DEVELOPING A SOCIAL SECURITY SYSTEM FOR SCOTLAND

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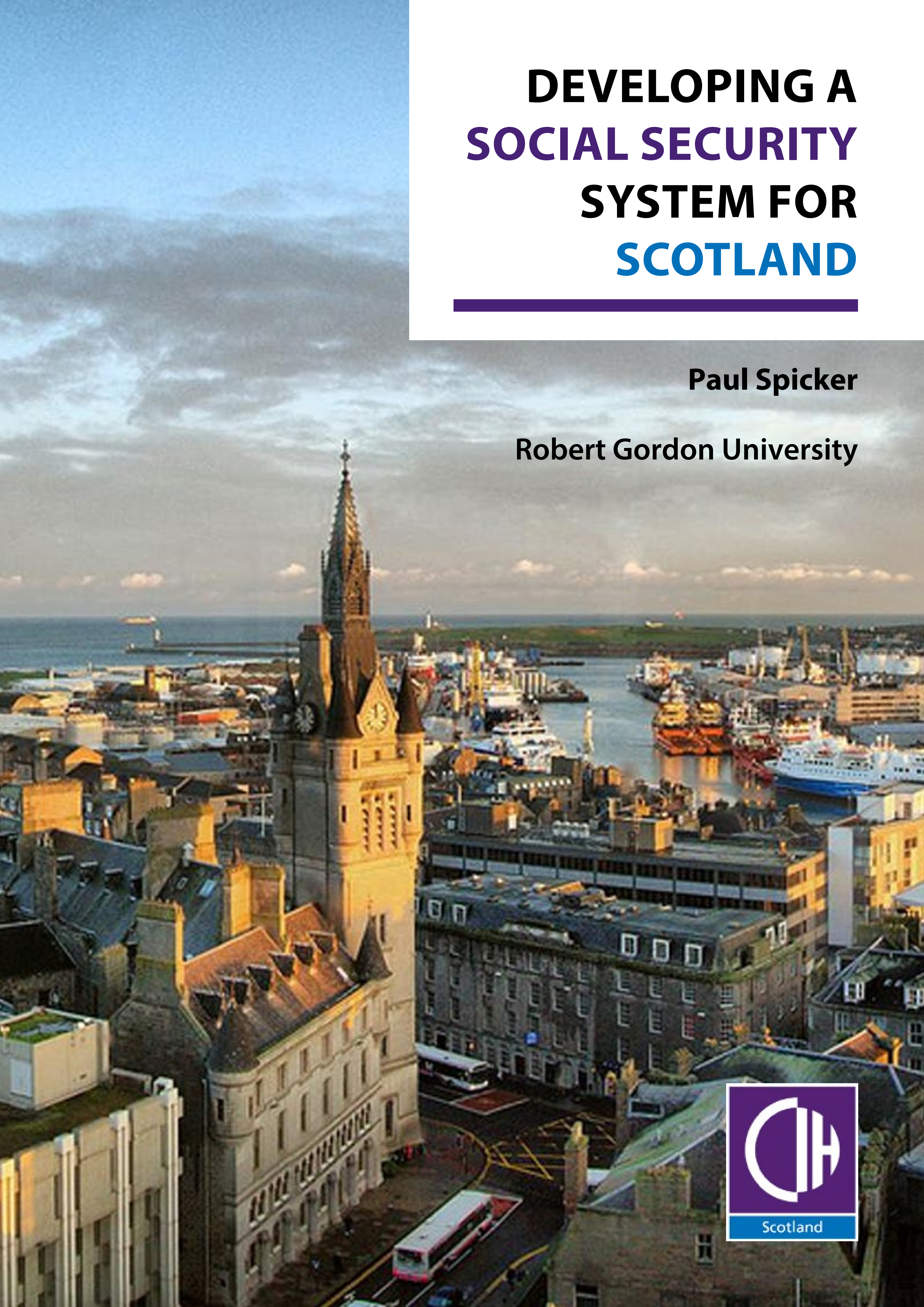
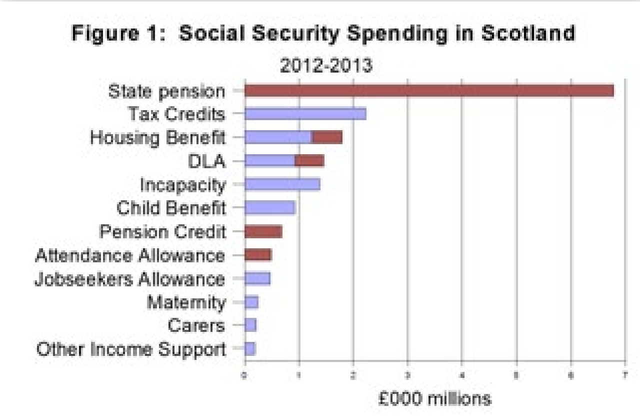


Scotland

Benefits are complicated. They cover a wide range of circumstances; they have multiple objectives. The largest part of the budget supports older people; most of the rest supports people in and out of work.

The central aim of benefits is to give people some income so that they can buy things. Governments can provide services instead of putting the money into benefits – for example, by providing child care or supported housing. They can reduce the need for income support by creating public employment and raising minimum wages. People need to have stable, secure, predictable incomes. Benefits cannot expect to keep up with every change in people's circumstances. The way to make the system more responsive, and to meet different aims and needs, is not to lump benefits together, but to separate them out. The system should offer a range of different benefits, aiming to offer a secure, predictable source of income.



However, reform is difficult. The system is complex, governments have to balance a wide range of competing aims and claims; changes can have unintended effects. If spending is fixed, it is only possible to make some people better off by making others worse off. Benefits are intended to do many different things, for people in varied circumstances, and many different criteria are applied. Figure 1, drawn from DWP and HMRC figures,[1] does not show all the categories, and the tallies are different in different documents, but it does show three things very clearly.

The first is that benefits deal with a wide range of conditions - older people, disability, housing, incapacity, unemployment and carers among them. The graph is heavily simplified. The numbers for 'incapacity', for example, include figures for Employment and Support Allowance, Incapacity Benefit, Severe Disablement Allowance and some receipt of Income Support.

Second, most of the money goes on older people. Spending on older people is marked in red, spending on people of working age in blue. Older people receive not just the state pension, but a range of other benefits - including benefits for disability and for housing needs.

Third, the next largest part are benefits which are available both in and out of work – Tax Credits, Housing Benefit and Child Benefit. 'Out of work benefits', including incapacity benefits, represent less than a third of payments to people of working age, and unemployment - mainly represented here in 'Jobseekers Allowance' and 'other Income Support' – is a very small part of the system.

Basic principles

What are benefits?

Most benefits are cash payments. When people claim their State Pension, money is paid into their bank account. However, some benefits work differently. When people claim Council Tax Reduction, their bill is reduced – they do not actually get the money. That has been true of some Housing Benefit payments, but the government is currently trying to change that.

Some other benefits are delivered 'in kind'; free school meals for children in low income families are delivered as food, not as money. It can be difficult to tell these apart from social services like health, education and social care. The central principle of most social security benefits is that people get the money they need to pay for things – for example, for food, clothing and fuel - rather than getting a service.

Which needs should be met by benefits?

Giving people money depends on a critically important assumption: that the appropriate way to distribute resources is through a market where goods are bought and sold. Many items are provided reasonably well by markets; there may be some problems with the distribution of food, but no-one is calling for a National Food Service. Some things are not well provided for. Economists recognise there might be examples of 'market failure', but the problems go far beyond that; there is nothing about markets that guarantees that every basic need will be met. That is why most rented housing used to be provided by councils rather than by the market.

Benefits don't just take advantage of existing markets; they change them. There are issues with benefits that are paid to meet specific liabilities: for example, Housing Benefit, the child care element of Child Tax Credit or payments towards free personal care. Wherever benefits cover a substantial contribution of the market, they set the conditions under which the market operates. These benefits offer a direct incentive to producers to charge more; there is an inexorable tendency to inflate the costs of services.

Things can be done differently. Care for children under five could be provided by education services; housing could be provided by social providers. It may be possible to meet some important needs without having a social security benefit at all.

Who should benefits be for?

Benefits are provided to cover a wide range of contingencies. The most important are

- Old age (for example, State Pensions and Pension Credit)
- Disability (Personal Independence Payment, Industrial Injury Benefit, War Pensions)
- Incapacity for work (Employment and Support Allowance)
- Unemployment (Jobseekers Allowance)
- Responsibility for children (Child Benefit, Child Tax Credit, Maternity Benefits)
- Paying rent while on low incomes (Housing Benefit)
- Low wages (Working Tax Credit, Child Tax Credit, Housing Benefit)
- Caring responsibilities (Carers Allowance)
- Bereavement (Bereavement Payments, Widows benefits)
- Emergencies and crises (The Scottish Welfare Fund)

The categories are largely a matter of convention. There used to be benefits clearly identified for lone parents, for funerals, for short-term sickness and for people with chronically disabilities who have been unable to contribute – most of these needs are being met, but they are liable to be hidden somewhere within other benefits. There are no benefits specific to self-employed people, part-time workers, young people or people in residential care - they are all dealt with under different heads – but there could be.

What are benefits supposed to do?

Benefits are paid for many different reasons. In How social security works,[2] I discuss some of the principal aims; Figure 2 lists many of them.

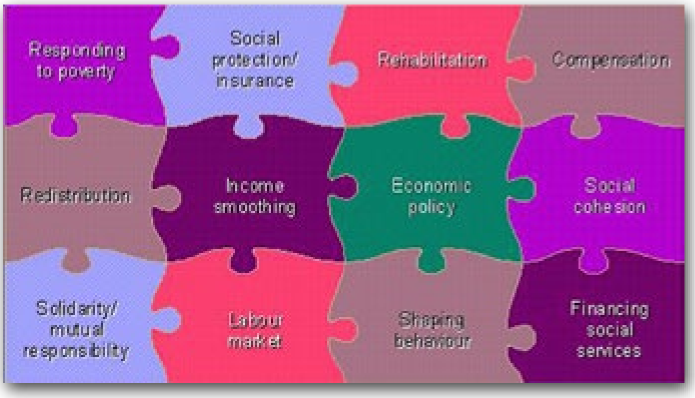


Figure 2: The aims of social security benefits

Some people think that the aim of the benefits should be to support people into work, but that is a very small part of what benefits are about. The Scottish Government's Expert Working Group, which reduces the aims to three – a safety net, a springboard, and social protection – makes the same sort of mistake.[3] The bane of policy in this field has been over-simplification. Benefits are complicated for good reasons. Any attempt to impose a small handful of over-riding principles tends to run foul of the others.

How do we decide who should get what?

There are five main types of benefit.

- Contributory benefits are set up as a form of insurance. People pay contributions and they claim when they meet the conditions of the insurance. Examples are contributory-based JSA, ESA and pensions.
- Means-tested benefits are based on a person's resources, generally income and capital. There are two main types of means-testing. Some benefits set a threshold and people get the benefit when they get less than the minimum. The main examples of this are JSA, ESA and Pension Credit (though all of those benefits have extra bits which work on different principles.) Other benefits match the entitlement to the income, slowly taking away benefits as income increases. This applies to Housing Benefit, Tax Credit and the new Universal Credit. (Those benefits are all available for people in work.)

- 'Non-contributory' benefits may have a test of need, but not a test of contribution. There are several benefits which are selective - the test defines who is entitled and who is not. Personal Independence Payment and War Pensions have no test of income.
- Universal benefits go to everyone in a specified category – for example, children (Child Benefit) or older people (the over-80s pension).
- Discretionary benefits depend on the decision of an administrator. Any social security system is likely to need some element of discretion to cover circumstances that are unpredictable or exceptional. The Social Fund was replaced last year by the Scottish Welfare Fund, administered by local authorities.

If benefits are there to meet different aims, in different circumstances, they need to be different. The best provision is generally made in mixed systems.

How far should benefits be personalised??

One of the key principles of the current reform of Universal Credit is that benefits should be 'personalised', responding rapidly and flexibly to the circumstances of individuals. This is not always a good thing. If there is a separate, distinct test for every benefit, the system becomes complicated, intrusive, presumptuous – it relies on the state holding vast amounts of information about individuals – and expensive to run. Individualised, personal responses are difficult, often unfair, and they do not work well. 'Selective' benefits are designed to distinguish those who should receive benefits from those who shouldn't. These benefits are intrinsically complex; there are inevitable problems of fairness and managing the boundaries; many people who are entitled don't receive the benefits; they can be stigmatising.

The biggest problems relate to means-testing. Income changes rapidly; it can come from different directions. There have to be capital rules, rules for self-employment, rules about non-dependents and other household members. There are continual dilemmas about equity, incentives and moral values. Errors are rife. The estimates for the means-tested Pension Credit suggest that 6.4% of payments are made wrongly. The equivalent figure for the contributory Retirement Pension, which is paid to much the same client group, is 0.1%.[4]

The Scottish Council Foundation once suggested there are three 'Scotlands'.[5] There is a Secure Scotland, whose circumstances are clear, stable and predictable. There is an Excluded Scotland, where people are poor, whose life-chances are limited, and likely to receive long-term benefits. Between them, there is Insecure Scotland - people whose situations is constantly changing, whose income goes up and down. People with disabilities can't say whether they are disabled.[6] People who are working in casual, temporary, 'flexible' jobs don't know when or whether they will be working or when they are paid. Personalised benefits rely on claimants providing information which is up to date, accurate and clear. Life is just not like that.

Wouldn't it be easier if there was just one benefit for everything?

The Expert Working Group on Welfare thinks that Scotland should have a single-working age benefit, the "Social Security Allowance".[7] Having a combined benefit is no simpler than having lots of benefits, and it might be even more complicated. If the benefit is genuinely simple, it can only be because it cuts corners. That implies that it will be less fair, or that some of the aims of different benefits will have to be sacrificed. If it is genuinely responsive to different needs and circumstances, it will need to have a multiple compartments – different provision for unemployment, disability, incapacity, housing needs and so on - and it will be complicated. This is what happened to Supplementary Benefit; it is probably true of Housing Benefit; it is happening now to Universal Credit. Combining six main benefits into Universal Credit has been a nightmare - and some important benefits, like Council Tax Reduction, have still been left out. It also runs the risk, because everything depends on getting the unified payment right, that administrative hiccups or delays will be catastrophic for claimants in desperate need.

The main benefits: options for the future

The State Pension

The current scheme of pensions works, more or less, in three tiers. The pensioners who are best provided for receive State Pension along with a private pension, both based on contributions and work-record. The next best provision is for people who get the State Pension, supplemented by a range of other benefits. Then there are pensioners whose incomes are low or who do not have enough contributions get the Pension Credit, a means-tested benefit. This picture is over-simplified, because there are several other elements, including a universal scheme for pensioners over 80, various benefits relating to disability, and support for housing.

The State Pension is much the largest benefit paid for from the social security system. The principal source of entitlement is the National Insurance system, which has two components: the State Pension and the earnings-related element attributable to the State Second Pension. Current reforms are intended to simplify the system, so that only a basic pension is paid, and any earnings-related element will come from private or workplace pensions. The principle is accepted in the White Paper on Independence.

There are two main alternative routes for reforming the state pension. One option, advocated by Reform Scotland,[8] is to strengthen the contributory element. Continental systems which offer earnings-related pensions have proved to be more effective in avoiding low income for greater numbers of pensioners; it has also been argued (e.g. by think tank Theos[9]) that contributory pensions are seen as more legitimate. The main disadvantage is that any contributory scheme must, by definition, exclude those who have not been able to make contributions. This calls for the creation of a third-tier system like Pension Credit.

Reform Scotland also argues for a funded scheme. Funded schemes have three key disadvantages. They withdraw money from the economy; they are difficult if not impossible to inflation-proof; they become unsustainable if the industrial base changes (as it has in France). The only sustainable arrangement for pensions in the long term is for them to be paid out of taxation.

The other main option is to create a non-contributory Citizens Pension, similar to New Zealand's Superannuation. The NZ scheme is available to any permanent resident over the age of 65 who has lived in the country as an adult for at least 10 years. All income is taxable, which means that pensioners with additional income or pensions may be taxed on them if their income is above a threshold. This arrangement would have the advantage of eliminating the need for transitional arrangements. Because it does not depend on contributions, it would not be necessary to negotiate with the UK about how to respect existing liabilities. Much of the administration associated with contributions would be unnecessary; it would also remove the need for Pension Credit. This would be marginally more expensive than existing arrangements; very few pensioners have no entitlement and no benefits, but there could be up to 50,000 pensioners who do not receive the Pension Credit they are entitled to, and they would be much better protected. More importantly, the funding would have to be paid for through tax rather than contributions.

Because pension rules change over time, and people have paid into schemes under different conditions, there are often complexities which relate to previous entitlements: examples are the Graduated Pension, which people contributed to 1961-1975, and the residual entitlements of married women who before 1977 were opted out of the National Insurance scheme. Those details matter, because they show what happens as entitlements change. The White Paper on Independence commits the Scottish Government to preserving all existing rights: "Accrued rights will be ~honoured and protected."[10] That implies that a young person of 21 who is contributing now may well have an entitlement related to that contribution in 75 years time. (It should also be noted that individual records of entitlements are held in the UK system; to keep this promise, Scotland would also have to have full access to English records for at least fifty years.) The main way to avoid complex, difficult transitional arrangements is to buy out existing rights, paying people a lump sum in lieu of future benefits. It is not uncommon for private pension schemes to transfer capital sums or entitlements between schemes, and this can be done for a Scottish scheme. This would have the advantage of avoiding difficult transitional entitlements; it has the disadvantage that some costs relating to buyout would need to be borne earlier rather than later.

There are other peculiarities of the pensions system which require further thought. One is the National Insurance Fund. Pensions are not actually funded this way – they are paid for from current taxation – but the National Insurance Fund has been maintained as an accounting fiction. Currently the fund is some £80bn in surplus, and presumably Scotland would have a claim on the assets, as the liabilities are part of the same system.

Another issue is the position of expatriates. This is not a small matter: about one-tenth of all UK pensioners live abroad, with the largest groups of recipients living in Australia, the USA, Ireland and Spain. Currently this costs the UK £3.4bn a year.[11] If an independent Scotland were to accept a proportionate responsibility it could be liable to pay another £300m a year.[12] There would also need to be reciprocal agreements to cover the position of pensioners who move between England and Scotland; at present UK pensioners living in Australia, New Zealand or Canada do not get their benefits uprated with inflation.[13]

Incapacity for work

There are several incapacity benefits, in the process of being unified into one: the Employment and Support Allowance. Residual categories include the Severe Disablement Allowance, for people who are chronically sick; Income Support, for people on very low incomes who cannot be expected to work; and the remains of Incapacity Benefit. Sickness Benefits ceased to exist some time ago; ESA also is available for short term illness where Statutory Sick Pay is not available.

The current system of Employment and Support Allowance covers multiple contingencies. They include:

- Periods of sickness. At present short term sickness is assumed to be less than six months, but recovery from some conditions (e.g. stroke) can take longer. It may be legitimate, for example, to have an earnings-related sickness benefit for up to eighteen months or two years, and to look for a transfer to longer-term incapacity benefit only after that.
- People whose illness means they will never be able to return to their previous work. Early retirement on this basis has become commonplace in the private sector; it is not permitted for social security, but in practice large numbers of people who are listed as incapacitated (particularly older males with lower skills) have withdrawn from the labour market. At present people in this situation are expected to make themselves ready for alternative employment.
- People who are not expected to do any future work. The ESA rolls now include people who are substantially incapacitated, and were formerly in receipt of Severe Disablement Allowance. Others who are excused from responsibility for work include people who are terminally ill.

There is a case for splitting up the current system of incapacity benefits into constituent parts, so that people in different circumstances are not expected to roll forward on a conveyor belt into the world of work.

Benefits for people with disabilities

In the 1970s, a range of benefits were introduced to support people with disabilities on the basis of a test of need rather than a test of means. The benefits included at first Attendance Allowance, Mobility Allowance and the Non-Contributory Invalidity Pension, which for people or working age are now incorporated into Personal Independence Payment and Employment and Support Allowance. The belief that these benefits would avoid the problems of means-testing proved to be unjustified; there are still problems of complexity, ignorance about entitlements, and a sense of stigma when certain benefits are claimed.

Disability is quite distinct from long-term sickness and incapacity. People may suffer from serious disabilities (such as blindness or motor disorders) and still be able to work. There are however several distinct needs to be considered.

- There is the problem of meeting the extra costs of disability – equipment, travel, dietary needs and so forth.
- There is the problem of disadvantage and low income: people with disabilities may be effectively unable to obtain employment because of their disability. (Disfigurement, for example, can be a serious impairment to ordinary life, even though it may not affect capacity to work.)
- There may be some need to pay compensation - a range of benefits, including War Pensions, Industrial Injury Benefits and Vaccine Damage Payments fall into this category.
- People with disabilities may be disadvantaged in their capacity to obtain income through earnings. Some people with chronic disabilities are unable to make contributions, which disadvantages them for the receipt of other benefits such as pensions.
- There are the needs of carers, whose income and capacity for work are also affected.

There are serious anomalies in the current pattern of provision. Most people with disabilities are elderly, but elderly people are excluded from key benefits for people with disabilities. DLA and now PIP treat people differently if they suffer from disability before and after retirement age. A person who has a stroke at age 64 may well be able to claim support with mobility, and then to apply for a continuation of benefit after retirement; a person who has a stroke at age 66 cannot. Often, because people with strokes will gradually recover some abilities, the person with the later stroke will be in worse circumstances.

Worklessness

The main benefit for people who can be expected to work is Jobseekers Allowance. The system of unemployment insurance introduced in 1911 was intended to help people working in a casualised labour market, where they might be unemployed for days and employed for others. When JSA was introduced in the 1990s, it departed from this approach, substituting a scheme that was substantially means-tested and payable weekly or fortnightly rather than on a daily basis; that change reflected real changes in the economy.

The main role of JSA is still to deal with short-term unemployment. Despite popular perceptions to the contrary, very few people receive JSA continuously for long periods. According to the DWP Longitudinal Study, two-thirds of unemployed people are off benefit after six months, and five-sixths (84%) after a year. After two years, the number of people still on benefit is down to four per cent – so three-quarters of those who are on benefit after one year are not there after two. By the time it gets to five years, hardly anyone is left - about 5000 out of 1.3 in the study; after ten years, it is just over 1000 people, less than one in 1200. [14]

The Council of Europe has commented that Britain's provision is 'manifestly inadequate'. [15] JSA rates are exceptionally low by international standards.[16] In general, replacement ratios in Britain are less than a seventh of wages, significantly lower for example than Switzerland, Germany or the United States.

One of the key issues to be considered is how far to raise benefit rates, and how to do it. Most continental systems have some form of earnings relation, and a level of unemployment benefit that diminishes over time. The comparison that is conventionally made in the UK is between any person on benefit, anywhere, regardless of previous income or job prospects, and any person in employment, anywhere. This is not about incentives to work, which have to be understood individually; it is a reflection of the nineteenth-century argument that the position of people receiving benefits must always be 'less eligible' than people who work. [17] The legacy of the Poor Law is visible, too, in the punitive and hostile treatment of claimants. Current policy is driven by 'conditionality' – the imposition of a range of requirements for compliance - and a strict sanctions regime, which has led to about a fifth of all unemployed people suffering the loss of benefit for extended periods.

Support for children

The key benefits at present are Child Benefit, almost but not quite universal since its effective withdrawal to richer families; and Child Tax Credit, a means-tested payment for people in and out of work. A third strand, technically not part of the benefits system, is the Child Support paid by absent (typically divorced) parents. There are some other smaller complicating issues – for example the Guardian's Allowance and other bereavement payments, the existence of fostering allowances, support for families within social work, the effect the presence of a child has on Housing Benefit – but the first three are the most important.

Benefits are generally paid to responsible adults, not to children – this is a convention, operated differently in some continental systems. The special position of children over 16 raises some questions about this. In England, school leaving age is going up, and few children under 19 will be treated as independent; in Scotland, the school leaving age is not set to increase, and 16 year olds have rather more rights and responsibilities (including, e.g., rights of control over assets and inheritance). One set of options to be considered is whether there should be a minimum age of eligibility, and if so what it should be.

The decision to support child care through Tax Credit was little discussed. Like all benefits, it assumes the existence of a functioning market; and like other benefits based on liabilities, it creates a serious incentive for private providers to increase their charges. The main alternative option for child care is the development of a non-market based service, offering direct provision for children in the early years.

Support for low pay

Several benefits are available to people both in an out of work, on the basis of low income. The most important are Child Tax Credit, Working Tax Credit and Housing Benefit. They work on a common principle: benefits are gradually withdrawn as income increases. To receive the benefits, people have to make an accurate declaration of income. That is difficult: income tends to fluctuate, people receive income from various sources, and the calculation is complex. People cannot tell whether they are entitled, how much they might be entitled to, or when they stop being entitled. If they get it wrong, they might be asked to repay thousands of pounds. When the Tax Credit scheme was introduced, the Ombudsman argued that the scheme was fundamentally unsuited to the needs of low income families.[18] The same principle has been carried forward into the design of Universal Credit.

Successive governments have promoted the principle of a flexible labour market. People might be employed on short term, casual, temporary or seasonal terms. They might be employed by several people simultaneously. The growth of zero-hours contracts has meant that people might have the commitment s of employment but no certainty that they will actually be paid. This is the context in which governments have attempted to introduce personalised, real time responses.

There are other ways to support people working for low pay. One possibility is exemplified by Child Benefit, which is to pay a simple, predictable amount of money at regular intervals so that it will be paid regardless of employment record. A second possibility, the approach once taken for Family Income Supplement, is to slow down the assessment period, offering supplements to wages for longer periods of time. A third is to promote employment more directly. An increase in public sector employment would directly reduce the number of people unable to work. An increase in the minimum wage would transfer some of the costs from the public sector to private sector employers.

Housing Benefit

Housing Benefit is provided to meet part of the cost of rent; it is available to people both in and out of work, across a wide range of incomes. Owner-occupiers who are out of work on low incomes can still also receive assistance with mortgage payments, but Housing Benefit is the principal source of support.

Part of Housing Benefit is concerned with helping people on low income meet their costs. Part is providing finance for social housing. Part is attempting to create the conditions for an effective market in the private rented sector. A lot of the problems in Housing Benefit stem from successive governments' attempts to try to do all three things at once.

In England (and in London in particular) there has been a concerted effort to drive up the rents of social housing so that they will create a 'level playing field' with the private sector. Much of the recent increase in the cost of Housing Benefit is attributable to this policy. The process of equalisation is not complete, and it may be unachievable.

Housing Benefit has never worked well. It is complex and hard to understand. It is difficult to check whether the amount being delivered is right. The way that it is calculated means that a person with higher income and higher liabilities can get more than a person with a lower income and lower liabilities. At the same time, a large number of people have had to shape their lives around it. Tenants know that they could not afford their rent otherwise; private landlords only have a stable income because of it; social housing providers rely on it for their finance. The "bedroom tax" could not have any serious effect on what size of property people were occupying, because the supply of housing is not responsive to costs in that way, so it has had to be paid for by people having less money to buy food.

Housing Benefit will prove particularly difficult to reform; too many people have made important commitments because of it. The first step is to separate out the different elements: support for low income, providing social housing, and supporting private renting. In the case of support for low income, there is an argument for decoupling the level of support that people are given and the precise cost of accommodation. That process was begun by the last Labour government, which allowed people to keep income supplements that were greater than the actual rent paid; but the measure was immediately dismantled by the coalition government, probably thinking it would save money. In the long term, there is a case for a fixed housing allowance paid to each household, regardless of actual liability. That would make it possible to match support more closely to income, instead of matching it to liabilities.

Support for social housing is a different case. Housing benefit was introduced because of a deliberate decision (in 1972) to reduce general subsidies and raise the rent payable. Most people could not pay the increased rents, and the benefit was introduced so that they could. (There were other options: the Republic of Ireland opted for a system where each rent was adjusted according to the tenant's needs. This is complex, and not recommended.) It is still the case that most occupants of social housing are on low incomes. The main option that is available here is to subsidise social housing providers directly, whether for new development or for current management costs.

Support for private renting is the most controversial element. The effect of offering selective support to meet liabilities is to create a direct incentive for landlords to increase rents. It has to be asked why there should be a subsidy for private landlords at all; the alternative is not that the housing will cease to be provided, but that the property will be sold for owner-occupation instead, and it is not self-evident that governments should privilege landlords before owner-occupiers. If a private landlord is producing low cost housing for rent, that might be better met by the same mechanism as the provision of social housing. In the same way, concern for the low incomes of tenants might be better responded to by arrangements which support their income. This is not, then, an argument for removing subsidies altogether, but it is an argument to say that benefits should not be related to the rents that landlords would like to charge.

The challenges of reform

Independence, the Expert Working Group on Welfare comments, "provides Scotland with the opportunity to design a social security system afresh".[19] A benefits system cannot be designed from scratch. There are people now who are elderly, disabled, unemployed or otherwise in need of support. And the first thing that they will learn about a new system is whether they are better or worse off than they were before. If a Scottish system paid the same amount as the current system, it would either have to pay the same amounts, or it would have to justify paying less to some people so that others could have more.

There is a principle in engineering called Murphy's Law: anything that can go wrong will go wrong. If a process is reiterated in different contexts thousands, tens of thousands or millions of times, there are only too likely to be problems. The UK government, in plumping for Universal Credit, has fixed on the idea of one complex, unified benefit, delivering payments that will alter rapidly and responsively as long as the computer can keep up. Benefit levels will be unpredictable; the system has to depend on firm answers to questions about circumstances and situations which are anything but clear. Any mistake in benefit delivery, or stoppage in benefit because of lack of information, could be devastating.

There is a good case, then, for doing the opposite. People should be receiving a collection of small, simple, predictable benefits; their total income will depend on the accumulation of a range of benefits, but the loss of one benefit will not leave people penniless. Using a range of smaller benefits would allow for a degree of responsiveness to varying needs. To make the system more predictable and manageable, there should be common pay days over common time periods – every benefit should have the same pay day for everyone. The advantage of such a system would be the provision of a relatively secure, stable income, delivered at regular intervals. However, every change is difficult. Any reforms will need to be cautious; benefits are crucially important for people's lives, and messing with them can be harmful.

A summary of the key issues and options

Here are some of the needs that benefits have to deal with, and some of the options that have to be considered.

- Pensions. The main choice lies between pensions based on contributions, and so on people's work record; or a Citizens Pension, offering benefits to everyone.
- Incapacity for work. Benefits for incapacity have to provide for sickness, and for long term sickness; early retirement; and people who it is not reasonable ever to ask to work.
- Disability. Benefits need to cover extra costs associated with disability; the economic disadvantage suffered by people with disabilities; the need for compensation; and the needs of carers.
- Children. Benefits supporting children may have to provide for children of different ages and school leavers. Support for child care may be better dealt with through direct provision.
- Low pay. Benefits can offer basic support; slower adjustments will help to offer more stable incomes. However, the main ways forward are to have more secure, better paid employment.
- Benefits for housing. Housing Benefits currently have to support people on low incomes, provision of social housing and the private rented sector. It would make sense to distinguish low income support from promoting the supply of housing.

However, the scope for reform is more limited than it may appear at first.

- Benefits are complicated because they are trying to do lots of things, for lots of people, for lots of different reasons. Over-simplification and cutting corners can hurt people.
- One rule is not good for everyone. The best provision is usually made in mixed systems.
- Sometimes direct provision is better than offering money.
- People need stable, secure, predictable incomes. Personalisation is not always a good thing.
- Change is difficult, and people can get hurt. Everything has to be done carefully.

[1] DWP, 2013, Benefit Expenditure by region 1996/97 to 2012/13; HMRC 2013, A disaggregation of HMRC tax receipts between England, Wales, Scotland & Northern Ireland and see Cm 8849, 2014, Scotland Analysis: Work and Pensions, p.31
[2] P Spicker, 2011, *How social security works*, Bristol: Policy Press.
[3] Expert Working Group on Welfare, 2014, Rethinking welfare.
[4] DWP, 2013, Fraud and error in the benefits system, p 16
[5] J McCormick, G Leicester, 1998, *Three nations: social exclusion in Scotland*, Scottish Council Foundation.
[6] DWP ASD, 2013, Ad hoc analysis, Tables 10/11.
[7] Expert Working Group on Welfare, 2014, pp 43 ff
[8] B Thomson, A McFarlane, A Payne, 2014, The pension guarantee, Reform Scotland.
[9] N Spencer (ed), 2014, The future of welfare, Theos.
[10] Scottish Government, 2013, *Scotland's Future*, pp 10, 24, and 140.
[11] DWP, 2013 Tables showing state pension expenditure by country
[12] Cm 8849, 2014, Scotland Analysis: Work and Pensions, p.31
[13] D Thurley, 2014, Frozen overseas pensions, House of Commons Library SN01457.
[14] DWP Longitudinal Study
[15] Council of Europe, 2014.
[16] See Theos, 2014, p 19
[17] See J Poynter, 1969. *Society and pauperism,* London: Routledge and Kegan Paul.
[18] Parliamentary and Health Service Ombudsman, 2007, Tax Credits - Getting it Wrong? HC 1010, p 43.
[19] Expert Working Group on Welfare, 2014, para 3.4