance. One of my graphs shows that the majority of claimants of disability living allowance have been claiming for quite a long time, so quite a big proportion of them are aged over 65.

Dr McCormick: That is about one third of the budget.

Malcolm Chisholm: I think that you are suggesting something that has been suggested before, which is that you could index DLA to the elderly population. It is somewhat controversial, but people have this view that the percentage of the population that is elderly is increasing more in Scotland than in England, and you could argue that, if the DLA were skewed towards older people, you could use the numbers of older people. As you have said yourself, it will be difficult to get the specific information that you want about the relative population at risk. If you could get an accurate assessment of the relative population at risk and were able to keep updating it every few years, would that be your ideal scenario and method?

Professor Bell: Yes. That is the ideal insurance policy. As you have suggested, it does not necessarily provide an incentive to introduce public health measures that reduce the level of disability in Scotland relative to the rest of the UK. However, if you want to ensure that you get adequate money from Westminster to cover the current population of disabled people in Scotland, you should look for one of those objective measures.

Malcolm Chisholm: To what extent would the number of older people be a good proxy? Would that give a quite different result?

Professor Bell: I am not sure that it is all that good a proxy. You might want to fine tune it a bit. Scotland's share of attendance allowance payments has been falling at the same time as its elderly population, relative to the rest of the United Kingdom, has been growing. There is something going on underneath. For example, the number of attendance allowance claims related to frailty has dropped off.

Malcolm Chisholm: Is that partly because more older people are going into care homes, or does that have only a marginal impact?

Professor Bell: The number of older people in care homes has not changed at all since the free personal care legislation was introduced, so that is not the reason.

Malcolm Chisholm: But I would presume that, if that population is disqualified from receiving attendance allowance, you would have to take account of them.

Professor Bell: Yes. We are talking about people living at home.

Dr McCormick: The picture is different for each of the benefit areas that are being devolved. For attendance allowance, a population measure is a good one; for DLA and personal independence payments, it is, if you are talking about the over-65s, a partial measure, for the reasons that we have been discussing.

With regard to incentives, it is important to hold on to that principle and map out where you can build in incentives to get the benefit of our investment in Scotland. Again, the situation looks different in different areas. We should also think about the importance of employment programmes and income tax revenues to ensure that we build in proper support in earlier adulthood, the benefit of which will, in the long term, flow through to people's later years.

As for demography, Wales has the oldest population structure in the UK; Northern Ireland and London have the youngest; and Scotland is at the old end of the spectrum. If we leave aside the extremes, however, we see that many parts of the UK are going to converge over the next 30 years, and that is before we build in migration assumptions. I am less confident in the view that we know how Scotland's share of the older people in the UK or Great Britain is going to look over time. We know how it looks now, we know how it looked in the past and we can do some short-term projections, but we have to be careful about some of our assumptions.

Mark McDonald (Aberdeen Donside) (SNP): Malcolm Chisholm mentioned David Phillips of the Institute for Fiscal Studies who, last week, suggested that, as an annually managed expenditure budget line, welfare spending would be easier to adjust for than departmental expenditure limit budget lines. Having listened to what you have said so far, I do not think that that is necessarily the case. What is your view?

Professor Bell: I am not quite clear about what will happen. I have looked at what happened with council tax benefit in England, which is one instance that I know of money going from AME into DEL. After it went into the DEL budget, it then went into individual local authority budgets where it was in competition with other parts of local authority budgets in England. It meant that local

authorities with a very cheap council tax benefit programme could spend more on, say, education.

I assume that this would be the case, but it is yet not clear to me whether the welfare budget would form part of a DEL or AME allocation to Scotland, and that opens up the question of the extent to which we would wish to redirect moneys to local authorities for social care rather than for attendance allowance. David Phillips might have more information on this matter than I have, but AME to DEL conversions are not unknown. The implication, however, is that those budgets come into competition with other parts of the DEL budget.

Dr McCormick: The welfare cap is still something that we need to watch. The UK Government has stated that it cannot be accountable or responsible for spending on those benefits in Scotland, but in this financial year the welfare cap accounts for well over half of all welfare spending. Even if, as the Office for Budget Responsibility thinks, the UK Government breaches its own target in, say, the next five years, the welfare cap is still an important part of the chancellor's thinking. Eight or possibly nine of the benefits to be devolved to Scotland currently sit inside it. That is a contextual point to watch. The issue should be part of the negotiations on the fiscal framework. Even if the issue is easily resolved early on, it might come back in future, and we should be alive to where the debate is going.

Mark McDonald: There is well-documented evidence and coverage about take-up rates and the fact that a large amount of potential welfare spend goes unclaimed. I have already called in the chamber for a look at the handling of benefit applications and at ways of simplifying the process to improve and increase the uptake of benefits. If that were to happen, how would you see it being factored in to the block grant adjustment? Although it flows from a policy decision rather than a situation at the point of devolution, it could have a material impact on welfare expenditure relative to the rest of the UK.

Dr McCormick: Ideally, we would have forecasting and outturn measures that get us as close as possible to underlying eligibility for benefits and which build in incentives to raise take-up over time. Let us take, for example, council tax reduction, which is already devolved. Our Scottish data on take-up are not good, but if we assume that we still have a problem and that it is equivalent to the GB problem, we are talking about a third of households in Scotland not claiming a council tax reduction that they are entitled to. That is a major undershoot on what the budget ought to be.

We can do similar things for working-age and retirement benefits. I am in favour of a fiscal framework that over time gets better at measuring what underlying eligibility should be and tries to close the gap in the take-up of benefits.

10:00

Mark McDonald: What is the likelihood of our getting that? At the moment, the clear ideological position at UK level is to reduce the amount spent on welfare, which suggests that there is less incentive to drive the uptake of benefits and to ensure that those who can take up benefits do so. After all, that would only increase spend. What is the likelihood of a UK Government saying, "We will account for any increase in uptake, measure the number of people who should be getting benefits and account for the increased expenditure accordingly"?

Dr McCormick: The likelihood is that more of the heavy lifting will be localised in England, with the UK Government talking mainly about local government budgets and the capacity to do most of that work on take-up.

The exception is universal credit. As a basket of benefits, if it is ever rolled out with the right real-time information and the right design principles, it could increase take-up. Those six bits of spending are currently separate, and that is where the potential to raise take-up lies.

As for other areas, Scotland already has responsibility to raise the take-up of council tax reduction, the budget for which is well below what it should be. As other benefits are reserved, the responsibility for them lies mainly with the UK Government. However, the evaluation evidence tells us that the most effective take-up campaigns tend to be face to face and local and conducted by trusted intermediaries such as housing associations and well-known charities. That work does not come for free.

The goal is very clear, but achieving it through the fiscal framework is long-term work that will never end. Nevertheless, we should at least start in the right place and put this important principle on the table, even if it will take quite a long time to make progress.

Mark McDonald: David Bell might wish to take a view on this. How frequently should the arrangements and their effectiveness be reviewed?

Professor Bell: If we are seriously thinking about some indexation with regard to welfare powers, take-up will be an important part of the overall picture that determines the budget. Patterns change over time, as do the costs to individuals of applying for different benefits. Some

are difficult and some are much less difficult. For example, there is almost 100 per cent take-up of winter fuel allowance and the state pension, while with more complex benefits that people do not understand or for which they are unwilling to go through the relevant tests, the take-up rate drops substantially.

Some of my colleagues down south have done work on the factors that influence take-up rates, and perhaps that is something that we should be aware of. Because it is such an important part of the determination of the overall budget, it is an issue that one will have to revisit fairly regularly. I do not see how one can forecast how it will change. Because we do not measure eligibility all that well, we do not have the necessary information about take-up rates, so how will we know where we will be in five years' time?

Duncan McNeil (Greenock and Inverclyde (Lab)): I have a brief question about risk. Would it be helpful if we could apply the sort of proportionality test that Jim McCormick referred to or create some kind of risk register for the issues that we are discussing? I find it difficult to get my head round some of this stuff. What are the really important areas, and where does the big risk lie?

After all, if every issue is presented as being very important, we can lose focus. It is important that, when we finally get to the point of producing a report, we take on board your caution about proportionality and risk. After all, determining the importance of this area in the scheme of things is all about striking a balance with regard to the risk for the ageing population. The matter is reserved to the UK with regard to pensions, for instance. Where is the balance here?

Dr McCormick: The persistent problem of low take-up, both at working age and amongst older people across the UK overall but particularly in Scotland, runs into hundreds of millions of pounds of unclaimed benefits to which people are probably entitled. On the tax side, the UK Government's plans to raise the personal allowance and other tax thresholds faster than inflation over the next five years will mean the loss of hundreds of millions of pounds to Scottish revenue. Those plans are of major importance when it comes to budget share.

I will give you one more example. Although it relates to a much smaller sum of money, it is still very important for the people affected, which is another test of impact. If, as elsewhere, low-income households in Scotland are going to lose universal credit income through, for example, the scrapping of the work allowance for single people, that will damage work incentives, reduce incomes and might have a shunting effect into council tax reduction. As people's incomes go down, their eligibility for an already devolved benefit will go up.

That might not have a huge budget impact but, for the people affected, the sums could run into hundreds of pounds a year. We need a test of proportionality that takes into account the global budget and also captures an understanding of the impact on the households affected, even if those numbers are not huge by share of the population.

The Convener: I will just tease that out a bit more before we go to questions from Stuart McMillan. I think that you mentioned tax-free personal allowances. If the UK Government plans to increase tax-free personal allowances to £12,500 and to raise the higher income tax threshold from £43,000 to £50,000 by 2021, what would be the cost to the Scottish Government of not implementing that change? That would become a real issue of policy difference.

Professor Bell: I can go back and run my model to give you an answer to that question. I do not have it now.

The question that I cannot give you an answer to is how people will react. I gave evidence to the Finance Committee on the issue of behavioural responses to changes in taxes in Scotland. If the personal allowance and/or the higher rate allowance go up considerably in the rest of the UK relative to Scotland, how will that influence where people choose to work? We do not know the answer to that question and it is very difficult to speculate. That is a second no-detriment principle effect. A cautious Scottish Government will tend to follow what the rest of the UK Government is doing.

The Convener: Before you do your modelling, let us just get a feel of the situation. If that were to happen, would we be talking about hundreds of millions of pounds, as Jim McCormick described?

Dr McCormick: Yes.

Professor Bell: Yes.

The Convener: That is substantial.

Professor Bell: Absolutely.

Dr McCormick: It is worth adding that the Joseph Rowntree Foundation supported the Institute for Public Policy Research to boost its tax benefit modelling to a much bigger sample size for Scotland. It will report on this area in the next few weeks—I hope in time to be helpful to your inquiry.

If we turn that round into a question about what Scotland could do with future powers to mitigate or take a different view from what future UK Governments might do, we could choose to raise the basic rate limit with inflation rather than above inflation, and we could choose to do the same for the higher rate threshold, or even to freeze it. Those sound like quite minor adjustments, but they would generate hundreds of millions of

pounds of revenue. I am not going to put a figure on it, but it would certainly be in that territory. To choose not to raise the limits faster than inflation would be a really significant decision. Conversely, if we chose to raise tax thresholds at a higher rate than the UK Government, that would cost Scotland hundreds of millions of pounds.

It is important to be clear about the revenue consequences of future decisions on tax allowances and thresholds as well as those on welfare spending. There are two sides to the coin.

The Convener: With Stuart McMillan's indulgence, I want to tease this out a wee bit further, because it is an important area. I know that Malcolm Chisholm also wants to ask a supplementary question.

We have talked about welfare, but what about the ability, on the other hand, to raise tax? The Scottish Parliament information centre has done some modelling on income tax and what could be raised in 2016 if 1p were added to the higher rate band. I mention that because I want to compare those sums with the cost of some of the changes that the UK Government has made under its austerity policies. Can you make a stab at saying what it might cost to reverse some of the changes to universal credit, with the disability benefits being devolved to Scotland, the issue of childcare funding and the proposals that you mentioned not to implement the proposed income tax threshold, or are the numbers just big, again? If so, what are the timescales for those big numbers?

Dr McCormick: I think—

The Convener: And how much tax would be raised?

Dr McCormick: I want to sound a huge note of caution on estimates of the effect of changing the higher rate of income tax, because we do not know enough about the trends for taxpayers at that rate or how incomes are holding up higher up, and we do not know enough about behavioural responses, although there are various monitors that try to estimate those.

I would veer towards the lower range of the estimates. I think that the mid-point of the lower range is about £75 million to £80 million of additional revenue from 1p on the higher rate. We can be a little less cautionary about 1p on the basic rate, and I think that the mid-point of the range there is about £325 million to £330 million. I am deliberately talking in terms of ranges and mid-points because it would be unwise to pick a figure.

That is about revenue raising. Decisions on the basic rate limit and other tax thresholds can either raise revenue or take up revenue depending on our choices but, again, these are big sums of

money, certainly compared with the £2.5 billion in the welfare budget that may be coming our way.

The Convener: On the other side, if we were to mitigate some of the welfare changes, what sort of costs would we be talking about there?

Dr McCormick: I can give an example. I mentioned the abolition of the work allowance for single claimants within universal credit, and for couples without children. The debate has moved on quickly from the tax credit reductions and the mitigation of those because of the autumn statement, and understanding the impact of abolishing the work allowance is probably the most urgent issue that we now face in relation to universal credit. The risk is that, by removing the work allowance, we will start to undermine the purpose of universal credit. Without going into that, however, I think that we should be concerned about work incentives in Scotland.

The cost of fully reversing the work allowance cuts would depend on how quickly we roll out universal credit. Let us say that we were fully rolled out by 2020 and all eligible singles and couples in Scotland were subject to that cut. In that case, we would be talking about hundreds of millions of pounds. The revenues lost would be about £200 million to £300 million, so that would be the cost of mitigation.

10:15

There is a whole other debate about the technical feasibility of mitigation, how you interact with DWP—it will have taken over full responsibility for universal credit from Her Majesty's Revenue and Customs—and, no doubt, the cost to Scotland over and above the mitigation budget of using the UK systems and allowing variation in those systems.

That is a ballpark figure; the IPPR will give us a much more accurate figure in a few weeks.

The Convener: If it is hundreds of millions of pounds in work allowance alone, we are in effect talking about 3 pence on the higher tax rate right away.

Dr McCormick: Yes.

The Convener: That is a significant impact on taxation.

Professor Bell: I agree that all the estimates are subject to considerable uncertainty. You can turn the handle and figure out what the implications and the effect on tax revenues would be if people did not change their behaviour at all. What we are not good at doing and what there is relatively little information on is around the behavioural changes that people might make.

We have to be a bit concerned about how high earners will respond, because they contribute such a big proportion of total income tax revenues. Alan Manning from the London School of Economics did work on the effect of the increase from the 45p to 50p tax rate. I have forgotten when that change happened, but it was not clear that an increase in rate added anything to total revenues. Therefore, you must be cautious, because you do not know what the behavioural response might be. As Jim McCormick said, that is less of an issue down the income scale where people perhaps have fewer opportunities to find ways of avoiding tax.

Dr McCormick: May I add one follow-up point?

The Convener: On you go, but I will need to move on to another area afterwards.

Dr McCormick: I will be brief, but we may want to come back to the issue later. There will also be decisions for Scotland around the basis on which we choose to uprate devolved benefits over time. That is separate from indexing of the budget coming into Scotland; it is a choice over how we then deploy those resources. Do we want to continue with a freeze in working-age benefits? Do we want to link to inflation? Do we want to link to a measure of median earnings? Those are big choices, which all have big bandwidth implications for the budget.

Malcolm Chisholm: One of the hundred millions that you talked about was the UK Government raising the tax thresholds beyond inflation. Are you confident that, whatever version of block grant adjustment we get, that will be fully compensated for?

Professor Bell: You are asking what would happen if the Scottish block grant adjustment were indexed to the increase in tax revenues in the rest of the UK. The tax revenues in the rest of the UK would increase by less, because the Government would be adding to the personal allowance, so people would be paying less income tax. As a consequence, the block grant adjustment would be smaller, which means that the amount taken out of Scotland's block grant from Westminster would be less. Scotland would, in a sense, have less taken away from its budget due to the increase in the personal tax allowance south of the border.

Malcolm Chisholm: We should not get too alarmed about that aspect, although it sounds alarming.

Professor Bell: It does sound alarming, and I am not entirely clear about how exactly that would pan out. Again, there are behavioural implications, but those are probably second order ones. In the first order, there would be some cover for the change.

Stuart McMillan (West Scotland) (SNP): I am keen to establish your thoughts and opinions on the issue of the block grant adjustment and the second no-detriment principle with regard to the welfare powers that are to come to the Scottish Parliament, bearing in mind that Smith recommended that the Scottish Parliament have complete autonomy to determine the structure and value of the benefits or any new benefits or services that might replace them. If a future Scottish Government decided at some point that it wanted to scrap one of the devolved benefits and introduce something else, how would that play out in terms of the block grant adjustment and the second no-detriment principle, in light of the fact that, as Dr McCormick reminded us earlier, the benefits are included in the UK Government's welfare cap?

Professor Bell: That is a complicated question. I guess it will depend on the agreement. If the fiscal framework agrees a single mechanism for adjusting the block grant across taxes and across welfare, then I presume that the Scottish Government can make decisions in relation to welfare, although that might affect the welfare cap, because the block grant adjustment would be indexed on income tax revenues in the rest of the UK. Once you start to fine tune down into indexing in relation to welfare powers, then you end up with the same problem that we started with if Scotland were to abandon one of its benefits. It is the sort of mirror image of what would happen if the UK Government decided to abandon attendance allowance—in a sense, that is where we started—because you end up with the problem of trying to make a comparison with what would have happened had you still got it, which is a difficult one. Then we fall back on the question whether we can just index to populations at risk, taking account of whether take-up is different between Scotland and the rest of the UK and what allowance you might make for that.

Although it is a complicated question, it is a sort of mirror image of the question of what the rUK Government decides to do with its welfare powers. Ultimately, when we know the fiscal framework, which I hope we will do in a week or two, we will be able to come to a much better answer to the kind of question that you are asking. However, if the structures in Scotland become different from those in the rest of the UK and you want to index on welfare powers, then you have to have some outside way of calculating what would have happened had the welfare powers not changed.

Dr McCormick: It makes the argument for as clear and transparent an indexing formula as possible that would, in principle, give Scotland the maximum space to decide how to use those budgets without worrying whether there would be a consequence of scrapping, renaming or

redefining a particular benefit. Some of the spending decisions go together in families or clusters. For example, DLA or attendance allowance can act as a gateway to carers allowance. The fact that those three will come together in Scotland is helpful because the consequences go in a loop, if you like, and are internalised.

There are other decisions that will spill over. If Scotland made fundamentally different choices on DLA/PIP from the rest of Britain, that might have a consequence for disability premiums with universal credit, which is a UK budget line. There will always be those internal and external spillover effects.

On the point about who scraps what, there might be a live issue. In the autumn statement, the employment programmes that were in the spirit of the Smith commission—the work choice programme—are all but being scrapped. An 83 per cent reduction is projected for those programmes that we thought were going to be particular budget lines with budgets attached to them. As a result of the Chancellor's decision, that is already a live issue before we get into the detail of the fiscal framework.

You could then say that those programmes are being all but abolished, that the budgets are being fundamentally reduced, and that Jobcentre Plus, a UK-wide network, will take on some of those responsibilities. That should trigger the question whether we can track the total resources that are being spent on the same client groups that those programmes were intended for, to what extent there is a grey area around what is being devolved and whether it is in the spirit of Smith and the Scotland Bill.

That is quite a good test case for how we answer your question.

Stuart McMillan: It might be useful to get SPICE to look into that for us.

The Convener: I am sure that we can arrange for that to happen. I will come back to Stuart McMillan, but Linda Fabiani has a question. Do you want to deal with the “no detriment” questions or have you something else?

Linda Fabiani (East Kilbride) (SNP): I can do whatever you like, convener.

I have a supplementary on what Jim McCormick said about employment services. The budget has been slashed, as you said. You mentioned Smith and the spirit of Smith. It strikes me that the difference between what was agreed should be transferred; the funding that is now likely to be transferred is massive. It seems to me that that will not allow Scotland to take on the role that was agreed in the Smith commission, even in the

limited agreement from the UK Government on the employment services that should be passed over. Have you heard anything about how that will be managed? I know that negotiations are on-going, but there would seem to be great detriment, to use the hackneyed word, to the Scottish Government and to people in Scotland in what is now being transferred as opposed to what it was agreed would be transferred in the spirit of the Smith commission.

Dr McCormick: Yesterday, David Bell and I were at a Resolution Foundation event on trends in the Scottish labour market. The Cabinet Secretary for Fair Work, Skills and Training was speaking on that very issue, so I am sure that it will be debated in the Scottish Parliament very soon.

The Scotland Bill, as amended by the House of Lords, is clear about which programmes and why. It does not talk about resource levels because that depends on the point at which you cash out the settlement and then index it. It just so happens that there has been a major reduction in the attached budget; it is possible that that will also happen with other budget lines in the future.

It is important to keep hold of David Bell's point about the intended eligible population. A work programme is going to be blended into a much broader health and employability support programme that will be run generically through Jobcentre Plus, as I understand it. There might therefore be a way of calculating Scotland's broad share of support for the eligible population. The figure might be a bit bigger than the figures that were announced in the autumn statement.

This is not about views on the merits or otherwise of the work programme and work choice. The issue that is relevant to this discussion is that, based on international evidence, high-performing welfare-to-work programmes can help to improve employment rates and work incentives, especially where the labour market is improving. That, in turn, can help income tax revenues and other consequences. Therefore, this is not simply about the budget to be devolved; it is also about the knock-on effect for parts of Scotland with less strong labour market areas and what the offer can therefore be.

10:30

There is also a consequence in Scotland for how we rationalise and improve the effectiveness of existing employability programmes that are run locally for various client groups.

Nonetheless, we need a sharper focus on our existing powers and budgets and on how effectively they are being deployed. That is a

separate but important consequence of the decision.

Linda Fabiani: I would like a wee bit of clarification. How difficult will that be with the changes that have been made? We always talked about it not being about the powers, but about what can be done with the powers. Where I come from, it has always been said that we do not have enough power to be able to do what we want. It seems to me that, even since the agreement and the spirit of the Smith commission, we are reducing powers over what can be done in real terms because even before the transfer of powers there are potential budget cuts to what was agreed. I know that it is not all about money, but money makes a difference to what can be achieved.

Dr McCormick: If we come at the matter from the perspective of the outcomes for the intended participants and beneficiaries, we are looking at—let us say—around 17 to 20 per cent of the original budget prior to the autumn statement. We could probably turn that into 25 per cent or maybe even 30 per cent of value for participants by trying to maximise what is devolved and by maximising the effectiveness of local employability programmes. For example, Fife has conducted a major review of its employability services and has, as a result, substantially improved job outcomes over the past three or four years. I am not going to say that we cannot achieve much more, but we could probably get back to around 25 or 30 per cent—that is a ballpark figure—of value in outcome for intended participants. However, that is clearly one third of what we thought might come. The decision will be for Scotland, but I imagine that it will be about a much more targeted offer to many fewer people and, perhaps, even a geographically more specific offer.

There might be an issue to do with the Glasgow and Clyde valley city deal whereby a different kind of deal can be offered to the eight local authorities involved. However, that is unsatisfactory because we will find in every single part of Scotland long-term unemployed people and people who are stuck with low pay and who are in in-work poverty who could benefit from a much more ambitious type of offer. Our ability to offer that—certainly over the next five years—will be substantially constrained.

The Convener: Does David Bell want to comment?

Professor Bell: No.

Linda Fabiani: Do you want me to go on to individual no detriment, or will I leave that for the moment?

The Convener: We will come back to that. The question how will we manage fluctuations because

of all the things that we are hearing about goes back to the borrowing questions that Stuart McMillan wanted to ask. We will go to them first and then come back to the individual no-detriment issue.

Stuart McMillan: In written evidence to the Finance Committee, David Phillips pointed out that “At present, current borrowing is available”

to the Scottish Government

“only to cover forecast errors”

for tax revenues. Therefore, the new welfare powers clearly have to be increased. What type of regime should set limits, if any, on borrowing that may be spent on welfare payments?

Professor Bell: Borrowing for welfare is normally thought not to be good overall macro policy. Borrowing to invest is thought to be better.

Actually, some spending on welfare might be a form of investment, although it is difficult to figure that out. Certainly, however, the so-called golden rule of macro fiscal policy is that borrowing should be done to invest in the capital stock of the country rather than for current revenues, because doing that leads to a danger of running into borrowing problems, ultimately.

Scotland’s welfare powers are not really likely to be subject to substantial cyclical fluctuation; they are mostly fairly stable sums of money, so it should be reasonably easy to forecast them on a year-to-year basis. Therefore, the borrowing that is associated with forecast errors in relation to welfare need not be that large.

Dr McCormick: Whatever we think about the decision not to devolve benefits such as jobseekers allowance and—perhaps at the margins—housing benefit, the consequence will be, as David Bell said, that the cyclical elements in spending will be much smaller in the Scottish budget.

There will be decisions about the amount of borrowing and about the amount of bond issuing, which is also an important aspect. We say that the debate should be much more about investing in the childcare infrastructure and affordable housing supply, which are the drivers of some social security demand. As far as possible, we want Scotland to take control of those longer-term drivers and to invest in productive activity that gives us some degree of financial control in the longer term. Capital spending should be the major draw on borrowing and bond issuing, but we could be more creative about how we define productive investment. Childcare and housing are two good examples of how we could do that.

Professor Bell: Those examples fit into the prevention agenda. The Government could make

the case that it is borrowing now to prevent extra spending in the future. One of the key questions is how to borrow. If the Government borrows on the markets, it has to be concerned about what premium the markets might add, depending on what it says it is borrowing for. Alternatively, if it borrows, in effect, from the UK Government, or through UK Government channels, that would be subsumed into a large chunk of borrowing that happens each year. Again, that will become clearer when the fiscal framework is published.

Stuart McMillan: Thank you—that was a very interesting answer. I was particularly interested in the point about childcare, because I had not considered it to be an element in relation to borrowing.

The Convener: Linda Fabiani will kick off on individual detriment, then I will come to Rob Gibson on fiscal consolidation.

Linda Fabiani: I am sure that there will be other questions about individual detriment, but I have a general question about the issue. It has, since the days of the Smith commission, been kicking around in the Welfare Reform Committee and this committee. The question again is about what we want to do with the powers that we have—for example, the ability to give extra income to people through new benefits or top-up benefits. I am not yet convinced that we have bottomed out the problem of giving something with one hand that is then taken away with the other, because some benefits are means tested. If the Scottish Government is able to give grants to alleviate hardship arising from UK Government sanctions policy, might that money be taken back in some other way? Can we be sure that there will be no individual detriment to households if the Government in Scotland wants to top up existing benefits or to give a different kind of benefit?

Dr McCormick: I hope and believe that we have made progress with the last stages of the Scotland Bill in regard to both Governments being clearer about what this ought to mean. To take the example that we talked about earlier, if Scotland were to choose to find a way of retaining the value of the work allowance within universal credit, that would be good for work incentives, so it would have potentially positive revenue consequences. If we were to do that, it would make absolutely no sense—economically, fiscally, or in legal market terms—for that benefit to be somehow eroded by other decisions within universal credit.

We should pay attention to those shared spaces. Housing flexibility is a good example; different areas of Scotland may even have different rates of local housing allowance variation. Those are concurrent or shared spaces versus fully devolved areas, but in both cases it is really important that the net benefit be retained.

Scotland would be choosing to invest more or to forgo more revenue in certain areas. There has then to be an incentive around being able to capture the benefits of that expenditure—for example, in higher employment rates. It is in neither Government's interests to stand in the way of that.

As I pointed out right at the start, because we are in uncharted territory, it may be quite important that we have designed good enough dispute resolution mechanisms to make sure that the spirit of that individual no-detriment principle is properly adhered to in the future.

Professor Bell: As Jim McCormick said, we do not really know what the consequences of those relative moves might be. It would be good to have some way of revisiting the situation five years hence, for instance, to see to what extent the objectives of the Scottish Government and the objectives of the UK Government have been satisfied within the settlement as currently agreed, and then to consider what variations might be mutually agreed to get the kinds of improved outcomes in Scotland that you want.

Stewart Maxwell (West Scotland) (SNP): On the no-detriment issue, right at the beginning Jim McCormick mentioned the dividing line between major detriment and minor detriment. I think that both witnesses agreed that some of the major stuff can be dealt with and also that, if stuff is dealt with when it happens, it can be easier to calculate the figure, but the second-tier detriment or no-detriment issues are much more difficult.

What is the dividing line between major detriment and minor detriment? Do you have a cash figure in mind? How would you define whether something falls into one of the two areas? What should we ignore and what should we not ignore?

Dr McCormick: There are two broad tests. One is the point about proportionality. It is about the impact on the budget—the amount of money that is at stake, plus or minus, as a result of decisions, either globally or for particular groups in the population. The population exposure might be small, but the impact on those affected might be very large. That is one route into proportionality.

The other thing to look at over time is where we can get closer to satisfying ourselves that there is a causal connection between a choice that has been made and the impact on revenues and budgets. To me, that would suggest that we are crossing the threshold or reaching the level of some kind of measure of detriment.

10:45

The only way to get into understanding causality is to try to go after the likely candidates. You cannot do that for everything. I suggest that we need to consider suspected major causal effects on the tax and welfare sides and have an intergovernmental focus on trying to understand the causal effects. This is art, not science, and it certainly needs to have enough independent weighing-up of the evidence. We are building the evidence as we go. There is no rulebook that tells us where we are going to get to, and the process has to be entered into in a spirit of negotiation and good will, as far as possible, with the ultimate aim of dispute resolution, where necessary.

Stewart Maxwell: When you say “art” do you mean black arts?

Dr McCormick: No. I mean that the more light and transparency we can shed on these issues, the better. We will need the Scottish Fiscal Commission, the OBR, the IFS and perhaps others to be in this space. We need to bring good expertise to bear, but the process is unpredictable. I think that, over the next five years, it will be possible to do this in only a few areas in order to get at where the big flows might be.

Professor Bell: Fifteen years ago, when the free personal care legislation came in, there were many newspaper headlines around the idea of people flooding over the border to take advantage of the much better care provision in Scotland. We did not know what would happen but, now, nobody talks about that at all. As far as we are aware, that did not happen. We did not know beforehand, but we have learned as time has gone on that that is not a big issue. However, if something becomes a big issue, there must be a transparent mechanism by which it can be resolved.

Stewart Maxwell: Dr McCormick, you talked about proportionality and then—to paraphrase slightly—the idea of going after the big stuff. With regard to the use of proportionality as the test, the impact on a person could be extreme even though the relative amount of money might be tiny.

Dr McCormick: Exactly.

Stewart Maxwell: Can you explain what you mean by proportionality?

A general point was made about setting up the independent mechanisms to enable the two Governments to negotiate and make judgments about what the impact of the big stuff has been. My question on that is, who guards the guards? What is the resolution process for disputes? Where do you go once you have entered into that process?

Dr McCormick: I will have a go at the question about proportionality. As well as the global impact

on budgets, we would want to have some handle on population groups that look like they are particularly exposed to detrimental consequences of either tax or welfare decisions. There will be reasonably good evidence to guide us on the groups that are most likely to be exposed. For example, in the case of some households, changes in tax that either increase or decrease net household income could have a quite major effect on universal credit entitlements or—to use a Scottish example—council tax reduction entitlement or whatever replaces it. The crossover points that determine whether people are affected could be quite fine, so the numbers of people involved could be quite large or quite small. However, we need to have a handle on the likely exposure to risk for those affected groups. We have to focus on where we think the major proportionate impacts are likely to be.

When I talk about something being a minor detriment, I am not suggesting that the detriment does not matter; I simply mean that there might be areas in which the net effects of cross-border decisions might be close to zero, which means that we do not have to worry about the long-term impacts too much. We would still keep an eye on them, but we would put more effort into understanding the bigger flows.

Professor Bell: Yes. It is impossible to completely micromanage the situation, because there will always be losers as well as winners if you have a broadly fixed budget. However, that is the case now.

I do not think that we have discussed enough the mechanisms for dispute resolution. There should be a set of agreed rules on how disputes will be resolved that cannot be changed without both Parliaments agreeing. There has also got to be some kind of third party that is not the Treasury—it has never been a third party—which can take a view on all the issues that we have been discussing, such as the tax and welfare issues, and which has the respect of both Governments and their electorates. Now, that is a tough call. The OBR is supposed to fit that role; it has made its way, but I think that—fairly or unfairly—it is not viewed as being fully independent.

It seems to me that nothing has been set in train at the minute to set up the kind of institution and rules that I have described. It really has to be part of the fiscal framework, but we will see in three weeks or so whether something like that can be agreed. It seems to me that the fiscal framework’s stability would require something transparent that was accepted by both sides.

Dr McCormick: This is perhaps a very obvious point to make in the present company, but as far as possible you would want first to reach a political

settlement through the joint ministerial committee. Only if we did not reach an agreement at that level that was good enough would we go to a more technical form of dispute resolution. I presume that both Governments would appoint representatives to take that forward as far as possible. However, fundamentally, it involves political decisions about resource allocation and economic management. We need to let accountability take its course through politics, if possible; if that is not possible, we need to have a good enough backstop.

The Convener: I am just wondering which one of you should be applying for the job as independent adviser. Whether it the tax side or the welfare side, there is effectively no arbitration mechanism. If it is not in the fiscal framework, are you encouraging the committee to make a recommendation that there should be something on arbitration on both the taxation and the welfare side?

Professor Bell: Yes.

Dr McCormick: Yes.

The Convener: Thank you. We have got that on the record.

Rob Gibson (Caithness, Sutherland and Ross) (SNP): I have a small supplementary question on that. Should the Scottish Fiscal Commission have a role in scrutinising welfare forecasts as well as tax forecasts?

Professor Bell: I am not sure. The OBR does some forecasting of welfare spend relative to the DWP, which also conducts forecasts. I think that for my paper I used the OBR forecast of welfare spend and not the DWP ones, because the DWP tends to be very optimistic. Welfare involves a different type of forecasting. We have macroeconomic modelling on the one hand and, on the other, we have the question of what the change in eligibility to a welfare benefit will be for a particular part of the population. Those are two quite different strands of analysis.

On whether you should look to set up a competition for a body to do the forecasting on the welfare side rather than having a monolith that tries to do everything, I am not sure. A lot of work is done by independent bodies in London on welfare—in particular—and health spending, as well as policy. There are mechanisms for building up expertise, and it could be brought within the framework of the Scottish Fiscal Commission, but it is a different kind of work.

Dr McCormick: I was trained as a geographer and not as an economist, and I am going to be a little bit critical of our economics fraternity—I apologise to David Bell; I do not mean him—because even the best forecasting is subject to

large margins of error, especially at times of such uncertainty in the public finances.

It is important that we get forecasting that is as good as possible, and future finance secretaries, chancellors and Parliaments will want to be assured that the information is as good as possible. However, the really important point—I think that it came out in the previous session—is how good the outturn measures and the reconciliation are at the end of the financial year, or over a three-year cycle. It is important to get really accurate information on the actual position on spending and, as we heard earlier, the underlying entitlement, so that we do not lose the point about take-up.

It is important to improve our measurement capacity and compare that back with our forecasting. It is having the two things in tandem that will improve the position on both sides of the border.

Rob Gibson: So we need a mechanism to do that in Scotland even before we come to any potential arbitration between our views and the views in London.

Professor Bell: There is an interesting question about the relationship between the Scottish Fiscal Commission and the OBR. For example, to what extent does the Scottish Fiscal Commission, in its forecasts for Scottish income tax, take on board the macro forecast that the OBR makes for the UK as a whole? They are undoubtedly interdependent. I do not know whether this will even be agreed in the fiscal framework, but we probably do not want to have two governmental bodies competing with each other to forecast the UK economy. That is probably not a brilliant idea. However, I do not know what the arrangement is going to be.

The Convener: Rob, do you have another question on fiscal consolidation?

Rob Gibson: I do indeed.

You have painted a pretty bleak picture of the available welfare support and Scotland's ability to be flexible over the next five years. The command paper, "Scotland in the United Kingdom: An enduring settlement", states:

"the fiscal framework must require Scotland to contribute proportionally to fiscal consolidation at the pace set out by the UK Government across devolved and reserved areas."

Professor Michael Keating has stated:

"This appears to go beyond the requirement that any extra expenditure in Scotland be financed by Scottish revenues (which is already covered by the balanced budget requirement)"

What are your views on that?

Professor Bell: I am not convinced that I agree, because increased spending in Scotland that is financed by increased taxation in Scotland does not add to the UK's borrowing. If we think about the fiscal mandate as being both a deficit target and a debt target—the deficit is intended to be eliminated by 19-20—then, if Scotland increases spending and that is tax financed, I would not have thought that that would undermine the UK's fiscal targets.

Dr McCormick: I cannot add to that. [*Laughter.*]

Linda Fabiani: Being a geographer.

Rob Gibson: Okay. I suspect that it is 2020 and not 1920 as you suggested. [*Laughter.*]

Professor Bell: Sorry—I meant the fiscal year 2019-20. I did not say the hyphen.

11:00

Rob Gibson: I am reasonably okay with that but, in a written submission to the Welfare Reform Committee, you noted:

“A number of the benefits being transferred to Scotland fall within the welfare cap. However, the DWP will not be required to account for this spending in relation to welfare cap. This is made clear in the ‘Enduring Settlement’ document. What is not clear is whether this responsibility will be transferred to the Scottish First Minister.”

If that responsibility is transferred from the DWP to the Scottish Government, will it impose significant constraints on Scottish policy autonomy? If extra spending is funded by extra taxes raised in Scotland, will the welfare cap still apply? I am just taking the discussion on from the point that you just made.

Professor Bell: Maybe Jim McCormick is better placed than I am to comment on that. However, that is one part that is not covered by my previous answer and would impose some responsibility in relation to overall fiscal targets. You could argue that the welfare cap is a means to achieve the ultimate goal, which is the deficit and the debt targets, but a transfer of that responsibility to Scotland would have an impact on Scotland.

Dr McCormick: If you just look at the benefits being devolved that are currently covered by the welfare cap—attendance allowance, carers allowance, DLA, PIP, cold weather payments and winter fuel payments—you see that you are not shoring up a failing economy by spending money in those areas; those are social investments, largely to older people, disabled people or people who live in very cold parts of the country. I would suggest that they have a very tenuous—if any—connection to the chancellor's stewardship of the UK economy overall.

I would also say that we are not sceptical about the welfare cap and certainly the household

benefits cap from an ideological perspective; we are sceptical about their effectiveness and we are concerned about some of the perverse incentives that they build into the system. Of course controlling spending in those areas is important, but the best way to do that is by tackling the underlying drivers and that is about unemployment, childcare and housing supply, which are nothing to do with the bulk of the welfare cap. I cannot tell you whether it will happen, but our view is that it should not.

The Convener: Thank you. That brings us to the end of a fascinating evidence session that has given us a lot of food for thought. It has probably begged as many questions in my mind as it has answered, if the truth be told, but I thank both witnesses for coming along today. It has been very helpful. Thank you for giving us your time.

Scotland Bill (Committees' Update)

11:03

The Convener: Item 2 is an opportunity for the committee to consider recent and forthcoming work by other parliamentary committees on issues raised by the provisions in the Scotland Bill. Attached to the relevant paper is a report from the Local Government and Regeneration Committee on fixed-odds betting terminals and a copy of a letter from the convener of the Standards, Procedures and Public Appointments Committee on super-majorities and powers to amend the Scotland Act 1998.

Additionally, there is information that the Infrastructure and Capital Investment Committee is planning an evidence session with Ofcom in February. Finally, we know that we will be getting some correspondence from the Rural Affairs, Climate Change and Environment Committee on its further work on the transfer scheme for the Crown Estate.

I suggest that we note those points and agree to include them in our consideration of issues when working on our final report in due course.

Stuart McMillan: I agree with that, convener. I would just like to put on the record that I think that the work of the Local Government and Regeneration Committee on fixed-odds betting terminals was excellent. The committee certainly got into all the issues and I want to commend it for that on the record.

The Convener: That is on the record. As there are no other points at this stage, are members happy to note the points and consider them as part of our report?

Members indicated agreement.

The Convener: Thank you. Before moving into private session, I should add that the committee will meet again next week, when we will take evidence from a panel of witnesses on the issue of post-study work visas and discuss the report on the recent fact-finding visit to Spain.

11:04

Meeting continued in private until 11:26.

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