HM Government

Scotland analysis: Work and pensions

April 2014

Scotland analysis: Work and pensions

Presented to Parliament
by the Secretary of State for Work and Pensions
by Command of Her Majesty
April 2014

Cm 8849

This publication is available at **www.gov.uk/scotlandanalysis**

Any enquiries regarding this publication should be sent to us at:

DWP Strategy - Working Age Benefits,
Caxton House,
Tothill Street,
London SW1H 9NA

Email: workingage.benefitsstrategy@dwp.gsi.gov.uk

Print ISBN 9781474101851
Web ISBN 9781474101868

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 2635358   04/14

Printed on paper containing 75% recycled fibre content minimum

Contents

Executive summary

On 18 September 2014, people in Scotland will take one of the most important decisions in the history of Scotland and the whole of the United Kingdom (UK) – whether to stay in the UK, or leave it and become a new, separate and independent state. In advance of the referendum, the UK Government will ensure through the Scotland analysis programme,[1] that the debate is properly informed by analysis and that the facts crucial to considering Scotland's future are set out.

The people who live and work in Scotland and the employers who operate there benefit from being part of the UK and the UK benefits from having Scotland as part of it

UK citizens are able to live and work anywhere in the UK, moving freely from one part to another. They are encouraged and supported to gain productive employment, and to save for retirement. When individuals are unable to work or are unable to find a job, they are provided with appropriate financial support by the UK Government to meet some of their living costs, and every effort is made to help them return to the workplace.

Security for old age is a hugely significant issue for individuals, and providing people with the opportunity to build a decent income in retirement has been a key objective of successive UK Governments. The current UK pensions system is the result of significant investment over many years to build a unique partnership between the State, the individual, employers and private pension providers.

The social security system benefits every single person in the UK, regardless of where they live. Each successive government tries to ensure that the social security system caters appropriately for individuals and supports the needs of the labour market. While the shape and size of the system has evolved over time, and different governments may pursue their objectives in different ways, the basic aspirations remain unchanged, namely: providing financial support for individuals and households in times of need; ensuring work pays; and maintaining a system that is affordable and sustainable, accessible to all, which is as easy to understand and as hard to abuse as possible.

1 The Scotland analysis programme publications are available online at www.gov.uk/government/collections/scotland-analysis.

The UK's broad tax base ensures Scotland benefits from secure and stable funding that is not vulnerable to fluctuations in North Sea oil revenues. By pooling the resources of the diverse UK economy, variations in demand for social security support in one part of the UK can be absorbed without varying the levels of funding received by individuals. **By remaining in the UK the higher levels of social security expenditure in Scotland (and future costs pressures from an ageing population) are more affordable.**

The current devolution settlement gives Scotland the best of both worlds, allowing risks to be shared across the UK but services to be tailored to local circumstances

Over 30 million people in the UK – half the total population – receive income from at least one social security benefit or tax credit. In Scotland there are 2.8 million people receiving payments – again around half the population. Social security expenditure represents the largest single element (around 31 per cent) of UK Government spending. Spending on benefits, pensions and tax credits in the UK in 2012/13 was nearly £209 billion. This includes £17.7 billion in Scotland,[2] with just over one million pensioners in Scotland receiving £9.6 billion and working-age claimants receiving £8.1 billion.[3] This includes tax credits which support people in work, including help with childcare costs, and are designed to help make work pay. In 2012/13 one million people in Scotland received £3.2 billion through tax credits and Child Benefit.[4]

In 2012/13 benefit spending per head of population was £3,335 in Scotland, £60 (two per cent) higher than for the UK. This comes to £17.7 billion a year – £330 million more than if spending per person was at average UK levels. Historically this difference has been greater (for example, in 2002/03, spending per head in Scotland was nine per cent above that in the UK), and it is likely to fluctuate again over time.[5] Accommodating higher spending in Scotland and year-on-year fluctuations is made possible by the size of the UK economy and associated spending power and the diverse UK tax base.[6] By pooling the fiscal resources of the UK economy, variations in demand for support and services from different areas within the UK can be met without a need for varying the levels of funding received by individuals in those different areas.

Under the current constitutional arrangements, some wider functions which impact welfare provision, such as housing, are devolved to the Scottish Government. Others are reserved to the UK Government, notably most support to help people into employment and social security. Devolution means that people in Scotland get the best of both worlds. Where it is appropriate, for example, in areas like housing and skills, local decisions can be taken to address local issues or requirements. At the same time, as part of the UK, risks can be shared and resources can be pooled ensuring that social security spending and support can be targeted more effectively on those who need it most.

---

2 *Social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.
3 See Chapter 2, Table 2B.
4 DWP, Her Majesty's (HM) Revenue and Customs and Northern Ireland Social Security Agency statistical and accounting data, and Office for National Statistics (ONS) 2012 mid-year population estimates.
5 *Social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.
6 Fiscal transfers and the tax base and the resultant set of tax and spending choices are discussed in Chapter 2 of *Scotland analysis: Macroeconomic and fiscal performance*, HM Government, September 2013. Available at www.gov.uk/government/publications/scotland-analysis-macroeconomic-and-fiscal-performance.

As shown in *Scotland analysis: Devolution and the implications of Scottish independence*,[7] devolution is not static, and the split of responsibilities between the UK and devolved administrations has changed over time, for example the devolution of further tax powers in the Scotland Act 2012.

However, in the event of independence, the government of an independent Scottish state would be responsible for developing its own benefits and pensions policy, as well as the regulatory and institutional frameworks needed to deliver them and to support their own employment policies. They would also need to ensure a safe transition for individuals from the current arrangements for administering and delivering social security payments and employment support. The functions currently undertaken by the UK Government on behalf of the whole of the UK, including Scotland, would continue, as now, on behalf of the continuing UK.

A UK wide social security system and labour market works well for Scotland

Scotland benefits from the UK's flexible labour market, a resilient, pan-UK social security system, and additional spending per head on social security. Individuals can expect the same benefits wherever they live in the UK, irrespective of peaks and troughs in the performance of the local economy. Benefits and pensions spending is strongly influenced by the economic cycle. It is easier to handle economic shocks like the banking crisis, with a broader population and tax base to draw on. As part of the UK, Scotland can pool risks and draw on the wider UK economy to fund pensions in the decades ahead.

As set out in *Scotland analysis: Business and microeconomic framework*,[8] Scotland's labour market performs well under the current integrated UK-wide framework. The overall UK labour market performance and that of Scotland individually, compares very favourably with that of the rest of the European Union. The employment rate is high by international standards, and the features of the Scottish labour market are similar to the rest of the UK, showing that UK-wide labour market polices suit Scotland well. Scotland currently has an unemployment rate of 6.9 per cent, not only is this below the UK average of 7.2 per cent, but it also compares to an unemployment rate of 11.9 per cent in the Republic of Ireland and 10.8 per cent across the whole of the European Union.[9] In addition Scotland has recently seen a record number of women in work. Scotland's unemployment rate is the lowest in over four years and its employment rate has increased faster in the last year than the UK as a whole and is currently above the UK average.[10]

7 *Scotland analysis: Devolution and the implications of Scottish independence*, HM Government, February 2013. Available at www.gov.uk/government/publications/scotland-analysis-devolution-and-the-implications-of-scottish-independence.

8 *Scotland analysis: Business and microeconomic framework*, HM Government, July 2013. Available at www.gov.uk/government/publications/scotland-analysis-business-and-microeconomic-framework.

9 *Eurostat*, January 2014, monthly harmonised unemployment rates. Available at appsso.eurostat.ec.europa.eu/nui/show.do?dataset=une_rt_m&lang=en.

10 *Labour Market Statistics*, ONS, March 2014, Table 18(1). Available at www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-a07.xls retrieved 20 March 2014.

Workers can easily move throughout the UK, helping to match individuals and jobs, and to alleviate unemployment in particular areas in times of economic difficulty. This benefits both employers, who can recruit from a wider pool of skilled labour, and individuals, who can find work that better meets their skills, needs and aspirations. As set out in *Scotland analysis: Macroeconomic and fiscal performance*,[11] in 2011, 33,000 working-age people moved from the rest of the UK to Scotland, and another 35,000 moved in the opposite direction, demonstrating the flexibility and ease of movement that the UK provides to working-age people. Based on the latest Labour Force Survey data, it is estimated over half a million people born in England, Northern Ireland and Wales now live in Scotland, and over 700,000 people born in Scotland have moved to other parts of the UK. As set out in *Scotland analysis: Macroeconomic and fiscal performance*, The emergence of a border between an independent Scottish state and the continuing UK would reduce flows of labour between the countries.

Individuals seeking employment can use a Great Britain-wide network of Jobcentres, which means they have free access to information on vacancies and training opportunities throughout Great Britain.[12] The Department for Work and Pensions (DWP) currently operates a highly flexible operating network which enables it to move work around the country to cope with peaks and troughs of work, maximise efficiency and deliver high quality services. Currently there is a higher proportion of government jobs administering pensions and benefits based in Scotland (around 11 per cent of DWP staff are based in Scotland; but only around nine per cent of claimants).[13] These staff deal with claimants from Scotland, Wales and England.

In future, cost pressures are forecast to increase and these are better absorbed by the bigger, more diverse UK economy than that of an independent Scottish state

It would be for the government of an independent Scottish state to determine the nature and scale of the social security system that it would provide for its citizens, including whether or not to replicate the broad range of the current UK system and value of payments, and how individuals would become eligible and apply for benefits and pensions. In doing this the government of an independent Scottish state would also need to balance its aspirations for the level of protection its overall social security system would provide with considerations of costs to ensure the system is affordable to taxpayers in Scotland in the short and long term, and resilient to external pressures from economic shocks and long-term demographic change. The current Scottish Government has suggested that in the event of independence it would seek to make different policy choices to the UK Government, such as halting the introduction of Personal Independence Payment or adopting a different starting rate for the new single tier pension. These choices would increase costs compared to the current system and future plans.

---

11 *Scotland analysis: Macroeconomic and fiscal performance,* HM Government, September 2013. Available at www.gov.uk/government/publications/scotland-analysis-macroeconomic-and-fiscal-performance.

12 Jobcentre Plus does not operate in Northern Ireland.

13 Staff numbers in Scotland from the DWP personnel computer at 30 March 2013. See Chapter 2, Table 2B for claimant numbers.

Demographic changes are having a profound impact across the developed world on the cost of social security systems, largely due to increases in the number of people of pension age. The UK faces its own demographic challenge, as the number of working-age people shrinks relative to the number of pensioners, with cost pressures increasing accordingly. An independent Scottish state would face a more acute challenge than the UK as a whole, both in terms of the demographic change, and its ability to absorb the impacts from a narrower tax base.

Pensioner incomes and pensions costs

Overall average pensioner incomes in Scotland are very close to those in the rest of the UK. Pensioner incomes, in the UK and in Scotland, are at historic high levels, having, on average, grown faster than earnings over the longer term. In addition the percentage of pensioners with very low incomes was close to a historic low in 2010/11 and 2011/12 (at 14 per cent after housing costs)[14] with pensioners less likely to have very low incomes than the population as a whole.[15] The number of pensioners with very low incomes has declined since the 1990s. The fall in Scotland has been larger than the fall in England over this time, and Scotland now has the lowest proportion of pensioners with very low incomes across all four countries of the UK.

This growth in pensioners' incomes is largely explained by changes to benefits and the State Pension, including the introduction of Pension Credit. Pensioner incomes have been further boosted by occupational pension schemes, with many current pensioners having had access to relatively generous defined benefit schemes when in work.

Pensioners make up 19.8 per cent of the population in Scotland compared to 19.2 per cent in the rest of the UK. By 2032, based on Office for National Statistics population projections, this gap will have doubled, with Scotland's pensioners making up 22.0 per cent of its population compared with 20.8 per cent in the rest of the UK.[16] The UK's broad tax base will help to mitigate the challenges from an ageing population in the decades ahead.

As well as needing to fund future costs from an ageing population, the current Scottish Government has said that in the event of independence it would consider further changes to pensions policy which would attract significant additional costs to pensions. It has indicated that it would reserve judgement on increasing the State Pension age to 67.[17] Not going ahead with the increase would cost people in Scotland around £6 billion between 2026/27 and 2035/36 in extra pension costs and could see around £9 billion lost in terms of Gross Domestic Product as people leave the labour market earlier than they would otherwise have done. Moreover the current Scottish Government also proposes a start level for the new single tier pension of £160 a week, matching the UK rate should this be higher. (By way of comparison the 2012/13 basic State Pension is £107.45 per week.) For every £1 additional increase in the starting level of the single tier pension, the extra cost in Scotland could be in the region of £50 million a year in around 20 years' time.[18]

---

14 *The 2011/12 figures are the latest available*. Household Below Average Incomes 10994/95 to 2011/12, DWP, 2013.
15 *Incomes in the UK*, the Institute for Fiscal Studies (data exist since 1961). Rates of pensioner relative low income were only lower than their 2010/11 levels in 1984 (www.ifs.org.uk/fiscalFacts/povertyStats).
16 Office for National Statistics 2012 based population projections; Department for Work and Pensions calculations.
17 *Pensions in an independent Scotland*, Scottish Government, September 2013, page 49. Available at www.scotland.gov.uk/Resource/0043/00434502.pdf.
18 *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

Currently, spending on pensioner benefits in Scotland costs almost £80 more per working-age person per year than in the UK as a whole. Scotland's different demographic trends alone mean that, using the Office for National Statistics low migration assumptions, over the next 20 years, expenditure on pensioners would rise to almost £200 more per working-age person per year in today's terms. If the current Scottish Government's proposed policy changes (a start level for the new single tier pension of £160 per week, retaining the Savings Credit element of Pension Credit and delaying the State Pension age increase to 67) are added in, this would add further costs that would rise to £210 per working-age person per year in Scotland over the next 20 years, resulting in a total increased cost of £410 per working-age person per year on pensioner benefits over the next 20 years.[19]

These additional costs will mean that an independent Scottish state would need to provide an early assurance that it can deliver pensions in line with savers' expectations, possibly by raising taxes or cutting other public services. If it was not able to set out how it would achieve this then savers will not be able to invest with the confidence that their private pensions will not be caught by a means test in the future.

If Scotland were to leave the UK, in addition to costs of funding pensions for people in Scotland, there would also be cost implications resulting from the need to protect, and regulate pensions, support automatic-enrolment schemes and disentangle UK state pensions from those of an independent Scottish state. As at 31 March 2012, public service pension liabilities, both funded and unfunded, were around £1 trillion.[20] Putting a precise figure on the liabilities which would become the responsibility of an independent Scottish state is very difficult. However, estimates suggest the total Scottish liability figure could be in the region of £100 billion.[21] There would also be increased administrative costs as an independent Scottish state would have to significantly expand the role of the Scottish Public Pensions Agency.

Benefit changes

A decision by the government of an independent Scottish state to introduce significant change across the full range of social security payments would have implications for individuals and families currently in receipt of benefits and pensions as part of the UK.

The current Scottish Government has proposed that, in the event of independence, it would also look to make a number of changes to the existing benefit system. Similar to the additional pension costs, there would be costs associated with the changes to benefits set out in *Scotland's Future*.[22] For example, halting the introduction of Personal Independence Payment would cost another £210 million in 2016/17 (in 2012/13 prices).[23]

---

19 *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

20 *Whole of Government Accounts 2011/12*, HMT, October 2013. Available at www.gov.uk/government/publications/whole-of-government-accounts-2011-to-2012.

21 Calculated on the basis of liabilities associated with existing Scottish schemes where these exist, and a population-based division of the liabilities associated with UK-wide schemes. Wider analysis would be required to understand the division of liabilities, following negotiations over the treatment of public services and public service pensions more widely, in the event of independence.

22 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013, page 158. Available at www.scotreferendum.com/reports/scotlands-future-your-guide-to-an-independent-scotland/.

23 *Long term projections of social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

The current Scottish Government has also said that, if it were to form the government of an independent Scottish state, it would halt the introduction of Universal Credit. Universal Credit will provide strong financial incentives and other support to help those who can to move into work, alongside financial support for the most vulnerable for as long as they need it and temporary help for those with short-term needs. In Scotland, 300,000 households will have higher entitlements under Universal Credit (£166 per month on average) than under the current benefit system.

The unpicking of a complex and integrated infrastructure to pay benefits and pensions would incur costs to develop and set up new systems, while running costs could increase given the loss of economies of scale

Running the UK's social security system in an effective and efficient way is a massive undertaking by any standards. For example, every day DWP makes around 3 million benefit payments and processes nearly 22,000 new claims to benefit. Millions of people rely on social security payments for most or all of their income. The current arrangements for delivering services have been built up over many years and are managed by knowledgeable and experienced staff. In the event of Scottish independence, these arrangements would no longer apply to an independent Scottish state. The government of an independent Scottish state would be responsible for designing, funding and implementing systems and processes to support delivery of its social security system.

To provide a sense of scale and an indication of the possible costs that the government of an independent Scottish state might face DWP's total operating costs in 2012/13 were £7.4 billion,[24] with DWP's operating costs in Scotland estimated to be around £720 million[25] (representing 9.8 per cent of the total cost). As well as yearly running costs an independent Scottish state would also have to develop a wholly new social security system so that it could deliver on the policy changes the current Scottish Government is committed to making (discussed elsewhere in this executive summary). The one-off costs of this would be in the hundreds of £millions. For example, one-off IT costs to develop a new system are estimated to be between £300 million and £400million.[26] On top of this there would be costs to develop new policy and pass legislation and for exiting existing contracts. There may also be a significant impact on the rest of the UK if all contracts need to be re-tendered. (See Chapter 5.)

The infrastructure, including IT, to deliver the current services is highly complex and integrated. And importantly complex benefit and pensions calculations are based on pounds sterling. When the UK Government introduces changes to social security payments and processes it does this gradually, thoroughly testing services to make sure they work before it introduces them on a wider scale.

[24] *DWP Annual Report and Accounts 2012/13*, HM Government December 2013. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/264555/dwp-annual-report-accounts-2012-2013.pdf.

[25] Calculation based on the actual cost of delivering services to Scottish people in Scotland or where not available the assumed proportionate cost of delivering for Scotland.

[26] Estimated IT costs are based on extracting all Scottish cases from existing UK systems, transferring them to an alternative infrastructure and agreeing new contracts. The bulk of the costs would depend on the benefits system that an independent Scottish state introduced and the IT systems chosen. An element has also been included for consequential changes.

The current Scottish Government has indicated that in the event of a vote for independence it might seek to continue to use the UK's systems, staff and services for a transitional period.[27] This would be subject to negotiation with the continuing UK. However, it has also said that, in the event of independence, it would pursue different policy objectives in a number of areas. According to its own timetable, priority changes would be made within 18 months of a vote for independence.

Sharing IT systems and services would mean that an independent Scottish state would not be able to make changes to existing social security policy or processes or to opt out of Great Britain-wide reforms. Doing so would require the prioritisation of changes desired by the government of an independent Scottish state over the needs of the UK Government. And reconfiguring the current system to meet the demands of two governments with different policies would introduce additional costs and risks. This would not be in the interests of the government of the continuing UK. The UK Government would do nothing to put at risk the continuity of payments to its own citizens and would not be prepared to incur significant costs to change IT systems. In addition the three main UK political parties have ruled out entering into a currency union with an independent Scottish state. If Scotland does not use sterling as its currency, it would not be possible to share a benefit system even for a transitional period.

Conclusion

People and employers in Scotland benefit from being part of the UK and the UK benefits from having Scotland as part of it. The current pan-UK labour market, benefit system and pensions arrangements generally work effectively. So, wherever people live in the UK, they receive the same benefits, regardless of the peaks and troughs of local economies, or differences between local populations. Together the UK can pool risks and draw on the wider economy to fund a resilient and unified system. An independent Scottish state would have to set up its own systems and services. Unpicking the complex and integrated infrastructure to pay benefits would incur costs to set up new systems and there may also be higher running costs given the loss of economies of scale. Scotland benefits from the size and strengths of the UK's economy, its flexible labour market and a resilient social security system in the UK. In future, the greater cost pressures Scotland faces on the social security system would be better absorbed by the larger, more diverse UK economy.

The current Scottish Government has made a number of spending commitments and has not yet set out how it would fund them. Proposed changes include halting the introduction of the Personal Independence Payment, and possibly delaying the increase in State Pension age to 67 as well as making various other changes to pensions arrangements.

Over the next 20 years expenditure on pensioners (in today's terms) would rise to around £410 more per working-age person per year in Scotland compared to the UK as a whole. In total, over the next 20 years extra expenditure on pensioners would rise to around £1.4 billion higher per year.

---

27 *Scotland's Future: Your guide to an independent Scotland, Scottish Government*, November 2013, pages 165 and 166. Available at http://www.scotreferendum.com/reports/scotlands-future-your-guide-to-an-independent-scotland/.

In terms of expenditure on working-age people, the current Scottish Government's proposed policy changes would mean that over the next 20 years, spending would rise to become around £40 higher per working-age person per year. In total, over the next 20 years extra expenditure on working-age people would rise to be around £150 million higher per year in today's terms.

Taken together, a combination of demographic changes and spending commitments means spending rising to nearly £1.55 billion more per year over the next 20 years in today's terms, than if spending per working-age person was at average UK levels. This results in a total increased cost of around £450 per working-age person per year in Scotland over the next 20 years.[28]

These are massive spending commitments by any standards. Such expenditure would normally require increases in taxes, cuts in pension/benefit payments, significant reductions in other areas of expenditure or need to be absorbed into a budget deficit.

[28] *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

Introduction

The scope of this paper

This paper presents the UK Government's analysis of the implications of the debate on Scottish independence for supporting people into work and social security (including pensions – state, private and public service). It sets out the current UK-wide arrangements and how they deliver targeted and effective support to pensioners, jobseekers and employers, and those in need of support from the social security system. It highlights the ability of the UK to pool risks and draw on the wider economy to fund social security spending, and the extensive infrastructure and systems that currently deliver pensions, support into work and benefits to people in Scotland. It explains the policy and practical challenges that independence would create for the design, funding and delivery of these services.

A number of previous papers in the Scotland analysis series are also relevant to discussions around work and pensions issues in an independent Scottish state.

The UK Government's first Scotland analysis paper, *Scotland analysis: Devolution and the implications of independence*, set out that the UK's key national institutions, including the Department for Work and Pensions (DWP), would operate on behalf of the continuing UK as before, but would have no power to act in, or on behalf of, an independent Scottish state, and no obligation to create the structures to do so.

The second paper, *Scotland analysis: Currency and monetary union*, set out the characteristics of the current arrangements of the UK as a full monetary, fiscal and political union; and investigated the consequences of independence for the currency, with its implications for payment of pensions and benefits, and wider macroeconomic framework.

The third paper, *Scotland analysis: Financial services and banking*, set out the significant benefits for Scotland from being part of the UK financial services market, including the implications for private pensions, supporting a domestic market, maintaining international competitiveness, protecting households and businesses, and managing financial sector risks.

The fourth paper, *Scotland analysis: Business and microeconomic framework*, set out the strong economic integration between Scotland and the rest of the UK, and investigated the consequences of Scottish independence for the UK business environment. It explained the benefits of the current UK framework, including the implications for the labour market, which minimises the costs and risks that Scotland would otherwise be exposed to.

The fifth paper, *Scotland analysis: Macroeconomic and fiscal performance*, discussed the macroeconomic performance of Scotland as part of the UK, how the UK's broad and diverse tax base helps maintain public spending stability in Scotland, and the potential impact of a border between Scotland and the rest of the UK.

The eleventh paper, *Scotland analysis: Assessment of a sterling currency union*, assessed the costs and benefits of a sterling currency union, concluding that it would not be in either the interests of the rest of the UK or an independent Scottish state to enter into a currency union.

Structure of this paper

Chapter 1 sets out how the current social security and tax credits system works. It discusses some of the principles and values underpinning the system and its evolution.

Chapter 2 sets out current and future challenges in relation to social security spending – mainly in relation to spending on pensions – providing an analysis of some of the demographic trends, support ratios and migration levels in the UK, including in Scotland.

Chapter 3 sets out how people are helped into work and how the UK Government tries to ensure that work pays. It looks at the performance of the UK labour market, as well as similarities and differences between Scotland and the rest of the UK.

Chapter 4 sets out the position on state, private and public service pensions, highlighting some of the issues that the government of an independent Scottish state would need to consider.

Chapter 5 discusses how services are administered and delivered in the UK, and the implications of independence.

The annexes provide further information that supplements the analysis in **Chapters 1 – 5**.

Chapter 1: The social security system in the United Kingdom

The social security system benefits every single person in the UK, regardless of where they live. When individuals are unable to work or are unable to find a job, they are provided with appropriate financial support by the UK Government to meet some of their living costs, and every effort is made to help them return to the workplace.

The post-war system resulted from a desire to alleviate poverty: essentially to provide for people who could not support themselves by work, in old age, and during periods of unemployment, sickness or pregnancy.

Today the social security system is expected to do much more. It is not only about alleviating poverty, but about helping people to support themselves and to do this through work where they are able to. It targets resources on those on low incomes, including those in work on low pay, and those facing extra costs associated with disability. It provides support with housing costs and to carers, the bereaved and those disabled through an injury or disease as a result of work, as well as assisting parents who are separated to financially support their children. It also provides support so those who have paid in through National Insurance contributions can get help when they need it regardless of their financial circumstances. While performing this role the system must remain affordable and sustainable; maintaining a fair balance between people contributing to and people receiving entitlements from it, and making efficient use of taxpayers' money whilst minimising fraud and error.

This approach to social security is underpinned by the values of social justice – understanding and tackling the root causes of poverty rather than their symptoms. It is based on ensuring that the most disadvantaged in society have the tools they need to transform their lives, and the lives of their families, and to realise their potential.

The social security system in the UK is based on a common system of benefit rules, operational design and delivery. There are a number of advantages to this, not least in terms of economies of scale, delivering value for money, managing fluctuating workloads, addressing geographical variations, ensuring effective safety nets and providing certainty for people around entitlements. Services are delivered through a range of different channels, including locally where this works best, which are designed to meet the needs of claimants in a responsive, efficient and cost effective manner.

Since its introduction, the social security system in the UK has been subject to continual change and evolution to respond to changes in society, including the willingness of people to finance and support the system through taxation. These are the same challenges that any government of a developed country faces when deciding on the scope, design and affordability of its social security system.

In the event of a vote for independence, the UK's social security system would no longer be available to people in an independent Scottish state. The government of an independent Scottish state would be responsible for developing, designing and delivering social security and child maintenance systems for Scotland. This is also discussed in the Executive summary and Chapter 5 of this paper.

Social Security – evolution and reform of the system

1.1 The social security system in the UK developed significantly throughout the 20th century. The first scheme for non-contributory state pensions, which were paid to individuals over 70 with a limited income, was introduced in 1908. In 1909, Winston Churchill, as President of the Board of Trade, set up a UK-wide system of labour exchanges, the precursors to the current Jobcentre Plus network.

1.2 William Beveridge's landmark 1942 report *Social Insurance and Allied Services*, aimed to devise a system which would be an attack upon "the five giants on the road of reconstruction" – want, disease, ignorance, squalor, and idleness.[29] The report represented a radical development for the UK and was widely influential – a Gallop poll, two weeks after its publication, showed 19 out of 20 people had heard of the report and nine out of ten wanted it to be implemented.[30]

1.3 However, by the late 1950s it was apparent that continued evolution would be necessary to keep up with a changing population, attitudes and economy. For example, the financial pressures on a system operating in the 21st century UK, where 36 per cent of people born in 2013 are expected to become centenarians, are very different to the 1940s where only a minority of men reached 65.[31]

1.4 The UK system has consistently demonstrated its ability to adapt since its inception in 1948. Since Beveridge there have been more than 115 Acts of Parliament concerning the social security system and thousands of amending regulations. Significant changes over the last few decades include:

- 1983 – the introduction of Housing Benefit to replace rent rebates and allowances;
- 1992 – the introduction of Disability Living Allowance to support disabled people to live independent lives;
- 1996 – the introduction of Jobseeker's Allowance in place of unemployment benefits;
- 2002 – the introduction of Pension Credit;

29 *Social Insurance and Allied Services, Beveridge*, W, 1942, page 8.
30 *What Britain thinks of the Beveridge Report as shown by a Gallup Poll*, The British Institute of Public Opinion.
31 *The single-tier pension: a simple foundation for saving*, DWP, January 2013, page 5. Available at www.gov.uk/government/publications/the-single-tier-pension-a-simple-foundation-for-saving--2.

- 2003 – the introduction of tax credits for individuals and households in work;
- present day – the rollout of Universal Credit which simplifies the benefit system and is intended to ensure that work pays, having a net impact of redistributing income to households with lower incomes; and
- present day – the introduction of the single tier pension (subject to the necessary legislation being passed) and automatic enrolment, to simplify the pensions system and to encourage and incentivise saving for retirement.

1.5 Everyone in the UK, including people in Scotland, benefits from the social security system which has successfully developed and evolved in order to:

- provide financial support for individuals and households in times of need;
- encourage, incentivise and support individuals capable of work to move into employment;
- support disabled people and enable them to live independent lives as much as possible;
- encourage and support individuals and households to save for retirement; and
- ensure pensioners have access to a decent minimum level of income.

1.6 The system in the UK is in the middle of major reform with a view to delivering the UK Government's vision of a modern social security system which is simpler, affordable and sustainable both now and in the future.

Social security, devolution and freedom to deliver

1.7 As discussed in *Scotland analysis: Devolution and the implications of independence*,[32] the UK Government believes in devolution with some services best delivered at a local level to help ensure that they can more effectively meet individual needs and circumstances. Under the current constitutional arrangements, some wider functions which impact welfare provision, such as housing, are devolved to the Scottish Government. Others are reserved to the UK Government, notably most support to help people into employment and social security. Devolution means that people in Scotland get the best of both worlds.

1.8 Having some flexibility to make decisions at a local level, perhaps in consultation with other agencies can result in better outcomes, tailored to local circumstances and targeted at genuine need, than where decisions are made centrally within a more rigid set of rules. This is particularly the case where the help and support is designed to meet one-off needs (perhaps in a crisis – for example where someone says they have had all of their money stolen – where it might be necessary to determine if there is a serious risk to the applicant's health or safety) or to take account of particular local factors.

---

[32] *Scotland analysis: Devolution and the implications of Scottish Independence*, HM Government, February 2013. Available at www.gov.uk/government/publications/scotland-analysis-devolution-and-the-implications-of-scottish-independence.

1.9 However, this is very different to having entitlements that vary for people with the same personal circumstances living in different parts of the UK. As discussed elsewhere in this paper, a key feature of the social security system in the UK is that it delivers the same benefits everywhere irrespective of peaks and troughs in local economies or demographic and socio-economic differences.

1.10 Annex A includes a number of examples where tailored local arrangements are already in place and working effectively. For example, support for certain living and one-off expenses has been devolved to local authorities in England and the devolved administrations in Wales and Scotland. In Scotland, a Scottish Welfare Fund has been set up.

Working-age benefits

1.11 The benefit system in the UK is generally split into two categories: benefits and tax credits for working-age people, and those for pensioners (which are discussed in Chapter 4). This chapter examines those most commonly described as "working-age benefits", although some can, in certain circumstances, be payable to people over pension age. They are available to people who satisfy the qualifying conditions wherever they live in the UK. This includes Northern Ireland where responsibility for social security policy is devolved, but where they have historically chosen to maintain essentially the same system as Great Britain. (See Annex A for more details.) Within the benefits system there are a mixture of means-tested,[33] contributory and extra costs benefits.[34]

1.12 Income-replacement benefits such as Jobseeker's Allowance, Employment and Support Allowance, Income Support and Maternity Allowance are designed to meet the day-to-day living costs of those who are unemployed or unable to work because they are sick, disabled, parents of young children or pregnant.

1.13 These income-replacement benefits are complemented by statutory payments, which employers provide, such as Statutory Sick Pay and Statutory Maternity Pay. Statutory payments are also payable to people wherever they live in the UK.

1.14 The benefit system in the UK also includes benefits which deliver additional income to people in work and with children such as tax credits and Child Benefit. Other benefits are available that provide support to alleviate the extra costs associated with disability, for housing costs, carers, the bereaved and those disabled through an injury or disease as a result of work.

1.15 Details of the qualifying criteria for some of the key benefits and tax credits are provided in Annex A. Table 2B provides a summary of benefits and tax credits spending and the number of claimants.

[33] Means-tested benefits are those where awards are dependent on income and individual circumstances.
[34] Contributory benefits are those where awards are dependent on sufficient National Insurance contributions having been paid or credited.

Support for separated parents

1.16 Child maintenance is financial support that helps towards a child's everyday living costs when the parents have separated. It covers children up to age 16 and certain qualifying young persons who remain in non-advanced education or approved training up to the age of 20. The Child Maintenance Service is a statutory service which operates across Great Britain. Child maintenance is devolved in Northern Ireland (although as with social security, Northern Ireland maintains essentially the same system as Great Britain).

Box 1A – Child maintenance services in the event of an independent Scottish state

The cost implications and the impact on separated parents, children and taxpayers would be entirely dependent on the child support model an independent Scottish state introduced and the level of integration with the rest of Great Britain and Northern Ireland (who maintain parity with Great Britain). However, the introduction of another distinct and separate system by an independent Scottish state would likely result in further complexity, additional costs and administrative burdens.

As an illustration of the potential scale, there are currently some 105,000 cases of the statutory child maintenance system's caseload of 1.1 million where at least one party resides in Scotland. Of those, the other party resides elsewhere in Great Britain in more than 19,000 cases, representing 18 per cent of the caseload.[35]

The specific impact on parents would depend on where separated parents and their children are resident. Cases where one party resides in one jurisdiction and the other party resides in another would involve administrative complexity as a result of one of the parties being subject to the child maintenance provisions applicable to the jurisdiction in which the other resides.

Although it is impossible to estimate precisely the cost of a new child maintenance IT system without details of what type of system an independent Scottish state planned to introduce, it should be noted that when Northern Ireland considered doing so, the conclusion was that such an operation was unaffordable and therefore parity with Great Britain has continued.[36]

35 DWP management information – live and assessed child maintenance caseload.
36 *Understanding Parity*, Departmental Briefing Paper, Northern Ireland Assembly, 2009.

Support for disabled people

1.17 The UK Government remains committed to supporting those who cannot work and to helping those who can into work. It has worked extensively with disabled people, who say that levelling the playing field so that they can integrate fully into and contribute to the wider society is very important, to develop a broad strategy that applies both across government and wider. *Fulfilling Potential*[37] (published July 2013) set out a comprehensive set of actions (many of which are devolved in Scotland) around education, employment, income, health, well-being, choice, control and inclusive communities. It also set out some of the work the UK Government is doing to work with disabled people, the wider society and business to break down barriers and make a difference.

1.18 The benefit system provides a resilient and unified safety net for people throughout the UK wherever they live: England, Wales, Northern Ireland or Scotland. At the same time the UK Government recognises that it is a complicated system and believes that it can be improved and has, therefore, introduced, or is in the process of introducing, a number of reforms. These include key changes to working-age benefits through the introduction of Universal Credit and Personal Independence Payment.

1.19 The replacement of Disability Living Allowance for working-age people with Personal Independence Payment will support working-age disabled people who face the greatest barriers to participating in society.

Universal Credit

1.20 At the heart of the UK Government's reforms is Universal Credit. As recognised by the Organisation for Economic Co-operation and Development, it will create a simpler system and ensure that people will be better off in work than on benefits – "Universal Credit represents an indisputable simplification of the benefit system" and "will give better incentives to work than the current system".[38]

1.21 Universal Credit will simplify the complexity of the current system, which has become one of the biggest barriers to work; replacing six main benefits with a single monthly payment for people both in and out of work, and smoothing the transition from welfare to work. These reforms will make the financial benefits of work clearer to claimants, while reducing the risks of taking up a job.

1.22 Universal Credit will improve work incentives by allowing individuals to keep more of their income as they move into work, and by introducing a smoother and more transparent reduction of benefits when they increase their earnings.

---

[37] *Fulfilling Potential*, DWP, July 2013. Available at odi.dwp.gov.uk/fulfilling-potential/index.php.

[38] *Labour Market, Welfare Reform and Inequality in the United Kingdom*, André, C. *et al*. 2013. OECD Economics Department Working Papers, No. 1034, OECD Publishing, page 24. Available at dx.doi.org/10.1787/5k49lcnl9cr8-en. Retrieved 4 February 2014.

1.23 Across Great Britain as a whole three million households will be better off. (Around 75 per cent of these households will be in the bottom 40 per cent of the income distribution.) In Scotland, 300,000 households will be better off than under the current benefit system, gaining an average of £166 per month.[39]

1.24 If an independent Scottish state were to halt the rollout of Universal Credit, as the current Scottish Government has suggested, many people would continue to face the complexity and undesirable incentive effects of the current system. As they have poorer incentives to move into work or work more, employment is likely to be lower than it would otherwise have been – increasing costs while reducing income from taxes.

Conclusion

1.25 The UK social security system has never been static. It has evolved over time into a comprehensive system providing support for millions of people in a wide range of circumstances wherever they live in the UK. It targets support on those who need it most and promotes work as the best way out of poverty. It has the flexibility to provide services at a local level where this works best. The social security system benefits every person in the UK wherever they live regardless of the health of their local economy. In the event of independence, the government of an independent Scottish state would be responsible for the design and delivery of social security.

[39] *Universal Credit impact assessment*, DWP, December 2012. Available at www.gov.uk/government/publications/universal-credit-impact-assessment.

Chapter 2: Social security spending: current and future challenges

Summary

Social security expenditure is the largest single element (around 31 per cent) of UK Government spending. In 2012/13, almost £209 billion was spent on social security benefits in the UK – around £3,275 for every man, woman and child in the country. Scotland's share of this was £17.7 billion – around £3,335 for each man, woman and child – around 2 per cent higher per person than for the UK.[40]

Like other developed countries, the UK faces the challenge of providing for an ageing population. Current trends suggest that this challenge will be more pronounced in Scotland over the coming decades, mostly because there are relatively fewer children in Scotland, meaning there may be fewer workers in the future to support those who cannot work.

Spending also depends on the policies put in place. The current Scottish Government has suggested that, in the event of independence, it will increase spending in several areas such as disability spending by halting the rollout of Personal Independence Payment and Pension Credit spending by retaining the Savings Credit element of this benefit. It has also indicated that it will make changes which will reduce the number of workers paying into the system: potentially delaying increases in the State Pension age and halting the rollout of Universal Credit.

As part of the UK, Scotland's greater demographic challenge can be tackled by continuing to pool resources and share risks across a larger population. An independent Scottish state would need to deal with this challenge from its own resources. It would, therefore, need to raise more tax revenue or find greater budget reductions elsewhere than as part of the UK, just to maintain the existing system. Implementing the current Scottish Government's proposals would further increase the need for other spending cuts or tax increases.

---

[40] *Social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

Comparisons of social security spending in Scotland and the United Kingdom

2.1 Scotland benefits from being part of the social security system in the UK with expenditure per person in Scotland almost two per cent higher than in the UK.[41]

2.2 Half of the UK population – over 30 million people – receives social security, as does over half the population of Scotland – 2.8 million people.[42] Social security includes State Pension and Child Benefit as well as working-age benefits and tax credits.

2.3 In 2012/13, this cost almost £209 billion across the UK – approximately £3,275 for every man, woman and child in the country. This is by far the largest single element of government spending: 31 per cent of government spending, equal to 13 per cent of Gross Domestic Product.[43]

2.4 In Scotland, average spending is higher: £3,335 per person, nearly two per cent higher than for the UK. This comes to £17.7 billion a year – £330 million more than if spending per person was at average UK levels.[44]

2.5 Within these totals there are different patterns of spending. As the rates of benefit are the same across the UK, this is due to differences in the population mix and in the prevalence of benefits receipt amongst different groups. Table 2A shows the different demographics of Scotland and the UK.

---

41 *Social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

42 Calculation based on all pensioners, plus all children, plus working age claimants and partners, and Working Tax Credit only claimants. Does not include those who get Housing Benefit without any other benefit. May double-count tax credit claimants who receive Disability Living Allowance, Carer's Allowance or Bereavement Benefits. National Population Projections, 2012- based projections, The Office for National Statistics, November 2013, Available at www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/index.html. DWP Longitudinal Study, Available at tabulation-tool.dwp.gov.uk/100pc/wa/ccptnr/ccgor/a_carate_r_ccptnr_c_ccgor_may13.html. Client Group Analysis May 2013, Department for Social Development, May 2013. Available at www.dsdni.gov.uk/client__group_analysis_may13.xls, Table WA15. Child and working tax credits statistics, HM Revenue and Customs, December 2013, Available at www.hmrc.gov.uk/statistics/prov-main-stats/cwtc-dec13.xls, page 38.

43 *Social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

44 *Social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

Table 2A: Population structure of Scotland and the UK

	Scotland		United Kingdom	
	millions	%	millions	%
Population (mid-2012)	5.3		63.7	
of which children aged 0-15	0.9	17%	12.0	19%
of which working age (16 – State Pension age)	3.3	63%	39.5	62%
of which above State Pension age	1.1	20%	12.2	19%

Source: Office for National Statistics 2012 mid-year population estimates

2.6 Over half of social security spending goes to pensioners in both Scotland and the UK as a whole, through the State Pension and other pension benefits. However, the share in Scotland is slightly above that for the UK as a higher proportion of people in Scotland are pensioners, and each pensioner receives slightly more.

2.7 More on average is spent on disability benefits (both for pensioners and working-age people) and incapacity benefits in Scotland.[45] This is partly because Scotland has proportionately more people in older age groups (who are more likely to be disabled) and higher levels of disability reported at each age, but even allowing for this there is a higher rate of claiming incapacity and disability benefits in Scotland.

2.8 Conversely, less per person is spent in Scotland on Housing Benefit (both for pensioners and working-age people), tax credits and Child Benefit.[46] This reflects lower rents in Scotland, and a smaller proportion of children in the population.

2.9 Overall, similar amounts are spent per person on working-age benefits and tax credits.

2.10 Table 2B compares spending per head on benefits and tax credits in Scotland and the UK.

2.11 The evolution of these differences, along with any differences in policy between an independent Scottish state and the continuing UK, will affect the amount of money needed in the future to pay for social security.

[45] *Social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

[46] *Social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

Table 2B: Summary of benefits and tax credits spending and claimants

	Expenditure £billion		Claimants (thousands)		Claimants as % of population	
2012/13 figures	**Scotland**	**United Kingdom**	**Scotland**	**United Kingdom**	**Scotland**	**United Kingdom**
State Pension	6.8	78.3	1,020	11,915	19.2%	18.7%
Pension Credit	0.7	7.8	248	2,599	4.7%	4.1%
Housing Benefit – pensioners	0.5	6.6	162	1,595	3.0%	2.5%
Disability benefits – pensioners	1.0	10.6	259	2,749	4.9%	4.3%
Other pensioner benefits	0.3	3.1				
Share of pensioner benefits paid overseas	0.3	3.4				
Total pensioner benefits	**9.6**	**109.9**				
Incapacity Benefits	1.5	14.0	273	2,613	5.1%	4.1%
Income Support	0.2	2.9	118	1,322	2.2%	2.1%
Jobseeker's Allowance	0.5	5.4	141	1,569	2.7%	2.5%
Housing Benefit – working age	1.2	17.9	322	3,618	6.1%	5.7%
Disability benefits – working age and children	0.9	9.3	227	2,330	4.3%	3.7%
Personal tax credits	2.2	29.8	361	4,618	6.8%	7.2%
Child Benefit	0.9	12.2	1,023	13,713	19.3%	21.5%
Other working-age and children's benefits	0.5	6.1				
Share of working-age benefits and tax credits paid overseas	0.0	0.2				
Total working-age and children's benefits	**8.1**	**97.7**				
Other benefits	0.1	0.9				
Total benefits and tax credits	**17.7**	**208.6**				
Population (mid-2012, millions)	**5.3**	**63.7**				
of which children aged 0-15	0.9	12.0				
of which working age (16-State Pension Age)	3.3	39.5				
of which above State Pension Age	1.1	12.2				
Expenditure per head of population	**3,335**	**3,275**				

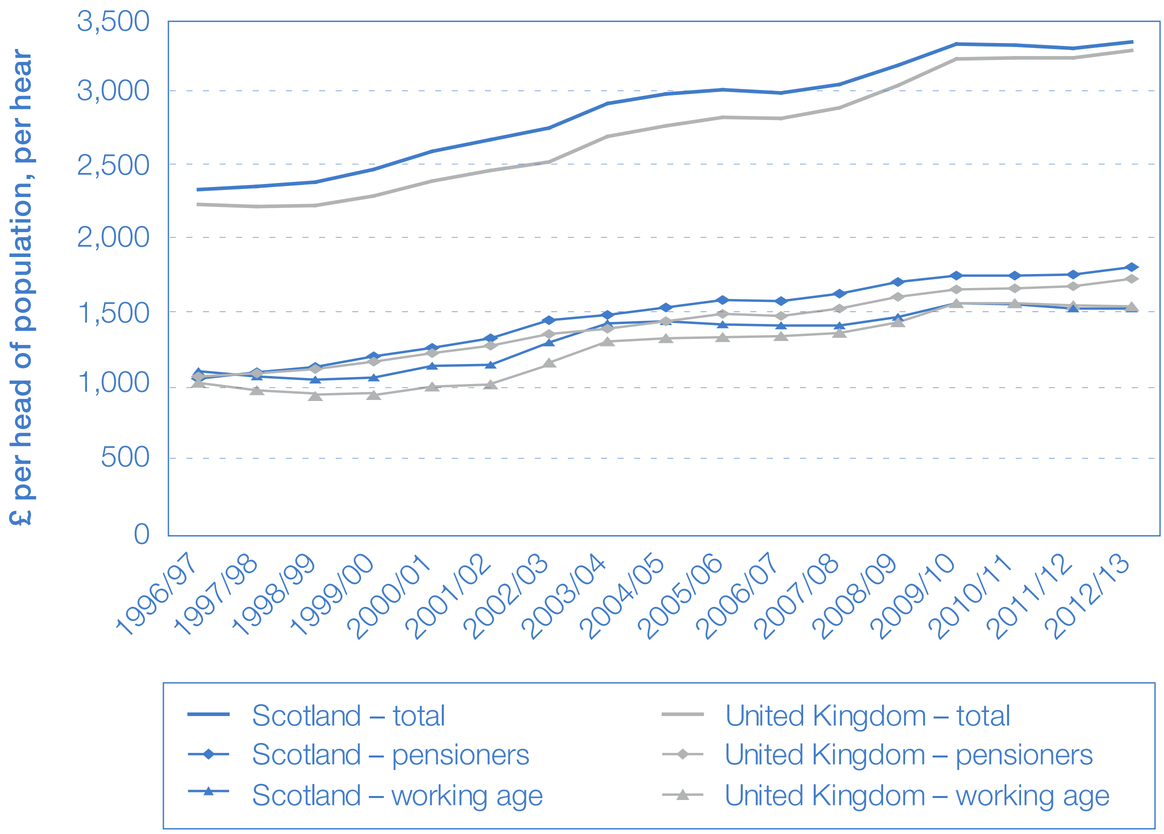
Figures may not sum exactly due to rounding.

Sources: Department for Work and Pensions benefit expenditure by region, HM Revenue and Customs tax and NICs receipts, Northern Ireland Department for Social Development statistical and accounting data and Office for National Statistics 2012 mid-year population estimates.

Trends in benefit spending

2.12 The comparisons drawn above reflect the current position, but the picture has changed over time. Since the mid-1990s, spending per head of population has been higher in Scotland in all years, but the size of the gap has fluctuated, from over four per cent in 1996/97 up to nine per cent in 2002/03 and back down to two per cent in 2012/13. Within this, spending on working-age benefits per person has become much closer, from around 12 per cent higher in Scotland in 2002/03 to one per cent lower in 2012/13, while spending on pensioners has moved from being very similar in 1996/97 to around five per cent higher in 2012/13.[47]

Chart 2A: Social security spending in Scotland and the United Kingdom



Sources: Department for Work and Pensions benefit expenditure by region, HM Revenue & Customs tax and NICs receipts, Northern Ireland Department for Social Development statistical and accounting data and Office for National Statistics 2012 mid-year population estimates.

[47] *Social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

2.13 The reasons for these changing trends are movements over time in the factors discussed above. For example, over recent years rents have increased more slowly in Scotland than in the whole of the UK. The difference in spending on tax credits per head has fallen from being seven per cent higher in Scotland in 2002/03 to 11 per cent lower in 2012/13, partly reflecting the lower proportion of children in Scotland and partly changes in the labour market, with employment rates moving closer to the UK rate. Meanwhile, incapacity benefits were 32 per cent higher per head in Scotland in 2002/03, falling to around 23 per cent higher in 2010/11, but have now risen again relative to the UK as a whole and were 26 per cent higher in 2012/13.[48]

2.14 This demonstrates the advantages in pooling risk across a larger economy. If one area of the UK sees an increase in social security expenditure at a particular time, the costs are shared over a wider taxpayer base and mitigated where other parts of the UK do not see the same increase at the same time. A smaller economy might see a heavier impact, especially if the same factors causing the higher spending also impacted negatively on receipts from taxation.

Scotland's future demographic challenge

2.15 The demands on social security in Scotland in the future will depend on many factors, such as economic performance and social trends. But one of the biggest influences is demography – the structure of the population and the balance between different age groups.

2.16 Demographic projections are determined by three key factors: births (fertility); deaths (mortality); and migration (both inward and outward).[49]

2.17 The main features of each of these factors are as follows, with further details provided in Annex B:

- **Migration**: This has the most effect on the balance between age groups over the projection period, although net migration contributes less to Scotland's population growth than it does the UK's as a whole, relative to its existing population. Net migration can be increased by additional inward migration, or by fewer people leaving the country;
- **Fertility**: In the longer-term, fertility matters more for overall sustainability, as it contributes most to the numbers of people entering the labour market 20 or more years into the future, although it takes several decades more to overtake the cumulative impact of net migration. Currently, the fertility rate is lower in Scotland than in the UK, but the Office for National Statistics fertility projections assume that the difference will narrow. If this does not happen, the challenge for Scotland in the 2030s and 2040s could be more severe than the principal projections would suggest; and
- **Mortality**: Mortality rates have a direct impact on the number of pensioners. Whilst there is always some degree of future uncertainty, trends in mortality change relatively slowly and have been reasonably well predicted for the past few years. Also, if changes in the State Pension age are linked to life expectancies, as proposed by the UK Government, any variation from projections should automatically be compensated for to a large extent.

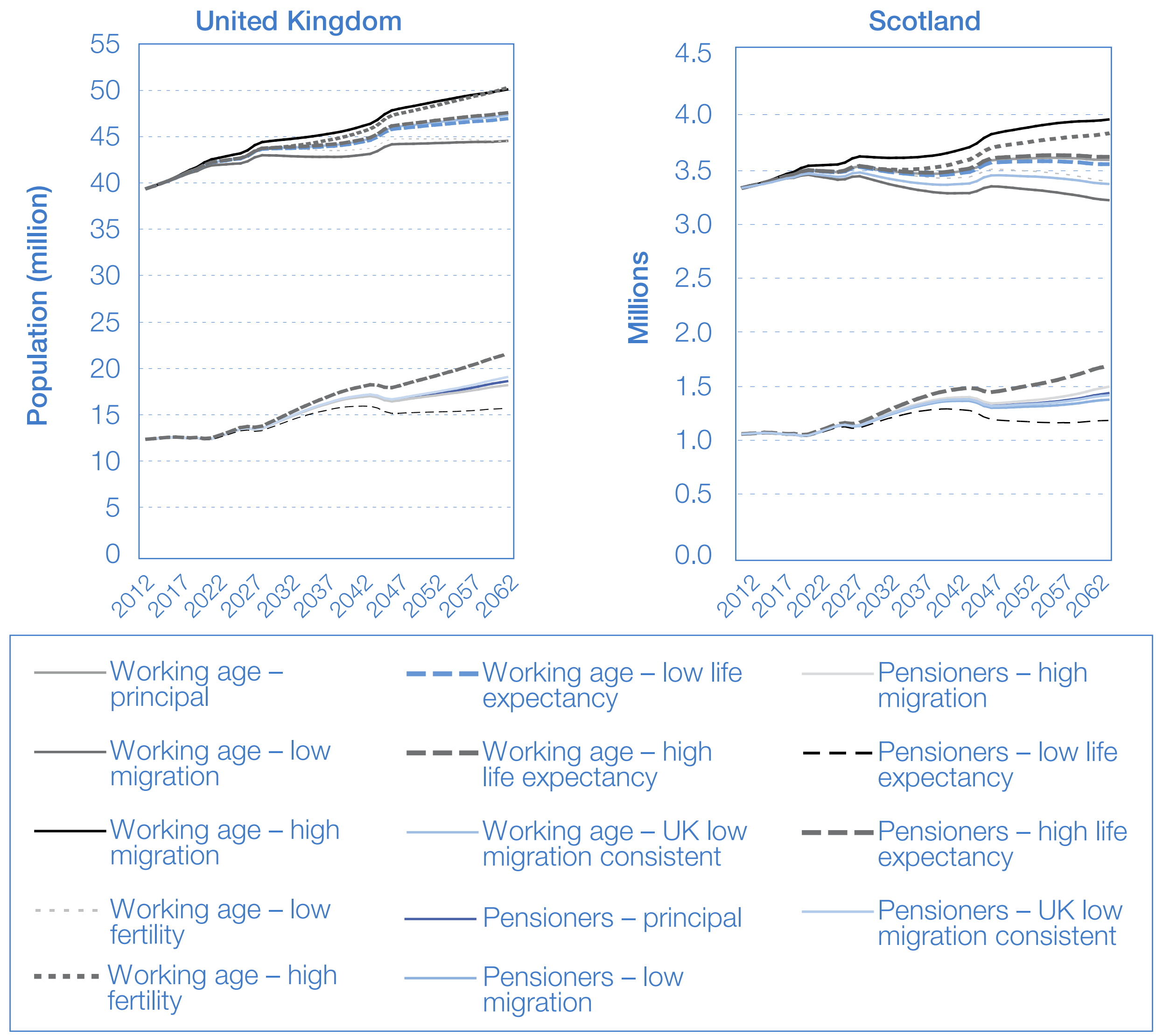
[48] *Social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

[49] While migration assumptions at the UK level only relate to international migration, those for Scotland and other countries in the UK will also include migration within the UK.

2.18 There is, of course, a great deal of uncertainty about these trends in the long term, but some can be predicted with some confidence, at least in the medium term. For example, it is known that children make up a lower proportion of the population in Scotland than they do in the UK as a whole, and this will mean fewer young workers in the next few decades. It will also mean fewer children born in the future – unless numbers are increased by migration or there is an increase in the fertility rate to compensate.

2.19 Given this uncertainty it is important to consider the different migration variants of the population projections.

Chart 2B: Projections of the working-age and pensioner populations



Source: Office for National Statistics 2012 based population projections; Department for Work and Pensions calculations.

2.20 Chart 2B shows a number of different variants of the population projections for the UK and Scotland[50] which illustrates the significant uncertainties in future demographic trends. Over the period shown, migration has little impact on the number of pensioners.

2.21 Chart 2B shows that even looking just 20 years ahead the projections are very sensitive to the assumptions chosen. For example, if the low life expectancy scenario is used the projected pensioner population in the UK would be around 14.3 million. However, if the high life expectancy scenario is used the projected pensioner population would be over 15.1 million, a difference of 800,000 people.[51] The range of the working-age Scotland projections appears wider than that for the UK as a whole, primarily because the migration assumptions in Scotland – driving the highest and lowest projections – include migration between Scotland and the rest of the UK.

Implications of future demographic change for Scotland

2.22 The UK and Scotland, like most of the world's developed economies, are facing the challenges of an ageing society. Most State financial support for pensioners comes from taxes or National Insurance contributions, the majority of which is paid by those of working age. Therefore, a common way of looking at the challenges faced is through the pensioner support ratio the number of working-age people for each pensioner in the population. It is also worth noting that other support for pensioners – such as funded pensions and non-financial support – is also largely provided by those of working age and so challenges in funding social security may come alongside challenges in providing other types of support.

2.23 Currently Scotland has a lower proportion of children in the population than the rest of the UK, but within the adult population it has a similar number of working-age people and pensioners, so there is currently very little difference in old age support ratios. For example, in mid-2012, there were 32 working-age people supporting every ten pensioners in both Scotland and the UK.[52] However, within the working-age population, a larger proportion of Scotland's population are aged between 50 and State Pension age than in the UK as a whole – the group that will shortly become pensioners.

2.24 In Scotland, the pensioner population is projected to increase more slowly than the UK's overall. However, the number of working-age people in Scotland is also projected to increase more slowly than the rest of the UK and by a larger margin, and under the Office for National Statistics low migration assumption, is actually projected to decline. The charts below show the impact of this on the old age support ratios for the UK and Scotland, taking into account the increase in the State Pension age planned by the UK Government. A decline in the support ratio indicates a greater challenge, leading to a growing share of national output being spent on pensioner benefits.

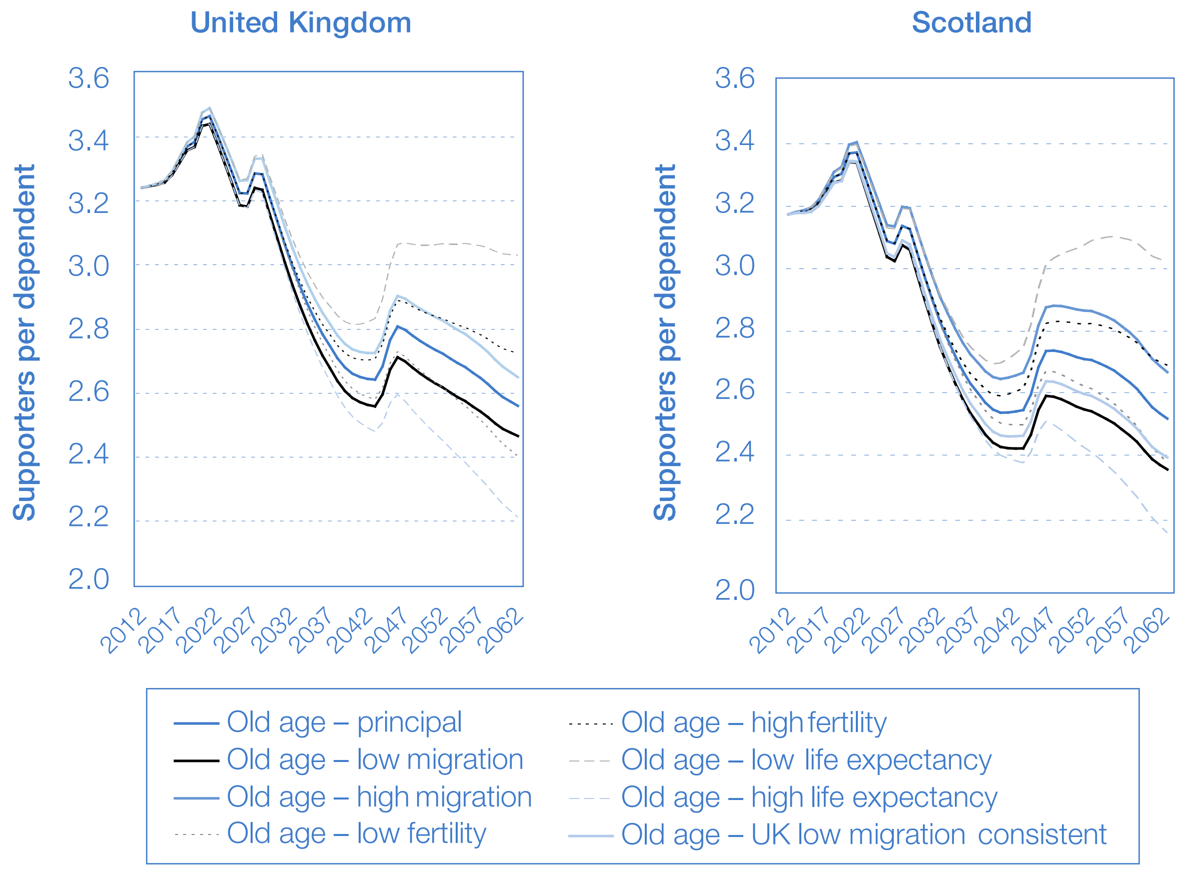
---

50 These include the ONS principal projection, all of the single component variants (i.e. high and low migration, fertility and mortality), together with the additional migration variants for Scotland based on only varying international migration. These additional migration variants for Scotland have been calculated to exclude any variance in migration within the UK, and is not the ONS produced projection. This is explained in more detail in Annex B.

51 *National Population Projections, 2012- based projections*, The Office for National Statistics, November 2013, Available at www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/index.html. Department for Work and Pensions calculations.

52 *National Population Projections, 2012- based projections*, The Office for National Statistics, November 2013, Available at www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/index.html. Department for Work and Pensions calculations.

Chart 2C: Projections of support ratios



Source: Office for National Statistics 2012 based population projections; Department for Work and Pensions calculations.[53]

2.25 Chart 2C shows a number of different support ratios consistent with the different variants of the population projections shown in Chart 2B. Comparing the support ratios of Scotland and the UK for each variant shows that Scotland is currently expected to face a more acute demographic issue than the UK as a whole. Under the low migration variant, in 20 years' time, there are projected to be 2.78 working-age people per pensioner in Scotland, compared with 2.93 in the UK as a whole. Under the principal migration variant, in 20 years' time, there are projected to be 2.84 working-age people per pensioner in Scotland compared with 2.98 in the whole of the UK.[54]

2.26 The fluctuations in the support ratios presented in Chart 2C show the effect of increases in the State Pension age and the sharp deterioration in the support ratio as the 1960s baby boomers reach pension age. If the Government of an independent Scottish state delayed the increase in State Pension age, as the current Scottish Government has indicated it might, then Scotland's support ratio would be lower still for as long as the rise was delayed.

---

[53] Based on legislated State Pension age rises and does not include State Pension age mechanism. As with the previous chart, a number of different variants are shown, some of which have been calculated to exclude any variance in migration within the UK.

[54] *National Population Projections, 2012- based projections*, The Office for National Statistics, November 2013, Available at www.ons.gov.uk/ons/rel/npp/national-population-projections/2012-based-projections/index.html. Department for Work and Pensions calculations.

The impact on future social security spending

2.27 Social security spending is affected by many things other than demographic trends, including economic factors; social trends; policy changes; and changes to operational delivery. These are difficult to predict with any certainty over the medium to long term. For the analysis in this chapter, they are therefore held constant, or follow a broad average trend. For example, economic trends are usually based on average assumptions about productivity growth. It is also assumed that in the longer term, benefits will increase in line with earnings. This is the approach used by the Office for Budget Responsibility, and reflects historical experience.

2.28 Generally over the long term the projections of UK spending on social security for working-age people and their children move broadly in line with national income. There is no reason to believe the situation in Scotland will be significantly different.

2.29 For pensioner benefits, however, the position is different. Most developed economies are facing the need to respond to the welcome increases in life expectancy. In its 2013 *Fiscal Sustainability Report*,[55] the Office for Budget Responsibility showed that UK policy will also have to change in the long term to ensure spending on pensioner benefits is sustainable. However, given the significant amount of government expenditure that is related to the number of pensioners, and the demographic trends discussed above, the fiscal outlook in Scotland is likely to be more challenging than the UK as a whole in decades to come.

2.30 In 2012/13 social security cost around £3,275 for every person in the whole of the UK and £3,335 in Scotland - around £60 more for each person.[56] However, to reflect the fact that the majority of social security payments are funded from taxes and National Insurance paid by working-age people, this paper makes comparisons of spending per working-age person. It is recognised that many pensioners pay taxes, and a significant proportion of working-age people do not. However, this simplification is unlikely to have a significant impact on the general picture of the future challenges facing the whole of the UK including Scotland. In 2012/13 social security cost around £5,285 per working-age person in the whole of the UK and £5,295 in Scotland - around £10 more per working-age person.[57] The difference between Scotland and the whole of the UK is smaller when looking at spending per working-age person rather than per head of population because Scotland's population has a higher proportion of working-age people (and a lower proportion of children, see Table 2A).

2.31 Currently, spending on social security for working-age people and their children is marginally lower, per working-age person, in Scotland than in the UK – by just under £70 per year. On a like for like basis, using the low migration assumption, in line with the Office for Budget Responsibility's 2013 *Fiscal Sustainability Report*, spending on working age benefits per working-age person is projected to be £80 lower in Scotland than in the UK in 20 years' time.[58]

---

55 *Fiscal Sustainability Report*, July 2013, The Office for Budget Responsibility. Available at budgetresponsibility.org.uk/fiscal-sustainability-report-july-2013/.

56 *Social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

57 *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

58 *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

2.32 Expenditure on pensioner benefits is almost £80 higher per working-age person per year in Scotland than in the UK. This differential increases over the next 20 years to almost £200.[59]

2.33 Overall, spending per working-age person on both working age people and pensioners in Scotland is very slightly higher (by £10) than in the UK currently, but this rises to nearly £120 higher over the next 20 years time.[60]

2.34 So far, this analysis takes account of the welfare reforms currently being implemented, but does not take account of potential changes the current Scottish Government has indicated it would implement if Scotland became an independent state. These changes would add further costs rising to around £330 per working-age person over the next 20 years. This means overall spending per working-age person would be around £450 higher in Scotland in 20 years' time. This is equivalent to an increase of around £1.55 billion in the annual social security bill in Scotland, in today's terms.[61]

2.35 These figures focus on the number of working-age people rather than the number of workers, so do not take account of any differences in the proportion of people working, which could make it easier or harder to afford the increased costs. Halting the rollout of Universal Credit as proposed by the current Scottish Government would also reduce the proportion of working-age people who are working and paying income tax and National Insurance, so would make it harder to meet the spending requirements at a given support ratio.

2.36 Delays to increases in State Pension age, as the current Scottish Government has suggested it would consider in the event of independence, would make this position worse by directly lowering the support ratios through increasing the number of pensioners and reducing the number of people considered to be of working age.

2.37 As part of the UK, Scotland can share with the rest of the UK the greater challenges it will face in the coming decades. Scotland can also pool the risks stemming from the wide uncertainty associated with demographic variables, as illustrated in this chapter.

2.38 The UK as a whole faces the same uncertainties. However, as a smaller economy, Scotland is more vulnerable to fluctuations, whether in demographics or in other aspects such as tax receipts. This chapter has shown results for Scotland and for the UK as a whole, but of course the UK is made up of a wide range of geographical economies which may move differently, and so by pooling risk the effects of the most severe fluctuations may be mitigated. Perhaps most significantly, migration within the UK does not currently affect the affordability of social security overall because it does not change the UK's total population. As an independent state, the impact of movements between an independent Scottish state and the continuing UK would have to be considered when planning spending as this would change the population of each country.

---

59 *Long term projections of social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

60 *Long term projections of social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

61 *Long term projections of social security expenditure in the United Kingdom, including Scotland,* DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

Future social security spending with higher migration

2.39 The current Scottish Government has suggested that an independent Scottish state would seek to have a looser immigration policy than the UK currently has, whilst also seeking to join the Common Travel Area. Membership of the Common Travel Area would need to be negotiated with the continuing UK and all existing Common Travel Area members. The success of these negotiations would likely depend on an independent Scottish state agreeing to align certain visa and immigration policies with the current members of the Common Travel Area.

2.40 Balancing these factors, this paper also considers the cost difference between the UK and Scottish annual social security bill in 20 years time if future Scottish migration was consistent with the principal Office for National Statistics population projections (rather than the low projections). Those projections assume over 15,000 net migrants into Scotland each year, the equivalent of net immigration every 10 years equal to the population of Dundee.[62]

2.41 Using the principal migration assumption for Scotland and the low migration assumption for the UK, overall spending per working-age person is projected to be around £90 higher in Scotland than in the UK in 20 years time. Adding in the costs of the changes the current Scottish Government has indicated it would implement if Scotland became an independent state, overall spending per working-age person would be around £420 higher per year in Scotland in 20 years' time. This is equivalent (in today's terms) to an increase of around £1.46 billion in the annual social security bill in Scotland. It demonstrates the limitations of increased migration as a potential solution to the demographic challenge. These issues are discussed in detail in the *Scotland analysis: Borders and citizenship paper*.[63]

Conclusion

2.42 Social security expenditure in Scotland was £3,335 per person in 2012/13, which is around two per cent higher than the UK average.[64]

2.43 In the future, similar to other developed countries, Scotland faces a demographic challenge. This challenge is likely to be more acute for Scotland than the UK overall as its current population consists of relatively fewer children. This will mean fewer workers in the future to pay taxes that contribute towards social security spending.

2.44 Policy decisions affect the affordability of this demographic challenge to the UK and other developed countries. The current Scottish Government's suggestion that they would, for example, consider not raising the state pension age would make this challenge even more pronounced.

---

62 Based on a Dundee population estimated at around 148,000 in 2012, according to the General Register Office for Scotland, available at www.gro-scotland.gov.uk.

63 *Scotland analysis: Borders and citizenship, HM Government*, January 2014. Available at www.gov.uk/government/publications/scotland-analysis-borders-and-citizenship.

64 *Social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

2.45 Taken together, a combination of demographic changes and spending commitments means spending rising to around £1.55 billion more per year over the next 20 years in today's terms, than if spending per working-age person was at average UK levels. (This figure would be £1.46 billion using the principal migration assumption for Scotland.)[65]

2.46 As part of the UK, Scotland's greater demographic challenge can be tackled through continuing to pool resources and share risks across a larger population. An independent Scottish state would need to deal with this challenge from the resources generated by its own much smaller population. It would, therefore, need to raise more tax revenue or find greater budget reductions elsewhere than as part of the UK, just to maintain the existing system over decades to come. Implementing the current Scottish Government's proposals would further increase the need for other spending cuts or tax increases.

[65] *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

Chapter 3: Benefits of the UK-wide labour market

Summary

The UK labour market is flexible and dynamic, functioning well for employers and workers. Over ten million moves are made between unemployment, employment and inactivity each year.[66] Workers are able to move throughout the UK, and employers across the UK can draw on a UK-wide pool of skilled labour. Over 700,000 people born in Scotland have since moved to other parts of the UK.[67] Over the past ten years, on average around 95,000 UK residents a year have crossed the Scottish border to move into or out of Scotland.[68]

Scotland has the best of both worlds, balancing an efficient UK-wide system, regulatory framework and network of Jobcentres with a largely devolved skills policy to meet local needs. This mix of local programmes and interventions delivered within a national framework ensures that best practice can be applied across the whole UK, but tailored for individual communities.

This approach is benefiting Scotland with the unemployment rate in Scotland the lowest for four years; while the employment rate in Scotland has increased faster in the last year than the whole of the UK and is currently above the UK average. The characteristics of the Scottish labour market are also similar to those of the rest of the UK and so UK-wide labour market policies are equally effective for each country within the UK.

The UK Government spends around £2 billion per year[69] on active labour market support, to help people maintain a close connection to the labour market and overcome obstacles to employment. This regime is mature and built on a wide range of internationally recognised research and evaluation.[70, 71]

---

66 *Quarterly Labour Force Survey: Labour Market Flows experimental data*, Table X02, ONS, March 2014. Retrieved 20 March 2014. Available at www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-x02.xls.

67 *Scotland analysis: Macroeconomic and fiscal performance, 3rd September 2013*, HM Treasury, www.gov.uk/government/publications/scotland-analysis-macroeconomic-and-fiscal-performance.

68 *Migration between Scotland and the Rest of the UK*, General Register Office for Scotland, September 2013. Available at www.gro-scotland.gov.uk/statistics/theme/migration/mig-stats/scotland-rest-of-uk.html. Retrieved February 2014.

69 Employment support cost estimates for 2012/13 – excludes IT and estate costs.

70 *Research at DWP*. Retrieved February 2014. Available at www.gov.uk/government/organisations/department-for-work-pensions/about/research.

71 *The Organisation for Economic Co-operation and Development, Social employment and migration working paper No. 42, Activation strategies and performance of employment services in Germany, the Netherlands and the United Kingdom*, Tergeist P. and Grubb D. December 2006. Available at www.oecd.org/employment/emp/37848464.pdf.

In the event of a vote for independence, the government of an independent Scottish state would face choices regarding each element of labour market policy currently supporting a carefully balanced and effective regime. It would need to decide if it wanted to provide a similar level of labour market support as the UK Government provides – the costs of this based on the current claimant count in Scotland would be in the region of £200 million per year. Research has shown that disturbing the relationship between employment support and the requirement to undertake work search and employment-related activities can have a detrimental effect on the functioning of the labour market, slowing the return to work and reducing the skills of the local workforce.[72]

The United Kingdom labour market

3.1 The UK labour market is resilient, adaptable to changes in economic conditions, and responsive to new opportunities and challenges. As part of the UK, Scotland benefits from the policies that have created these conditions. Both the UK and Scotland have flexible labour markets with a wide variety of jobs and working patterns available. Nearly 94 per cent of UK employees have permanent jobs, but temporary work is also an important part of this flexible labour market.[73]

3.2 Through the 1990s, Scotland's employment rate was persistently lower than the UK rate. However, since the mid-2000s Scotland has caught up with the UK and employment rates in Scotland are currently slightly above those in England, Wales and Northern Ireland.[74] The trend of rising employment has largely been driven by falling inactivity which means more people are looking for and then moving into work.[75]

3.3 In addition to similar employment rates, the composition of Scotland's labour market has converged with that of the rest of the UK over time. Both labour markets are now dominated by services – notably retail, education, hospitality, administration, health and professional, scientific and technical jobs – and this is likely to remain the case in the future.[76]

[72] *The Introduction of Jobcentre Plus: An Evaluation of Labour Market Impacts*, DWP, December 2011. Available at www.gov.uk/government/publications/the-introduction-of-jobcentre-plus-an-evaluation-of-labour-market-impacts-rr781, retrieved 4 February 2014.

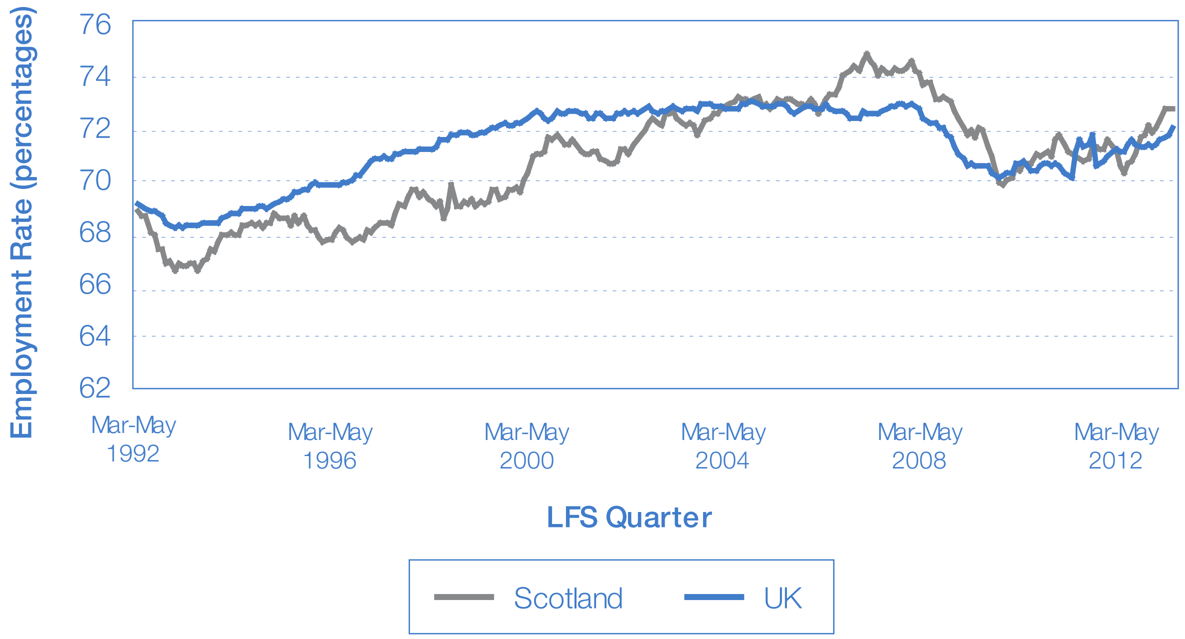
[73] *Labour Market Statistics*, ONS, March 2014, Table 3. www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-emp01.xls retrieved 20 March 2014.

[74] *Labour Market Statistics*, ONS, March 2014 Table 18(1). www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-a07.xls.

[75] *Regional Labour Market: HI11 Headline Indicators for Scotland*, ONS Labour Force Survey, March 2014. www.ons.gov.uk/ons/rel/subnational-labour/regional-labour-market-statistics/march-2014/rft-lm-table-hi11-scotland-march-2014.xls, retrieved 20 March 2014.

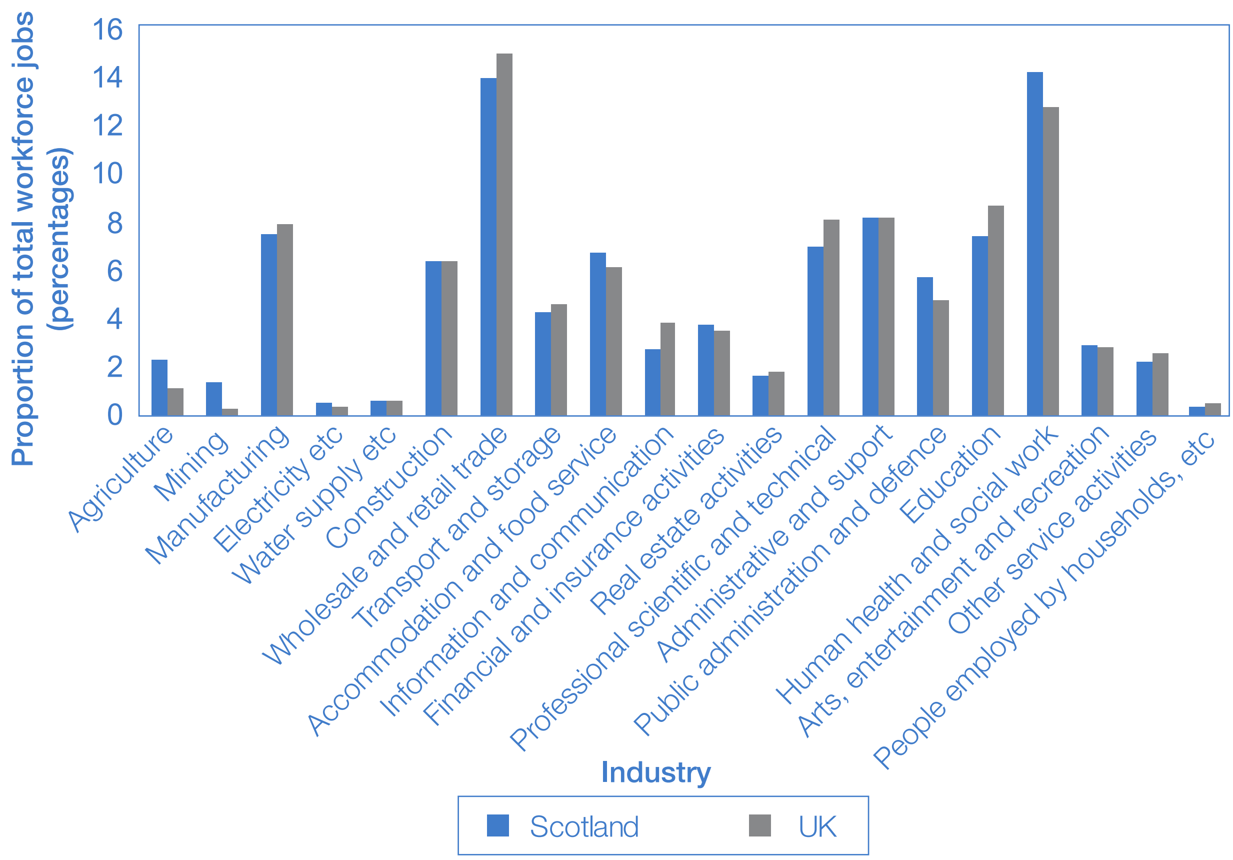
[76] In both the UK and Scotland, over eight in ten jobs are in the service sector: ONS *(Regional) Labour Market Statistics* February 2014, Workforce Jobs.

Chart 3A: UK and Scotland employment rates since 1992



Source: ONS Labour Force Survey seasonally adjusted aged 16-64 employment rates.

Chart 3B: Jobs by sector as a proportion of total jobs (%)

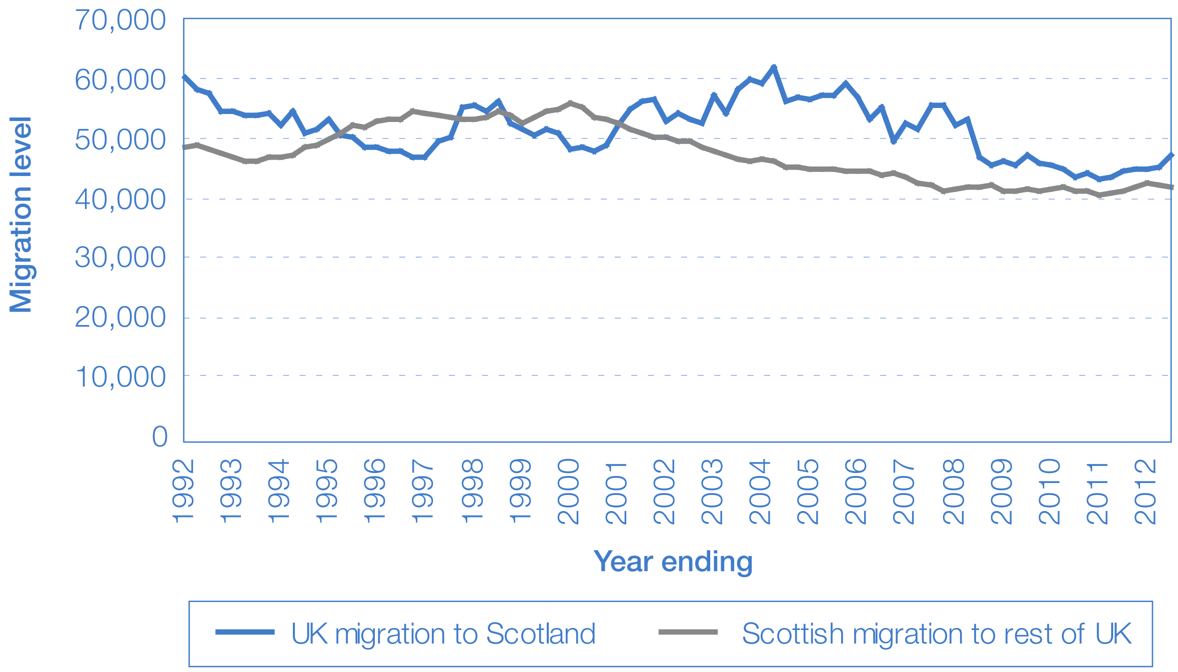


Source: ONS Workforce Jobs September 2013, table JOBS05.

3.4 People move between the countries of the UK for a variety of reasons, and when they move they bring their entitlement to benefits with them. Workers can move to where there are labour shortages or find a job that better matches their skills and aspirations. Without people moving between jobs, shortages of workers in particular industries can occur. Over half a million people who were born in Wales, England or Northern Ireland currently live in Scotland, and over 700,000 people born in Scotland have since moved to other parts of the UK.[77]

3.5 The ability of individuals to move around the UK in order to take up work is an important feature of the labour market. Over the past ten years, on average around 95,000 UK residents a year have crossed the Scottish border to move into or out of Scotland (see Chart 3C).[78] Census 2001 also showed that around 30,000 people travel each day across the border between Scotland and the rest of the UK to work.[79]

Chart 3C: Migration levels between Scotland and the rest of the UK, year ending March 1992 – September 2012



Source: General Register Office for Scotland, September 2013.

---

[77] *Scotland analysis: Macroeconomic and fiscal performance*, September 2013, HM Treasury, www.gov.uk/government/publications/scotland-analysis-macroeconomic-and-fiscal-performance.

[78] *Migration between Scotland and the Rest of the UK*, General Register Office for Scotland, September 2013. Available at www.gro-scotland.gov.uk/statistics/theme/migration/mig-stats/scotland-rest-of-uk.html. Retrieved February 2014.

[79] *Census 2001 data*, ONS, available at www.nomisweb.co.uk under UK Travel Flows, retrieved 20 March 2014. Data not yet updated for 2011 Census.

3.6 A key driver of the strong performance of the UK labour market is the UK's light-touch system of employment regulation. The Organisation for Economic Co-operation and Development comments that "stricter employment protection for regular and temporary workers tends to reduce workers flows in and out of unemployment".[80] There are large flows from unemployment and inactivity to employment and the UK labour market does not display signs of an overly strict regime.[81]

3.7 The flexibility that part-time work provides is another positive aspect of the UK labour market. Just over one in four UK workers is employed part time with around 40 per cent of women working part time.[82] This means that there is opportunity for people to work, even if they do not want a full-time job. Over 80 per cent of part-time workers do so because it suits them,[83] both in Scotland[84] and the UK as a whole. Around 40 per cent of people reporting to want more hours are already working full time.[85] Of the 28 European Union states the UK has the 12th lowest proportion of people wanting to work full time (18.8 per cent), well below the European Union average of 27.6 per cent and below Spain (60.9 per cent), Italy (58.8 per cent) and France (31.5 per cent).[86]

3.8 Overall, the UK labour market is flexible and dynamic with high employment rates by international standards.[87] The similarities between the Scottish labour market and the rest of the UK mean the existing policy framework applies equally well to both.

Labour market objectives

3.9 Within this flexible labour market, successive UK Governments have aimed to ensure that the labour market delivers for society as a whole and ensures that no individuals or groups are left behind. The key objectives are:

- **Growth** – Economic growth helps to raise living standards and reduce the deficit and within the labour market, growth is driven by both the labour supply and productivity. People who actively participate in the labour market make up the labour force – everyone who is employed and unemployed. Maximising participation, by bringing inactive people into the labour force and supporting them to find sustained employment, brings positive economic benefits to the UK, including Scotland. Increasing productivity is the second contributing factor of the labour market to economic growth. Investment in skills and education is crucial to achieve this and there is an existing productive working relationship between the UK and Scottish Governments in this area;

---

80 *OECD Employment Outlook*, OECD 2009, OECD Publishing, Paris. Available at www.oecdilibrary.org/content/book/empl_outlook-2009-en.
81 OECD Indicators of Employment Protection. Available at www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm.
82 *Labour Market Statistics*, ONS, March 2014, Table 3. www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-emp01.xls retrieved 20 March 2014.
83 *Labour Market Statistics*, ONS, March 2014, Table 3. www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-emp01.xls retrieved 20 March 2014.
84 *Regional Labour Market: HI11 Headline Indicators for Scotland*, ONS, www.ons.gov.uk/ons/rel/subnational-labour/regional-labour-market-statistics/march-2014/rft-lm-table-hi11-scotland-march-2014.xls, retrieved 20th March 2014.
85 *Underemployed workers in the labour market*, ONS, November 2012. Available at www.ons.gov.uk/ons/rel/lmac/underemployed-workers-in-the-uk/2012/rft-underemployment-data.xls.
86 *Eurostat*. Data available at appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsa_eppgai&lang=en.
87 Organisation for Economic Co-operation and Development. Available at stats.oecd.org/Index.aspx. Retrieved 20 March 2014.

- **Effective functioning of the labour market** – UK Government policy aims to ensure that people move from unemployment or inactivity back into employment as quickly and efficiently as possible. This is achieved through Jobcentre Plus, the Public Employment Service in Great Britain. The system in the UK requires those able to work to take responsibility for preparing for and searching for work as a condition of receiving financial support. This helps maintain a strong labour market attachment (conditionality), and helps individuals to overcome obstacles to employment (support);[88] and
- **Reducing poverty and delivering social justice** – Addressing both in and out-of-work poverty, through supporting people to move into and stay in work and is embodied in the UK Government's social justice approach. Combating out-of-work poverty requires intensive work with those often experiencing multiple and complex barriers to employment. Combating in-work poverty requires an increasing focus on progression, i.e. earning more once in work[89] and for many parents childcare is essential to support them moving into, and remaining in, work. The cost of childcare is an important factor for parents when considering work. Providing help with the costs of formal childcare, and improving access to childcare, continues to be at the forefront of UK Government policies. This is in recognition that, for many parents, formal paid-for childcare is essential both to lift them out of worklessness and to allow them to progress once in work. Support for childcare costs is already available through tax credits. And two new childcare schemes to provide further support for working families were set out in the 2013 and 2014 Budgets: extra childcare support in Universal Credit for taxpaying families and Tax-Free Childcare for working families who do not receive benefits which will be launched in autumn 2015.

Labour market regime

3.10 The UK Government aims to meet these objectives through implementing a flexible system of labour market support. The system has been developed and improved over time and combines measures to increase participation, wide ranging support programmes and local flexibility in a balanced system where the elements are mutually supportive.

Getting people into work

3.11 Successive UK Governments have sought to increase active participation in the labour market. This involves widening the support available to, and expectations of, a wider group of people (see Annex D for more detail on support available). An example of such measures is the eligibility changes for lone parents claiming Income Support initiated under the previous UK Government. Recent changes have led to more lone parents moving into work and 50,000 fewer lone parents claiming out-of-work benefits.[90] Scotland's economic activity rate (78.5 per cent) which is higher than the UK average (77.9 per cent) reflects the fact that it is benefiting from this approach.[91]

---

88 *The Jobcentre Plus offer: final evaluation report*, DWP, November 2013. Available at www.gov.uk/government/publications/the-jobcentre-plus-offer-final-evaluation-report.

89 *DWP impact indicators*. Available at transparency.number10.gov.uk/assets/client/pdf/dwp-indicators.pdf

90 *Lone parent obligations: an impact assessment*, DWP, July 2013. Available at www.gov.uk/government/publications/lone-parent-obligations-an-impact-assessment-rr845. Retrieved 20 March 2014.

91 *Labour Market Statistics*, ONS, March 2014, Table 18(1). www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-a07.xls. Retrieved 20 March 2014.

3.12 Providing the right incentives to ensure that work pays is crucial in order to increase participation. Some international and academic evidence[92] suggests that higher rates of benefit are linked to higher unemployment and therefore a careful balance needs to be struck between preventing poverty and promoting work. Universal Credit will help to achieve this by allowing individuals to keep more of their income as they move into work. If an independent Scottish state does not propose to retain Universal Credit then it will need to decide whether to maintain these kinds of incentives and how to provide the in-work support linked to Universal Credit.

3.13 The current labour market regime has been developed with considerable investment in research and evaluation to ensure it is founded on the best possible evidence base. In 2011/12 the Department for Work and Pensions (DWP) spent £20 million on Research and Development.[93]

3.14 As part of the UK, Scotland benefits from this work and an independent Scottish state risks losing out on possible economies of scale. Whilst delivery costs may be more closely related to the relevant population size (see Chapter 5) the cost of policy development through research and evaluation is much less closely correlated and so an independent Scottish state would face higher costs here if it were to apply the same rigour to policy making as the UK. An example is the recent evaluation of mandatory work activity, a short intervention designed for those who need help to re-engage with the system, which showed that it has a positive impact on confidence and attitudes to work.[94]

Conditionality

3.15 The idea of conditionality – linking work preparation and work search requirements to benefit payments, has been pursued by successive UK Governments. With its immediate focus on job search, ensuring that people return to work quickly, conditionality has contributed to improvements in customer service and delivered efficiency gains.[95]

92 See Blondal and Pearson, 1995; Layard, Nickell and Jackman, 2005; OECD, 1994, Chapter 8; and Scarpetta, 1996.

93 *SET Statistics 2013*, The Department for Business, Innovation and Skills. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/246227/13-499-set-statistics-2013A.xls. Retrieved 24 March 2014.

94 *Evaluation of mandatory work activity*, DWP, 2012. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/193330/rrep823.pdf.

95 *The roll-out of the Jobcentre Plus Office network*, The Comptroller and Auditor General, The National Audit Office, February 2008. Available at www.nao.org.uk/wp-content/uploads/2008/02/0708346.pdf.

3.16 Successive UK Governments have built a labour market regime consisting of a balance of rights and responsibilities that is recognised internationally for supporting jobseekers.[96] Mandatory job reviews, for example, which assist with Jobseeker's Allowance claimants' job searches, are important in maintaining off-flow rates from Jobseeker's Allowance,[97] delivering approximately £1.60 of savings for every £1 of expenditure.[98] These efficiency savings benefit Scotland as part of the wider UK. As confirmation that the UK approach is internationally respected, Germany has recently introduced reforms mirroring elements of UK employment support.[99]

3.17 Skills policy is a devolved matter. Skills conditionality – making Jobseeker's Allowance receipt conditional on completing training if a skills gap is identified – is an area where the approach in Scotland differs slightly to England. DWP mandates claimants to attend training in both countries, but the Scottish Government does not allow training providers to share with Jobcentre Plus the reasons a claimant did not start or dropped out of training.

Wide ranging support programmes

3.18 As well as shaping the incentives to work, the UK Government intervenes in the labour market directly, through Jobcentre Plus activity, and indirectly, via employment programmes – such as the Work Programme, voluntary and community sector organisations and local government. This both sustains the effective functioning of the labour market and combats poverty.

3.19 The UK Government believes in-work support is crucial to improving social mobility. Furthermore the commitment to trialling and finding best practice is evident in the approach to delivering effective in-work support under Universal Credit. A variety of different approaches are being trialled following a "Call for Ideas"[100] to understand and gather evidence about what can help people stay in work and progress to earn more.

3.20 The UK Government's focus on supporting the vulnerable in society, as set out in Social Justice: transforming lives,[101] is a long-term commitment to addressing poverty and entrenched worklessness. Over time there has been a significant improvement in the number of workless households in the UK, with Scotland part of this trend. The proportion of households where no one works in the UK is at a record low level of 17.1 per cent. Whilst this figure is higher in Scotland at 19.1 per cent, the improvement has been stronger – a fall of 4.4 percentage points since records began in 1996.[102]

---

96 *The Organisation for Economic Co-operation and Development, Social employment and migration working paper No. 42, Activation strategies and performance of employment services in Germany, the Netherlands and the United Kingdom*, Tergeist P. and Grubb D. December 2006.

97 *Jobseekers Allowance intervention pilots quantitative evaluation*, DWP Research Report No. 382, 2006 Available at http://webarchive.nationalarchives.gov.uk/20130314010347/http://research.dwp.gov.uk/asd/asd5/rports2005-2006/rrep382.pdf.

98 *Flexible new deal evidence paper*, DWP, December 2007. Available at www.dwp.gov.uk/docs/flexible-new-deal-4636.pdf.

99 *Welfare transitions before and after reforms of the German welfare system*, Riphahn, R.T and Wunder, C., University of Erlangen-Nuremberg, April 2013. Available at www.iza.org/conference_files/Safety_Nets_2013/wunder_c2792.pdf.

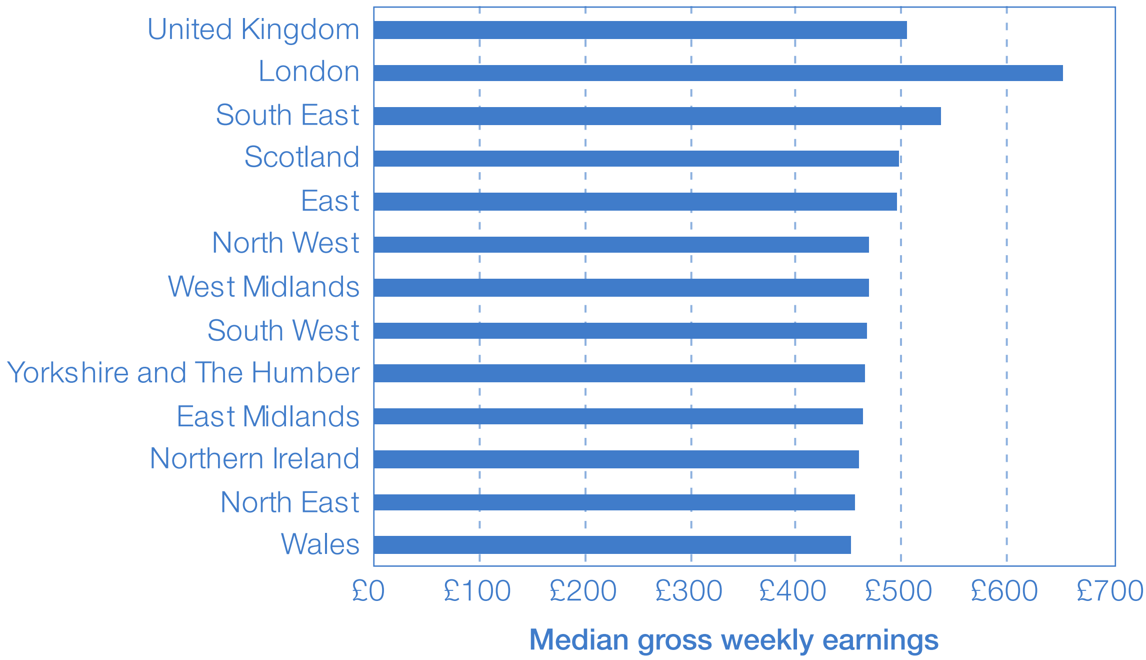
100 *Consultation: Extending labour market interventions to in-work claimants*, DWP, January 2013. Available at www.gov.uk/government/consultations/extending-labour-market-interventions-to-in-work-claimants.

101 *Social Justice: transforming lives*, DWP, March 2012. Available at www.gov.uk/government/publications/social-justice-transforming-lives.

102 *Working and Workless Households, April-June 2013*, ONS. Available at www.ons.gov.uk/ons/rel/lmac/working-and-workless-households/2013/table-c.xls. Q4 2013 data does not extend to 1996 when records began, so to enable comparison over a longer period the Q2 figures are used.

3.21 The current system therefore reflects a finely-balanced mix of incentives and support which has benefited the Scottish people and the Scottish economy. Full-time wages in Scotland are already high in relation to the other geographical areas in the UK. Chart 3E shows that Scotland has the third highest weekly full-time wages out of all the countries and regions of the UK.[103] Furthermore, the UK performs very well internationally when average earnings after tax are considered. In 2012, the UK was ranked third of all Organisation for Economic Co-operation and Development countries on this measure, showing that the UK tax and benefits system is effectively supporting its labour market as a whole.[104]

Chart 3D: Median full-time gross weekly earnings



Source: ONS Annual Survey of Hours and Earnings 2012.

Combining national expertise with local flexibility

3.22 The UK Government's approach of combining national and local delivery allows it to exploit efficiency gains from operating a network across Great Britain, with the benefits of local knowledge and joining up of services on the ground.

3.23 While the UK Government provides a national support regime, it is flexible. Some aspects are determined at a local level which allows Scotland to ensure a tailored approach can be provided where local and individual differences require it. Jobcentre Plus staff have flexibility, for example, over how much time to spend with claimants and what additional support to refer them to.

[103] *The annual survey of hours and earnings (ASHE),* ONS, 2012. Available at www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2012-provisional-results/stb-ashe-statistical-bulletin-2012.html#tab-Regional-earnings.

[104] *OECD tax database, based on single worker at 100 per cent of average earnings with no children.* Available at stats.oecd.org/Index.aspx?DataSetCode=AWCOMP#.

3.24 Arrangements are already in place, such as the Scottish Employability Forum, which bring together the three tiers of government – UK, Scottish and local authorities – to provide a joined-up approach to skills and employability in a devolved landscape. This minimises duplication, and improves co-ordination between partners, allowing Scotland to benefit from all areas of expertise.

3.25 Employer engagement is another area where national and local expertise is effectively combined. The National Employer Service Team works with over 200 large employers at a UK level and with external trade bodies, which provide additional access to 150,000 employers across the UK. As previously stated, it is currently very easy for people to move around the UK and so fill any of the more than half a million vacancies on offer at any point in time.[105] Alongside engagement with national employers, Jobcentre Plus has local employer engagement staff who are able to take advantage of local knowledge and relationships with smaller employers to increase the vacancies available to claimants.

3.26 Scotland also benefits from being able to combine access to central funding with local discretion in spending. The Flexible Support Fund supports Jobcentre Plus District Managers to tackle local worklessness and multiple barriers to employment, allowing local decisions to be made about the type and scale of support appropriate to local needs. In the financial year to date Scotland has benefited from £6.9 million from the Flexible Support Fund, equivalent to ten per cent of the total available to district managers.[106]

Results

3.27 The combination of a flexible labour market, relatively light employment regulation and support that prepares people for employment and focuses them on job search is able to support strong employment performance across the UK. As Chart 3E shows, the countries that make up the UK are near the top for employment rates when compared to the European Union Member States that adopted the euro as their common currency (EU18).[107]

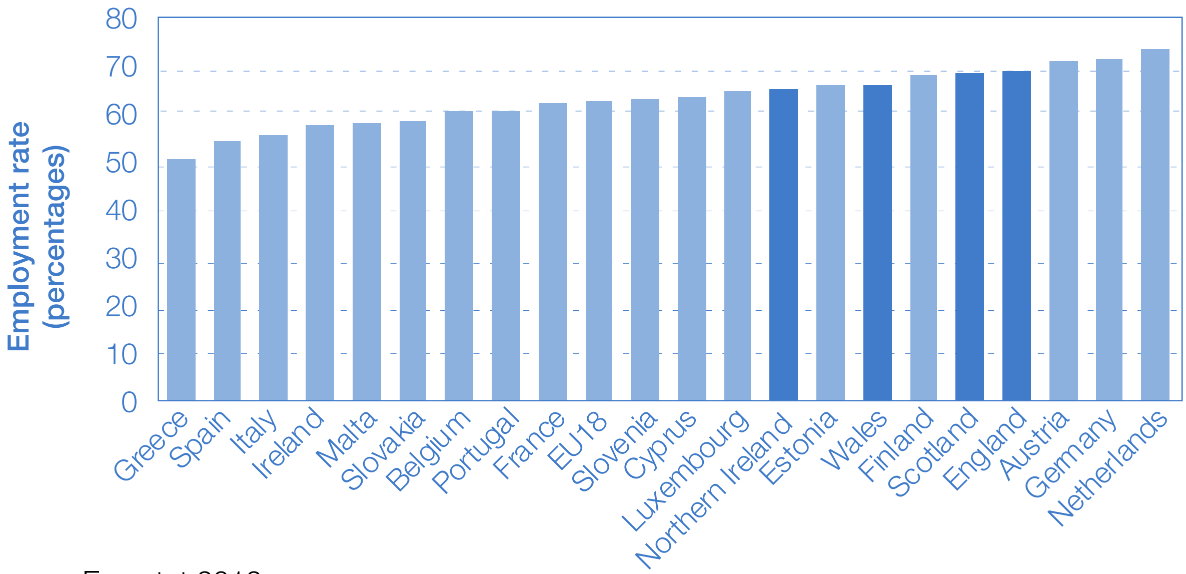
[105] *Labour Market Statistics*, ONS, March 2014, Table 21. www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-vacs02.xls.

[106] This excludes elements of the fund managed nationally which include Support Contract and the Rapid Response Service.

[107] *Eurostat data, 2012*. Available at epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database.

Performance of the labour market

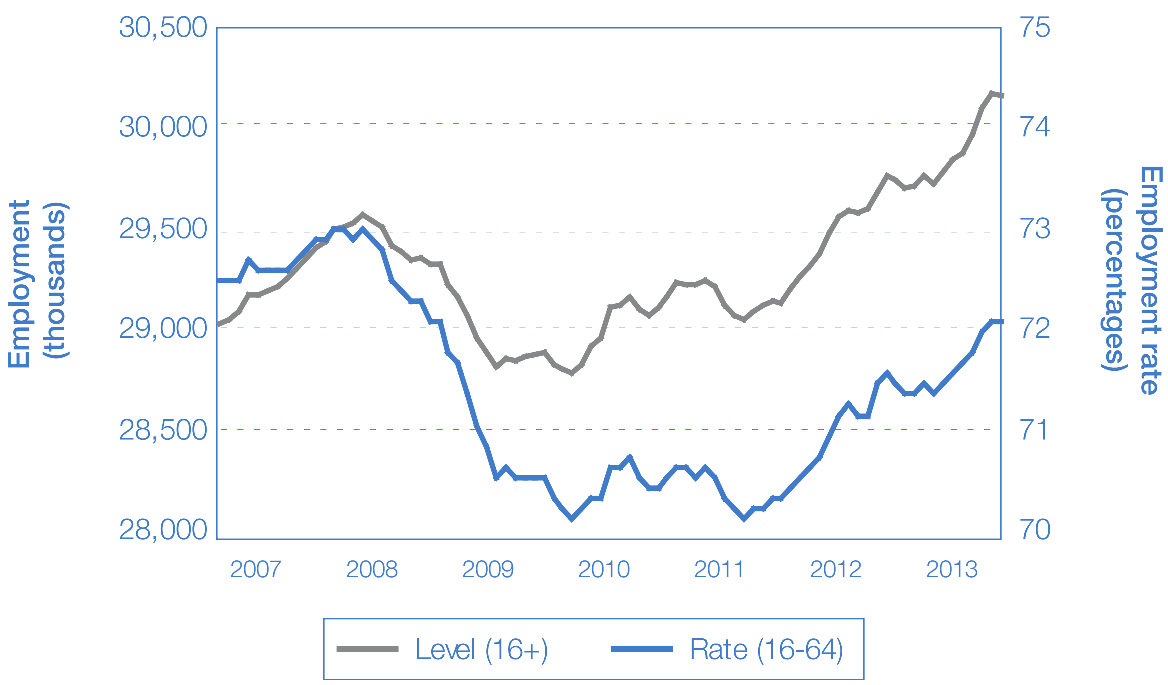
Chart 3E: 2012 Employment rates of EU18, Wales, Scotland, Northern Ireland and England (%)



Source: Eurostat 2012.

3.28 This carefully balanced system also works in challenging conditions. This is illustrated by the relative resilience of the UK labour market during and since the period of the recent recession as shown in Chart 3F.

Chart 3F: UK employment levels (16+) and employment rate (16–64)

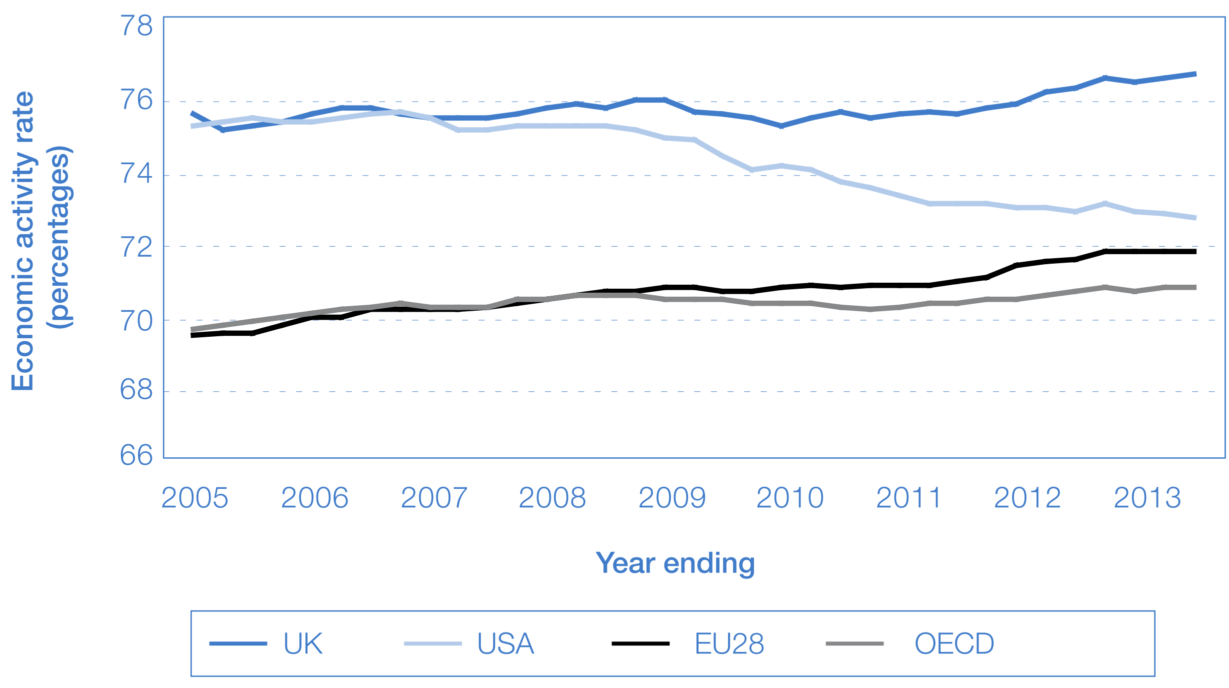


Source: Office for National Statistics Labour Force Survey.

3.29 During the worst period of the recent recession, when overall employment was falling, part-time and temporary employment actually rose, and this continued in the early part of the recovery. The flexibility in the labour market contributed to employers in Scotland and the wider UK having the confidence to take on staff, and to the willingness of employees to take up these opportunities. In the last year, there has been a resurgence of permanent and full-time jobs as employers became increasingly confident.[108]

3.30 Part of this resilience is due to the success of the labour market regime. Progressive improvements of activation policies for recipients of unemployment and other income-replacement benefits during the past two decades, by the UK, have helped slow the increase in unemployment during the recession. The resulting high economic activity rates as shown in Chart 3G are evidence of this.[109] The UK's economic activity rate has risen strongly despite the recession.

Chart 3G: Economic activity rate (%)



Source: Organisation for Economic Co-operation and Development (OECD).

[108] *Labour Market Statistics*, ONS, March 2014, Table 3. www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-emp01.xls retrieved 20 March 2014.

[109] *Organisation for Economic Co-operation and Development stat extract*. Available at stats.oecd.org/Index.aspx. Note: Economic activity is defined as being a member of the labour force, i.e. employed or unemployed. OECD activity rate is for persons aged 15–64.

3.31 The relatively high employment rate in the UK has also been driven by increasing participation, particularly among groups with traditionally lower participation rates, including lone parents, ethnic minorities, disabled people and older workers. This is evidence that the UK approach is succeeding for all members of society.[110, 111]

3.32 Various welfare reform policies such as those for lone parents, the introduction of Employment and Support Allowance and reassessment of Incapacity Benefit claimants have increased the number of people who are undertaking work-related activity as part of their benefit claim. These reforms have encouraged people to move closer to the labour market. The early evidence is that lone parent conditionality has been successful in "activating" lone parents with school-age children and the lone parent employment rate has recently reached a record of over 60 per cent.[112, 113]

3.33 The numbers of lone parents on Income Support have fallen by a third in both Scotland and the UK since 2008.[114] There has also been a fall in the numbers of people claiming Incapacity Benefit or Employment and Support Allowance. The number of people claiming incapacity benefits and lone parents claiming Income Support in Great Britain is currently the lowest it has been for over 20 years. In addition, the employment rates of both disabled people and lone parents have been rising over the past two decades in the UK.[115, 116]

[110] *Working and Workless Households* April-June2013, ONS.
Available at www.ons.gov.uk/ons/rel/lmac/working-and-workless-households/2013/table-p.xls.

[111] *Labour Market Status by Ethnic Group*, ONS, March 2014, available at www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-a09.xls.

[112] *Lone parent obligations: an impact assessment*, DWP, July 2013. Available at www.gov.uk/government/publications/lone-parent-obligations-an-impact-assessment-rr845.

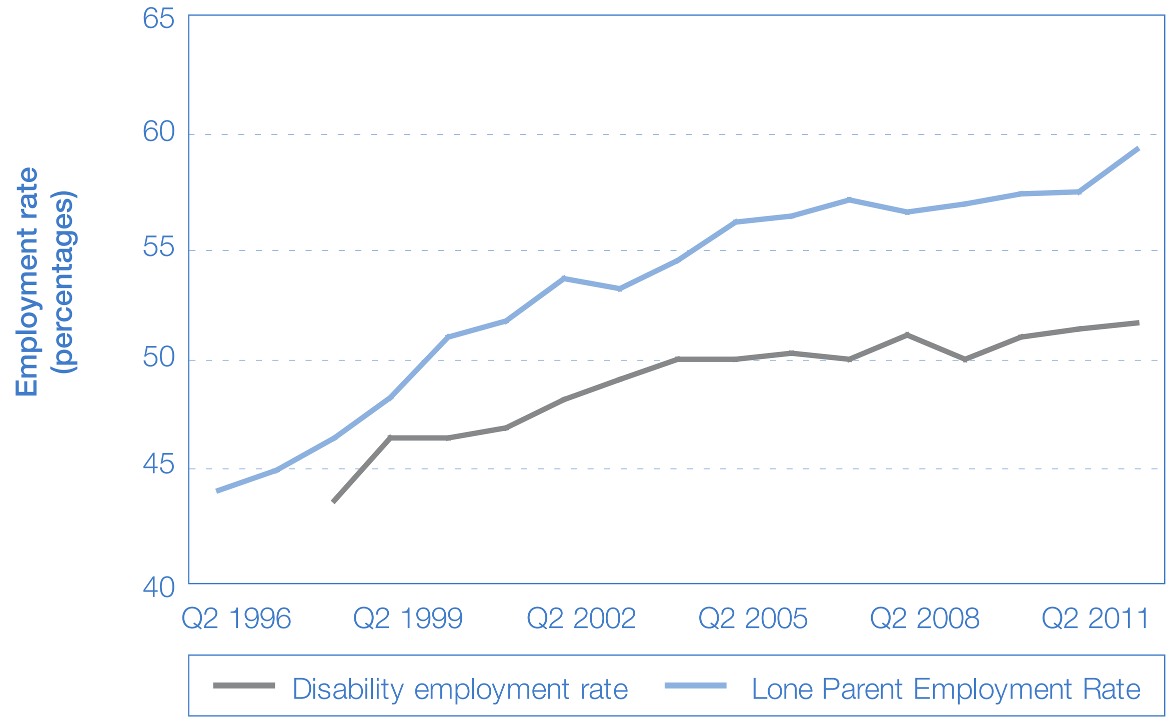
[113] *Working and Workless Households April-June 2013*, ONS. Available at www.ons.gov.uk/ons/rel/lmac/working-and-workless-households/2013/table-p.xls.

[114] *DWP Work and Pensions Longitudinal Study*, DWP tabulation tool. Available at tabulation-tool.dwp.gov.uk/100pc/tabtool.html.

[115] *Working and Workless Households April-June 2013*, ONS. Available at www.ons.gov.uk/ons/rel/lmac/working-and-workless-households/2013/table-p.xls.

[116] *Labour market status of disabled people*, ONS, March 2014, www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-a08.xls.

Chart 3H: Disability and lone parent employment rates



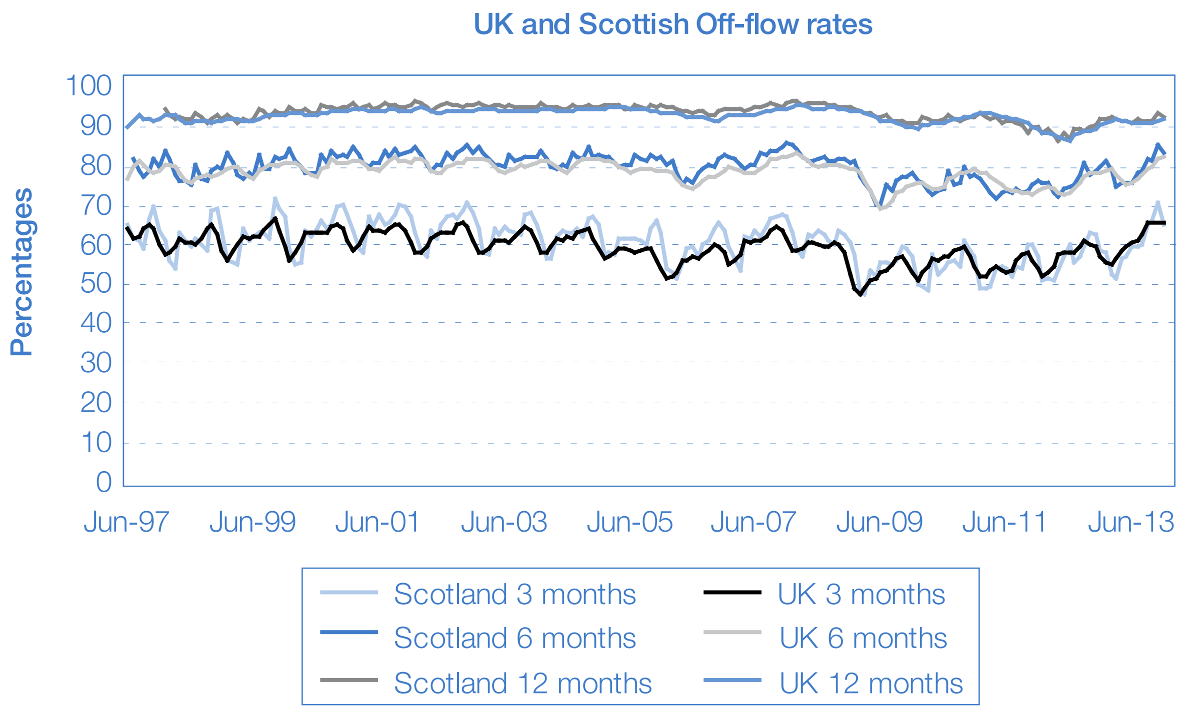
Source: Office for National Statistics Labour Force Survey.

Performance of the regime

3.34 The success of the regime is measured by the speed at which people leave the key out-of-work benefits, known as the off-flow rate, and through the job outcomes achieved by external providers, such as Access to Work and the Work Programme. The vast majority of those who are unemployed and claiming benefit leave Jobseeker's Allowance quickly, and there is strong evidence that the support provided by DWP helps people back into work, reducing benefit payments and increasing tax receipts.[117]

[117] Published evidence shows the likely positive cumulative effect on the public finances from the introduction of Jobcentre Plus over the period 2001 to 2015 is just over £10 billion: *The introduction of Jobcentre Plus: An evaluation of labour market impacts*, DWP Research Report 781, Riley, R. (2011).

Chart 3I: JSA off-flow rate performance in Scotland and the UK



Source: Nomis: http://www.nomisweb.co.uk/
Note: Chart 3I shows the proportion of new JSA claims that end within 3, 6 and 12 months.

3.35 Unemployed people leave benefit quickly in both Scotland and the whole UK, with over half of Jobseeker's Allowance claimants leaving within three months of starting a new claim and around 90 per cent within 12 months. Setting active job-search requirements as the condition for receipt of unemployment benefits, and ensuring that jobseekers attend a face-to-face interview at least once a fortnight has been key in preventing long-term unemployment for many claimants. The cost for an independent Scottish state to provide a similar level of support, based on the current claimant count, has been estimated to be in the region of £200 million per year.[118]

3.36 Off-flow rates from Jobseeker's Allowance are very similar between Scotland and the UK as a whole, showing the same movements over time. This indicates that the labour markets are similar and that labour market interventions work in the same way to deliver outcomes which both Scotland and the whole of the UK respond well to. Policy changes following independence could put this at risk.

[118] Employment support cost estimates for 2012/13 – excludes IT and estate costs.

3.37 The *Labour Force Survey* has shown that seeking work is the critical determinant of whether someone moves from unemployment to employment.[119] People who are unemployed or who are inactive, but looking for work (but currently unable to start), have around a one in four chance of being in work in three months time. For people who are inactive, but neither seeking nor available for work this falls to a 1 in 20 chance, regardless, of whether they want a job or not. Therefore, imposing conditions on Jobseeker's Allowance claimants and monitoring job-search, as the UK regime does, is critical to unemployed people moving into work.[120]

Conclusion

3.38 Scotland is benefiting from being part of a UK labour market that is flexible and performing well. The strong performance across employment, inactivity and off-flow, as well as evaluation evidence makes a compelling case for the current UK policies. The current system gives Scotland the benefit of UK-wide expertise and efficiency with the flexibility to respond to local conditions, from management of Jobcentres to decisions on financing.

3.39 An independent Scottish state would face choices regarding each element of labour market policy currently supporting a carefully balanced and effective regime. It would need to decide if it wanted to provide a similar level of active labour market support as the UK Government provides. The costs of this based on the current claimant count would be in the region of £200 million per year.

3.40 DWP continues to be committed to building the evidence on what works in the labour market. The UK is recognised internationally as delivering best practice in the design of its labour market regime and is committed to retaining this position through ongoing trialling and evaluation of changes.

[119] *Quarterly Labour Force Survey: Labour Market Flows experimental data*, Table X02, ONS, March 2014. Available at www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-x02.xls, retrieved 20 March 2014.

[120] *Job search monitoring intensity, unemployment exit and job entry: Quasi-experimental evidence from the UK*. McVicar, D., December 2008, Labour Economics, Vol 15, Issue 6, p1451-1468.

Chapter 4: Pensions

Summary

Security for old age is a hugely significant issue for individuals, and providing people with the opportunity to build a decent income in retirement has been a key objective of successive UK Governments. The current system is the result of significant investment over many years to build a unique partnership between the State, the individual, employers and private pension providers. As a result pensioner incomes in the UK and in Scotland are at historic high levels and Scotland now has the lowest proportion of pensioners with very low incomes of all the four countries of the UK.

The UK has one of the most sophisticated occupational pension systems in Europe with over £1.6 trillion[121] under management. It benefits from comprehensive UK wide regulation that supports a thriving single market in pension provision. To protect savers, the UK's Pension Protection Fund provides protection to 11.4 million people in eligible occupational schemes.[122] The current system does this by spreading the risks across the relatively large number of defined benefit schemes across the UK.

Demographic change and policy commitments by the current Scottish Government would mean that over the next 20 years extra expenditure on pensioners would rise to around £1.4 billion higher per year in today's terms.[123] This long term challenge means that the government of an independent Scottish state would need to provide early assurance that it can deliver pensions in line with savers' expectations, possibly by raising taxes or cutting other public services. If it was not able to set out how it would achieve this, then savers will not be able to invest with the confidence that their personal pensions will not be caught by a means test in the future.

[121] *Asset Management in the UK 2013-13, the IMA Annual Survey, The Investment Management Association.* Available at: http://www.investmentfunds.org.uk/research/ima-annual-industry-survey/industry-figures/

[122] *The Pension Protection Fund Annual Report and Accounts 2012/13*. Available at www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/ARA_1213.pdf.

[123] *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.

If Scotland were to leave the UK, there would also be significant cost implications resulting from the need to protect, and regulate pensions, support automatic-enrolment schemes and disentangle UK state pensions from those of an independent Scottish state. The challenge would be to deliver similar systems to a much smaller population without the economies of scale that are possible for UK-wide systems. In addition, some proportion of the liabilities for public service pension schemes would become the responsibility of an independent Scottish state, with estimates suggesting the total liability figure could be in the region of £100 billion.[124]

The current position

4.1 Pensioners living in Scotland have benefited from the current UK pension system, including a UK-wide National Insurance system and a Pension Service network supporting 13 million State Pension recipients across Great Britain and overseas. Scotland now has the lowest proportion of pensioners with very low incomes in the UK.[125]

4.2 The Scottish financial sector serves customers all over the UK and is deeply embedded in the UK's regulatory framework. It is also a key element of the Scottish economy. It has a high concentration of the UK's life insurance and pension services, accounting for 24 per cent of the total UK sector.[126]

4.3 Overall, the UK pension system reflects 70 years' development of both state and private provision. The scale and reach of pensions in the UK is significant and delivers a wide range of services, including:

- the collection of National Insurance – £104.5 billion in 2012/13;[127]
- a National Insurance crediting system to protect the pension position of parents and carers, for people seeking work and people who are incapacitated;
- the Pension Service network which administers payments and other services to nearly 13 million contributory State Pension recipients in Great Britain with spending for 2012/13 of around £80 billion;[128]
- payment of state pensions to 1.2 million pensioners living overseas[129] through a series of complex bilateral and international arrangements;

[124] Calculated on the basis of liabilities associated with existing Scottish schemes where these exist, and a population-based division of the liabilities associated with UK-wide schemes. Much greater analysis would be needed to understand the division of liabilities, following negotiations over the treatment of public services and public service pensions more widely, in the case of an independent Scottish state.
[125] *DWP analysis of Households Below Average Income data, 1994/95 to 2011/12, 3 year averages*, DWP. Available at https://www.gov.uk/government/publications/households-below-average-income-hbai-199495-to-201112.
[126] *Scotland analysis: Financial services and banking*, HM Government, May 2013. Available at www.gov.uk/government/collections/scotland-analysis.
[127] *Autumn Statement 2013*, HM Treasury, December 2013. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/263942/35062_Autumn_Statement_2013.pdf.
[128] *DWP benefit expenditure and caseload tables 2013*, Tables 2a and 2c. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/273833/outturn-and-forecast-expenditure-201213.xls. Note that Table 2c reports the total number of pensioners both in GB and also overseas, so 1.2 million (the number of overseas pensioners) has been subtracted as shown here tabulation-tool.dwp.gov.uk/100pc/sp/cccountry/ccsex/a_carate_r_cccountry_c_ccsex_aug13.html.
[129] *DWP Tabtool, August 2013*. Available at tabulation-tool.dwp.gov.uk/100pc/.

- an information service for individuals about their State Pension to help them plan for their retirement. During 2012/13 the UK Government issued around 600,000 State Pension statements, and works in partnership with private pension schemes to provide combined pension statements;
- the Pension Tracing Service, which in 2012/13 helped over 90,000 customers to successfully trace a lost pension;
- the Pensions Advisory Service – which provides free information, guidance and help to members of the public on all pension matters;
- the distribution of tax relief for private pension saving – £34.8 billion in 2012/13;[130]
- the Pensions Regulator, which regulates more than 50,000 private sector schemes with over 15 million members;[131]
- the Pension Protection Fund, which protects the rights of some 11.4 million people in eligible occupational schemes.[132] The Fund estimates that by the end of March 2013, it had paid out over £793 million in compensation;
- the structures – including a £16 million ongoing communications campaign – to support the introduction of automatic enrolment into workplace pensions, so that six to nine million people will start to save or save more for their retirement. DWP estimates this will generate £11 billion a year in pension saving in steady state (by 2020);[133] and
- the successful launch of National Employment Savings Trust – currently with 2,500 employers and 800,000 members.[134]

4.4 Across all of these areas an independent Scottish state would have to set up new structures, administrative arrangements, and regulatory bodies – with the associated costs falling on current and future savers, taxpayers, employers and pension schemes.

Pensioner incomes in the UK and Scotland

4.5 Overall average pensioner incomes in Scotland are very close to those in the rest of the UK. Pensioner incomes, in the UK and in Scotland, are at historic high levels, having, on average, grown faster than earnings over the longer term. In addition the percentage of pensioners with very low incomes was close to a historic low in 2010/11 and 2011/12 (at 14 per cent after housing costs)[135] with pensioners less likely to have very low incomes than the population as a whole.[136] The number of pensioners with very low incomes has declined since the 1990s.

---

[130] *Personal pension statistics*, HMRC, February 2014 Table PEN6, page 25 (estimated gross cost). Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/285063/pensions-intro.pdf.

[131] *Annual report and accounts*, The Pensions Regulator, July 2013. Available at www.thepensionsregulator.gov.uk/about-us/annual-reports.aspx.

[132] *The Pension Protection Fund Annual Report and Accounts 2012/13*. Available at www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/ARA_1213.pdf.

[133] *Workplace Pension Reforms: digest of key analysis*. DWP, July 2012. Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223031/wpr_digest_0712.pdf.

[134] *NEST Insight*, the National Employment Savings Trust, 2013. Available at www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-insight-2014,PDF.pdf.

[135] The 2011/12 figures are the latest available. *Household Below Average Incomes 1994/95 to 2011/12*, DWP, 2013.

[136] *Incomes in the UK*, the Institute for Fiscal Studies (data exist since 1961). Rates of pensioner relative low income were only lower than their 2010/11 levels in 1984. Available at www.ifs.org.uk/fiscalFacts/povertyStats.

The fall in Scotland has been larger than the fall in England over this time, and Scotland now has the lowest proportion of pensioners with very low incomes across all four nations of the UK.

4.6 This growth in pensioners' incomes is largely explained by changes to benefits and the State Pension, including the introduction of Pension Credit. Pensioner incomes have been further boosted by occupational pension schemes, with many current pensioners having had access to relatively generous defined benefit schemes when in work.

Securing the State Pension for the future

4.7 The financial sustainability of the State Pension system depends on how much, and for how long, pensions are paid out. As average life expectancies increase, people who benefit from living longer have shared in some of the costs as successive UK Governments have moved to increase the State Pension age. As the independent Pensions Commission noted in 2005 this ensures fairness between generations and long-term sustainability.[137]

4.8 The UK Government has plans in place to increase State Pension age to 67 by 2028. Over the ten-year period to 2036 these changes will save £73 billion in benefit spend and increase Gross Domestic Product by around £100 billion.[138]

4.9 The current Scottish Government's White Paper[139] suggests that in the event of a vote for independence it would review the UK Government's decision to bring forward the increase in State Pension age to 67 and draws attention to the fact that average life expectancy in Scotland is lower than the UK average. While it is the case that average life expectancy in Scotland is lower than that for the rest of the UK, Table 4A, demonstrates that projected life expectancy across all UK nations is increasing.

Table 4A Projected life expectancy increases for men reaching age 65 across the UK

	1990	2000	2010	2020	2030
Scotland	14.6	17.3	19.5	20.9	22.1
England	15.8	18.9	21.1	22.4	23.6
Wales	15.3	18.5	20.5	21.9	23.1
N. Ireland	15.4	18.4	20.5	21.8	23.0

Source: Historic and Projected Mortality Data from the Period and Cohort Life Tables, 2012-based, UK, 1981-2062, ONS (2013). Data shown is cohort life expectancy.

---

137 A New Pension Settlement for the Twenty First Century, the Second Report of the Pensions Commission. November 2005. Available at http://webarchive.nationalarchives.gov.uk/+/http:/www.dwp.gov.uk/publications/dwp/2005/pensionscommreport/main-report.pdf.

138 *Long term State Pension sustainability: increasing the State Pension age to 67*, DWP impact assessment, November 2013. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/253610/b-pensions-bill-state-pension-age-ia-oct-2013.pdf.

139 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013. Available at www.scotland.gov.uk/Publications/2013/11/9348.

4.10 If the government of an independent Scottish state decided to set aside the age 67 timetable it would need to consider:

- the extra State Pension spending that would result from people retiring earlier. This would cost a future Scottish state around £6 billion between 2026/27 and 2035/36 in benefit expenditure (in current prices); and
- the loss in Gross Domestic Product from those people who have left the labour market earlier than if the pension age were raised to 67 as in the forecasts – around £9 billion between 2026/27 and 2035/36 (in current prices).[140]

4.11 These additional costs and losses to the economy are a particular concern. It will mean that the government of an independent Scottish state would need to provide early assurance that it can deliver pensions in line with savers' expectations, possibly by raising taxes or cutting other public services. If it was not able to set out how it would achieve this then savers will not be able to invest with the confidence that their private pension savings will not be caught by a means test in the future. The Institute and Faculty of Actuaries has also highlighted concerns about the current Scottish Government's proposals:

> *"A delay in accepting the 2026-28 increase may make future increases more difficult to implement, particularly within the early years of a newly independent Scotland. Scotland would still have wide variations in life expectancies across the country and different socio-economic groupings."*[141]

4.12 The UK Government is currently carrying out a series of reforms aimed at promoting long-term pension saving, introducing a single tier State Pension to provide clearer incentives to save and requiring employers to automatically enrol employees into pension schemes. The challenges being addressed are shared across the UK. The current Scottish Government acknowledged this in its paper, *Pensions in an Independent Scotland*.

[140] *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list. Calculations based on data from DWP *Impact assessment – increasing the State Pension age to 67*, May 2013, scaled to the relative share of GB pensioner benefit expenditure in Scotland – around 8.5 per cent. Available at https://www.gov.uk/government/publications/impact-assessment-increasing-the-state-pension-age-to-67.

[141] *Commentary on the key challenges facing an independent Scotland within financial services*, The Institute and Faculty of Actuaries, October 2013. Available at http://www.actuaries.org.uk/research-and-resources/documents/commentary-key-challenges-facing-independent-scotland-within-financ.

4.13 In Pensions in an Independent Scotland the current Scottish Government stated that the single tier State Pension would be taken forward in the event of an independent Scottish state.[142] It sets out a number of differences around reform of the state system:

- **State Pension age** – see Paragraph 4.10 above;
- **Level of the single tier** – the UK Government will finalise the level of the single tier in the autumn of 2015 in time for payment from April 2016. The current Scottish Government propose a start level of £160 a week (matching the UK rate should this be higher). For every £1 additional increase in the starting level of single tier the extra cost to the UK would be in the region of £500 million a year in around 20 years' time. If the costs in Scotland were broadly in proportion to the number of pensioners, costs of around £50 million per year could be expected in around 20 years' time;[143]
- **Savings Credit** – the current Scottish Government proposes retaining the Savings Credit in the single tier and to uprate it by earnings. The central objective of the single tier reform is to simplify the State Pension, to provide a clearer foundation for saving. A key part of the design of the new system is to set the full rate of State Pension above the basic level of means-tested support. The Savings Credit, which was designed to give those with modest savings a means-tested reward, will no longer be needed. The costs of retaining the Savings Credit for people who reach State Pension age after 5 April 2016 on a UK-wide basis could rise to around £2 billion a year in around 20 years' time (with increasing costs over time). If the impacts in Scotland were broadly in proportion to the number of pensioners, Scotland could expect costs of around £20-£30 million in 2020/21 and £200 million a year in around 20 years' time (all in current prices);[144]
- **Derived entitlement rules on State Pension to be retained for 15 years after the introduction of single tier pension** – to retain derived entitlement would be to retain a key source of complexity in the current system. By retaining these provisions, people would not have clarity over what the State may provide for them in retirement and a key principle of single tier would be undermined; and
- the government of an independent Scottish state would need to contribute to the £3.4 billion (in 2012/13) **annual State Pension costs of pensioners who live overseas**, some of whom will have worked in Scotland. This would involve complex bilateral arrangements that will be required when establishing entitlement to a state pension for people living abroad and for the continuing uprating of such pensions once in payment.[145]

---

142 *Pensions in an independent Scotland*, Scottish Government, September 2013. Available at www.scotland.gov.uk/Resource/0043/00434502.pdf.
143 *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.
144 *Long term projections of social security expenditure in the United Kingdom, including Scotland*, DWP, April 2014. Available at https://www.gov.uk/government/collections/ad-hoc-statistical-publications-list.
145 *DWP benefit expenditure and caseload tables 2013*, State Pension expenditure. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/273833/outturn-and-forecast-expenditure-201213.xls.

Pensions administration and protecting savers

4.14 The government of an independent Scottish state would need to consider the administration and payment of pensions, how to provide adequate pension protection for savers and how to disentangle cross-border contribution records and liabilities. This would involve making decisions on a replacement state funding mechanism as an alternative to National Insurance and how to protect savers and regulate private pension providers. The challenge would be to deliver similar systems to a much smaller population without the economies of scale that are possible for UK-wide systems.

4.15 Three key areas of administration would need to be replaced:

- **National Insurance** – the collection, administration and delivery of National Insurance and the contributory pension system have evolved over many years and revolve around the National Insurance and Pay as you Earn Service based in Newcastle. The National Insurance collection system for the most part goes hand in hand with the Pay as you Earn collection system. Com bined, they represent a substantial UK Government resource and replacement start-up costs for an independent Scottish state would be considerable. As an example of the magnitude of costs, the administrative costs of the National Insurance Fund for 2013 was £916 million[146] and the set-up costs for the National Insurance and Pay as you Earn Service were £389 million;[147]
- **Pensions Regulator** – Pensions in an Independent Scotland states that an independent Scottish state would have a Pensions Regulator. Establishing a new regulator for an independent Scottish state would require start up and running costs: The UK's Pensions Regulator's budget for 2013/14 is £66.6 million.[148] An independent Scottish state would need to decide whether to fund this through taxation, or via a levy on participating schemes, which would have implications for relevant employers; and
- **The UK's Pension Protection Fund** – provides protection in respect of the benefits of over £1 trillion of investments.[149] The current UK system manages exposure to costs by spreading the risks across the relatively large number of defined-benefit schemes (who pay a levy into the Pension Protection Fund). In the event of a vote for independence, the government of an independent Scottish state would need to set up its own arrangements to protect pension funds and in doing so would need to establish if it was possible to replicate the levy structure in the smaller Scottish market or whether alternative sources of funding would be required.

---

[146] *National Insurance Fund Account 2012-13*, HMRC, HC 893, 17 December 2013, Page 19. Available at https://www.gov.uk/government/publications/national-insurance-fund-accounts.

[147] *HM Revenue & Customs 2009-10 Accounts: Report by the Comptroller and Auditor General*, National Audit Office, 20 July 2010, page R6.

[148] *Corporate plan 2013 –2016*: The Pensions Regulator, May 2013. Available at www.thepensionsregulator.gov.uk/docs/corporate-plan-2013-2016.pdf.

[149] *PPF 7800 index*, the Pension Protection Fund, December 2013. Available at www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_7800_january_14.pdf.

4.16 An independent Scottish state would develop its own administrative arrangements to fund State Pensions and to protect private pensions and need not be bound to current UK models. However, a large investment would need to be made to deal with past individual State Pension records and contributions. It seems implausible that existing accounts could be separated cleanly so that people living in Scotland at the time of independence could have their state contributions records untangled to identify if pensions liability fell to either the government of the continuing UK or of an independent Scottish state. More realistically a system of complex bilateral arrangements would be needed for many years making it more difficult for individuals to work out their State Pension entitlement.

Risks to occupational pensions

4.17 An independent Scottish state would need to consider how it would set up a new regulatory framework for occupational pensions and adequately protect savers without placing additional burdens on employers or schemes. A number of organisations, including the National Association of Pension Funds, have highlighted the risks that a border would create for employers offering occupational pension schemes under the current European Union legislation and the potential for further burdens on employers and scheme members: "a more demanding funding regime is likely to lead to the closure of defined-benefit schemes."[150] And there would be costs associated with mirroring the UK Government's reforms to improve private pension provision by introducing automatic enrolment and the National Employment Savings Trust.

4.18 The UK has one of the most developed, sophisticated and mature occupational pension systems in Europe with over £1.6 trillion[151] under management and the Scottish financial sector has a high concentration of life insurance and pension services – 24 per cent of employment in the UK life and pensions sector is based in Scotland.[152] This focus on financial services is also reflected in the customer base with Scotland having a slightly higher take up of private pensions than the rest of the UK.

[150] *Scottish independence: the implications for pensions*, NAPF, November 2013. Available at www.napf.co.uk/PressCentre/NAPFbuzz/0484-Scottish-independence-the-implications-for-pensions.aspx.

[151] *Asset Management in the UK 2013-13, the IMA Annual Survey, The Investment Management Association. Available at: http://www.investmentfunds.org.uk/research/ima-annual-industry-survey/*

[152] *Scotland analysis: Financial services and banking*, HM Government, May 2013. Available at www.gov.uk/government/collections/scotland-analysis.

4.19 UK pension schemes are supported by a comprehensive regulatory and legal framework that sets the rules on benefits, contributions, tax, access, investments, scheme management, governance arrangements and the provision of information. These arrangements, as well as the additional flexibilities for accessing defined-contribution pension pots announced in Budget 2014, are all set at a UK level and support a thriving single market in pension provision and in financial products more generally. A key issue is how the industry would operate if Scotland became an independent state and the single market became two with a border to cross. The Institute and Faculty of Actuaries[153] highlighted the questions this would raise for the government of an independent Scottish state:

- whether the existing system of tax reliefs/privileges will continue?
- how regulatory oversight will be organised? and
- what protections will be provided for pension scheme members?

4.20 These questions highlight important issues of costs and how private pension provision in the future would be regulated and organised. For instance, tax relief for saving in private pensions cost £34.8 billion in 2012/13.[154] In addition, the government of an independent Scottish state would need to hold discussions with the industry on funding regulation and reach a consensus on how risks should be managed and balanced between individual savers, pension schemes, employers and government.

4.21 An independent Scottish state would also need to consider cross-border funding requirements and operations. The Scottish Government has stated that it would want to belong to the European Union. European Union legislation (the "IORP" Directive) requires occupational pensions operating across borders within the European single market to be fully funded at all times.[155] In domestic legislation, "fully funded" means that under-funded cross-border schemes have no more than two years to regain their position of full funding. In addition, the UK's approach to the application of European Union law in this area requires cross-border schemes to undertake annual rather than triennial actuarial valuations.

[153] *Scottish Independence: some questions from the Institute and Faculty of Actuaries*, Institute and Faculty of Actuaries, Sept 2013. Available at www.actuaries.org.uk/research-and-resources/documents/scottish-independence-some-questions-institute-and-faculty-actuar-0.
[154] *Personal pension statistics*, HMRC, February 2014 Table PEN6, page 25.
[155] *Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision*, Official Journal of the European Union, June 2003. Available at eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=oj:l:2003:235:0010:0021:en:pdf.

4.22 The Institute of Chartered Accountants Scotland has said that a large number of UK defined-benefit schemes would not currently meet the required funding levels if they were to become cross border.[156] Currently, the Pension Protection Fund Index suggests that the average scheme is funded to 95 per cent of the levels needed to meet Pension Protection Fund levels of benefit. This is much lower than the technical provisions level needed to meet the requirements of the IORP Directive. The Institute of Chartered Accountants Scotland report concluded that – "the potential impact [of Scottish independence] on funding requirements for employers operating defined-benefit or hybrid schemes across the UK is likely to be substantial".[157]

4.23 Setting aside the funding requirements issue, any divergence between the continuing UK and systems in an independent Scottish state systems would cause sponsoring employers to lose the economies of scale they gain from being able to operate pension arrangements on a UK-wide basis. The National Association of Pension Funds, in particular, has expressed concerns both about the lack of clarity on fiscal and monetary policy and Scottish schemes having to operate in a small market.[158]

4.24 Pensions in an Independent Scotland also described arrangements for private pensions. A key issue for the UK Government has been to transform private saving with the introduction of automatic enrolment. This is expected to lead to between six and nine million people newly saving or saving more in workplace pensions.[159] The current Scottish Government have indicated that they would seek to mirror the UK's reforms of workplace pensions and carry forward automatic enrolment in an independent Scottish state, but in doing so they would need to consider the following:

- how they would fund the significant running costs of a separate compliance regime to police automatic enrolment;
- the complex arrangements that would be required to deal with the contributions that people working in Scotland have made to the National Employment Savings Trust; and
- the start-up costs for a Scottish equivalent to the National Employment Savings Trust. The UK enabled the National Employment Savings Trust start up by issuing a government loan. It has also gone through the protracted European Union process required when a European Union state aids public organisations operating and competing in the private sector market.

---

[156] *Press release: Scotland's Pensions Future: what pensions arrangements would Scotland need?,* Institute of Chartered Accountants of Scotland, 25 April 2013. Available at icas.org.uk/News/ScotlandsPensionsFutureNewsrelease/.

[157] *Scotland's pensions future: what pensions arrangements would Scotland need?,* Institute of Chartered Accountants Scotland, 26 April 2013. Available at icas.org.uk/scotlandspensionsfuture.pdf.

[158] *Scottish Independence the implications for pensions*; NAPF, November 2013. Available at www.napf.co.uk/PressCentre/NAPFbuzz/~/media/Policy/Documents/0353-Scottish-independence-the-implications-for-pensions.pdf.

[159] *Workplace Pension Reforms: digest of key analysis*. DWP, July 2012. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/223031/wpr_digest_0712.pdf.

Paying for public service pensions

4.25 The policy-making and legal framework for public service pensions in Scotland varies significantly between different schemes. These arrangements reflect the different funding arrangements and levels of risk associated with these schemes.

4.26 The largest unfunded Scottish schemes, those for the National Health Service and teachers in Scotland, are paid for out of the UK-wide annually managed expenditure budget as the UK is better placed to take on the risk associated with the long-term pension liabilities of these major schemes. It therefore follows that the UK Government retains a higher degree of control over the rules which govern these schemes than for the schemes for members of the Fire and Police services in Scotland, where liabilities are met out of Scottish delegated budgets. The pension schemes for members of the Civil Service and the Armed Forces in Scotland are integrated with those for England and Wales. In the case of the Armed Forces, this also extends to Northern Ireland.

4.27 Underlying these different arrangements is a common legislative framework which governs all pension schemes in Scotland, England and Wales (with some small exceptions, such as certain Scottish non-departmental public bodies and members of the devolved Scottish judiciary). This allows for effective labour flows between workforces in Scotland and the rest of the UK, as well as efficient sharing of resources and expertise in the management, administration and regulation of these schemes.

4.28 In the event of independence, the government of an independent Scottish state would become responsible for the management of its public service pension schemes. Currently, the Scottish Public Pensions Agency's principal role is to administer the pensions, premature retirement and injury benefits schemes for employees of the National Health Service in Scotland Scheme and for members of the Scottish Teachers' Superannuation Scheme. It also has responsibility for providing policy advice to Scottish Ministers on public service pensions for these schemes, plus those for local government, the Police Service and the Fire Service, and for developing the regulations for each of these schemes. The current Scottish Government has proposed that, in an independent Scottish state, the Scottish Public Pensions Agency would "form the basis for delivering the additional responsibilities for public sector pensions"[160] which could include general public service pensions policy and responsibility for financial planning in respect of the liabilities attached to accrued rights.

4.29 In the event of Scottish independence, some proportion of the liabilities for public service pension schemes would become the responsibility of an independent Scottish state. Any approach to dealing with the liabilities associated with these pension schemes would need to take its lead from the approach taken to public services more broadly. It would not be appropriate or fiscally responsible to make commitments about the way in which these liabilities would be apportioned without first fully understanding the structure of the public sector in an independent Scottish state, the ways in which services may or may not continue to be shared with the continuing UK and the methodology for sharing the cost of public services incurred during the pre-independence period.

---

[160] *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013, pages 149-150. Available at www.scotland.gov.uk/Publications/2013/11/9348.

4.30 However, it is generally accepted that legal responsibilities to those who have accrued pensions in these pension schemes would, and already do, exist. The party responsible for fulfilling these responsibilities would of course depend on positions reached through negotiations.

4.31 To give an idea of the potential scale of liabilities involved, as at 31 March 2012, public service pension liabilities in the UK, were £1,008 billion.[161] This is made up of the liabilities associated with both funded and unfunded pension schemes. Unfunded schemes do not hold assets and retirement benefits are paid from employer and employee contributions in any given year, topped up as necessary by the Exchequer. Funded schemes, on the other hand, have scheme assets, which are used to defray the cost of paying retirement benefits.

4.32 The unfunded portion of these liabilities reflects the net present value of amounts owed to current pensioners, deferred pensioners and current employees who will receive a pension on retirement in the relevant schemes. The liabilities are calculated in accordance with accounting standards and would form part of any analysis on overall liabilities to be split between an independent Scottish state and the continuing UK. Complete and accurate information on the public service pension liabilities to be transferred would be required to establish the opening financial position of an independent Scottish state, given their likely significance to the overall position and to future financial planning considerations.

4.33 For the reasons given above, putting a precise figure on the liabilities which would become the responsibility of an independent Scottish state is very difficult. However, estimates suggest the total liability figure could be in the region of £100 billion.[162]

4.34 The Institute of Chartered Accountants Scotland, along with other independent commentators, has identified a number of very important points which still require resolution following the publication of Scotland's Future and Pensions in an Independent Scotland. Aside from questions around responsibility for the liabilities in the schemes, The Institute of Chartered Accountants Scotland also points out the need for much greater clarity on transitional arrangements and the detail behind the commitments made by the current Scottish Government to take on the liabilities associated with those members of public service schemes who are living in Scotland.

> *"These Scottish Government papers have provided useful additional detail in relation to pension regulation and provision in an independent Scotland but some of our key questions remain unanswered. While we recognise that it will not be possible to answer every question prior to the Referendum, nevertheless important questions remain on how legacy issues will be resolved and new arrangements will be implemented."*[163]

---

[161] *Whole of Government Accounts 2011-12*, HM Treasury. October 2013. Available at www.gov.uk/government/publications/whole-of-government-accounts-2011-to-2012.

[162] Calculated on the basis of liabilities associated with existing Scottish schemes where these exist, and a population-based division of the liabilities associated with UK-wide schemes. Much greater analysis would be needed to understand the division of liabilities, following negotiations over the treatment of public services and public service pensions more widely, in the case of an independent Scottish state.

[163] *Pensions questions not answered*, ICAS, 3 February 2014. Available at icas.org.uk/News/Latest-News/Pensions-questions-not-answered---ICAS/.

4.35 This commitment appears to seek to apportion liabilities on the basis of residence, which may not be the most appropriate measure. There are also a number of areas where the current Scottish Government has yet to put forward proposals for the framework which would exist around these schemes, for example on how the regulatory regime would operate or what legal mechanisms would be put in place for arbitrating disputes regarding the schemes.

Conclusion

4.36 Scottish pensioners benefit from the significant investment made by successive UK Governments in UK state and private pension provision with pensioner incomes in both the UK and Scotland at historic high levels. The Scottish economy also benefits greatly from its share of the UK's life insurance and pension services and Scottish public servants, for the most part, belong to integrated public service schemes which allows for effective labour flows between Scotland and the rest of the UK.

4.37 The pension system – state, private and public sector – has the advantage of being able to share risks across the entire UK economy. The result is that short-term shocks to the economy such as downturns and long-term uncertainties such as increases to life expectancy can be effectively managed to the benefit of savers, taxpayers, pensioners and employers. Equally importantly, the National Insurance system that funds state pension and the comprehensive private pensions regulation and protection regime delivers economies of scale in administration.

4.38 The challenges of delivering on pensions for an independent Scottish state are twofold. The first is creating the basic infrastructure to administer pensions effectively and safely. For both state and public service pensions urgent work would be required to set up the machinery that will deliver secure funding streams – either through National Insurance or other means. For private pensions the priority will be to ensure that cross-border barriers to trading and business are identified and mitigated as far as possible and at the same time that regulatory and protection schemes are in place to give private savers and schemes the confidence to invest. The second challenge is securing sustainability and affordability for the future and demonstrating that it can be secured now. The government of an independent Scottish state would need to provide early assurance that it can deliver pensions in line with savers' expectations, possibly by raising taxes or cutting other public services. If it was not able to set out how it would achieve this then savers will not be able to invest with the confidence that their personal pensions will not be caught by a means test in the future.

Chapter 5: Delivering services

Summary

Both the Department for Work and Pensions (DWP) and Her Majesty's Revenue and Customs (HMRC) are high transaction businesses. For example, every working day DWP makes around 3 million benefit payments and processes nearly 22,000 new claims to benefit.[164] They provide a vital service by making payments, where frequently this will be a person's only form of income, and they also support the most vulnerable people in society by providing help and advice on work, benefits, pensions, child maintenance and tax credits.

Social security in Great Britain[165] includes a number of different benefits and support services delivered through a network of jobcentres, contact centres and processing centres spread across Great Britain. The current structure enables investment (where fixed costs can be very high in terms of investment in supporting IT systems), drives efficiency and delivers economies of scale. It enables peaks of work to be dealt with effectively which helps to improve waiting times and the service claimants receive.

An independent Scottish state would need to establish its own employment support mechanism, benefits and tax credits system and pensions framework. In doing so it would need to ensure continuity of payments and service for claimants in Scotland who rely on the social security system during any transitional period. There would be implications for all DWP and HMRC staff based in Scotland and for providers of services on behalf of these Departments.

The current Scottish Government has indicated that in the event of a vote for independence it might seek to continue to use the UK's systems, staff and services for a transitional period.[166] This would be subject to negotiation, but in any negotiations the UK Government would focus on the needs of the citizens of the continuing UK and the priority would be the maintenance of its effective, efficient and robust system delivering UK Government policies.

---

[164] See Table 5A.

[165] This chapter focuses on administration and service delivery, and therefore refers to Great Britain rather than UK as social security is devolved in Northern Ireland.

[166] *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, November 2013, pages 165 and 166. Available at www.scotreferendum.com/reports/scotlands-future-your-guide-to-an-independent-scotland/.

The current Scottish Government has also indicated that it would want social security policy in an independent Scottish state to differ from that of the current UK Government. Sharing IT systems and services would mean that an independent Scottish state would not be able to make changes to existing social security policy or processes or to opt out of Great Britain-wide reforms. Doing so would require the prioritisation of changes desired by the government of an independent Scottish state over the needs of the UK Government. And reconfiguring the current system to meet the demands of two governments with different policies would introduce additional costs and risks. This would not be in the interests of the government of the continuing UK. The Government of the continuing UK would do nothing to put at risk the continuity of payments to those to whom it has responsibility and would not be prepared to incur significant costs to change IT systems. In addition the three main UK political parties have ruled out entering into a currency union with an independent Scottish state. If an independent Scottish state does not use sterling as its currency, it would not be possible to share a benefit system even for a transitional period.

Therefore an independent Scottish state would have to introduce its own IT systems and delivery services. Legislating, designing, building, testing and introducing its own systems and delivery infrastructure in 18 months (according to its own timetable for priority changes) would be a huge challenge for an independent Scottish state requiring expertise, the negotiation and awarding of contracts, significant upfront investment and a lengthy lead in time. The likelihood of accomplishing all this activity within a compressed timetable presents inherent risks and, potentially, escalating costs.

To provide a sense of scale and an indication of the possible costs that the government of an independent Scottish state might face DWP's total operating costs in 2012/13 were £7.4 billion,[167] with DWP's operating costs in Scotland estimated to be around £720 million[168] (representing 9.8 per cent of the total cost). In addition the one-off IT costs to develop a new system are estimated to be between £300 million and £400 million.[169] On top of this there would be costs to develop new policy and pass legislation and for exiting existing contracts. There may also be a significant impact on the rest of the UK if all contracts need to be re-tendered.

Scale of the current social security system

5.1 Social security is currently administered on a Great Britain-wide basis by DWP, with tax credits handled separately by HMRC until the rollout of Universal Credit is complete. HMRC also administers Child Benefit. Table 5A focuses on what DWP delivers to illustrate the scale and complexity of delivering this high-transaction regime.

---

[167] *DWP Annual Report and Accounts 2012/13*, HM Government December 2013. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/264555/dwp-annual-report-accounts-2012-2013.pdf.

[168] Calculation based on the actual cost of delivering services to Scottish people in Scotland or where not available the assumed proportionate cost of delivering for Scotland.

[169] Estimated IT costs are based on extracting all Scottish cases from existing UK systems, transferring them to an alternative infrastructure and agreeing new contracts. The bulk of the costs would depend on the benefits system that an independent Scottish state introduced and the IT systems chosen. An element has also been included for consequential changes.

Table 5A Every working day[170] DWP delivers

	Great Britain	Scotland (included in GB column)
Makes benefit payments	Around 3 million	258,000[171]
Carries out Jobcentre Plus adviser interviews to help people find work	Over 100,000	Over 7,500
Helps unemployed people to move off Jobseeker's Allowance	Over 13,500	Over 1,200
Visits claimants at home or at a place convenient to them	Almost 1,500	Over 160
Processes new claims to benefit[172]		
State Pensions	Over 2,700	Over 500
Pension Credit	Almost 800	Around 200
Working-age benefits	Over 18,000	Over 3,000
Total claims processed	**Almost 22,000**	**Almost 4,000**

Source: DWP management information.[173]

How services are delivered

5.2 Delivering social security requires local face-to-face services and a network of contact and processing centres spread across Great Britain. Table 5B details the current number of main DWP sites.

[170] Average working days calculation based on 250 working days per annum.

[171] Figures for Scotland not recorded. Calculated using ONS population estimates. *Population estimates for UK, England, Wales, Scotland and Northern Ireland, mid-2011 and mid-2012*, ONS. Available at www.ons.gov.uk/ons/rel/pop-estimate/population-estimates-for-uk--england-and-wales--scotland-and-northern-ireland/mid-2011-and-mid-2012/index.html.

[172] Excludes claims for Personal Independence Payment (PIP) and Disability Living Allowance (DLA) as data is not held on the number of claims processed daily.

[173] This type of internal management information does not form part of the official statistics.

Table 5B DWP sites

	Great Britain	Scotland (included in GB column)
Contact Centres	32	3
Jobcentres	714	94
Benefit processing centres	56	7
Pension centres	12	2
Sites handling disability claims	8	1
Sites dealing with child maintenance	30	3
Debt centres	7	1
Corporate hubs[174]	12	0

5.3 Although parts of DWP's business, such as the network of Jobcentre Plus offices, are organised along geographical lines, other areas of the organisation operate on a "virtual network" basis and deal with claimants from anywhere in Great Britain. For example, DWP operates its 32 Great Britain contact centres as a single virtual network (this is one of the largest virtual networks in Europe). There are several advantages to this approach:

- the physical scale means that it is viable to invest in the latest technology;
- it can be more efficient in terms of service and cost than a geographic network, giving better service at lower cost;
- there is more service cover for loss of individual sites due to local issues, such as flooding or fire, as well as more flexibility to deal with service changes or sudden demand peaks; and
- outsourcing contracts are consolidated to get a better price.

5.4 Some DWP offices located in Scotland do not exclusively deliver to Scottish customers and claimants: for example, Dundee Pension Centre serves a customer base across the North and East of Scotland, Highlands and Islands and central England, including Leeds, Sheffield and Doncaster. It has a case load in excess of 1.7 million – 300,000 Pension Credit claims and nearly 1.5 million State Pension claims – and employs over 450 staff.

5.5 As well as Scottish centres delivering to claimants in England and Wales, there are benefits and services which are currently delivered only from England and Wales to Scottish claimants, such as Attendance Allowance, Industrial Injury Disablement Benefits, Maternity Allowance, Carer's Allowance and Bereavement Benefits.

5.6 Delivery of DWP services is also supported by corporate centre functions such as change, IT, finance and commercial, human resources, professional services, strategy, policy and analytical services. These teams are primarily based in 12 main "hub" locations in England. An independent Scottish state would need to consider how it would provide such services and build the necessary expertise in, for example, social security policy development and delivery.

174 Corporate hubs are sites from which a range of support services including strategy, policy development, finance and commercial services and human resources are delivered.

5.7 Tax credits and Child Benefit are administered by HMRC. Tax credits processing is based in a number of locations across the UK, including Glasgow and Dundee. HMRC contact centre staff, including those based in Scotland, deal with tax credits queries. Child Benefit claims are processed in Washington, Tyne and Wear, for the whole of the UK.

Current DWP expenditure – driving efficiency

5.8 Table 5C shows the size of DWP's planned expenditure, split into money spent on administration, programmes, and capital (for instance new buildings and equipment).

5.9 The current administrative system generates economies of scale for Scotland and the rest of the UK, to drive down cost and drive up efficiency – for example, through pooling of development costs for IT systems and the smoothing of peaks and troughs of work in a high transaction business. This helps provide efficiencies that are passed on to the taxpayer and the customers and claimants of DWP.

5.10 Any separation of the current departmental structures would mean that some of this advantage is lost. Both an independent Scottish state and the continuing UK would need to consider how to disengage from current service contracts and the apportionment of the resulting costs. See paragraphs 5.29 to 5.33.

Table 5C DWP administrative spending allocation for 2011/12 to 2014/15

£ billion	2011/12	2012/13	2013/14	2014/15
Total departmental expenditure allocation	7.8	7.5	8.0	7.7
Administration spending	1.3	0.9	1.1	1.1
Programme spending	6.2	6.2	6.5	6.3
Capital spending	0.3	0.4	0.4	0.2

Source: 2013 refresh of the Departmental Business Plan for 2011-15.[175]

5.11 During 2012/13, DWP:

- employed 92,530 staff;[176] and had an average staff cost of £28,395 including 10,318 staff in Scotland with an average staff cost of £25,850.[177, 178] (HMRC employed 690 staff processing Child Benefit and 3,450 staff processing tax credits);[179, 180] and

[175] *DWP Departmental expenditure 2013/14*. Available at transparency.number10.gov.uk/assets/client/pdf/dwp-expenditure.pdf.
[176] *DWP staff numbers and associated costs March 2013*. Available at www.gov.uk/government/publications/dwp-staff-numbers-and-associated-costs-march-2013.
[177] Data from the DWP personnel computer at 30 March 2013.
[178] Average salary costs include employers pension contributions and employers national insurance contributions (ERNIC).
[179] Internal HMRC data received from Benefits and Credits Finance and Performance on 15/01/2014.
[180] Staffing numbers are full-time equivalents.

- had a total estate of over 1.5 million square metres with running costs amounting to £615 million[181] equating to a cost of £6,647 per full-time equivalent. Sites in Scotland occupied around 192,000 square metres, costing £70.5 million.[182] An average cost of £6,833 per full-time equivalent.

Establishing a new social security system

5.12 As explained in *Scotland analysis: Devolution and the implications of Scottish independence*, in the event of a vote for independence,[183] in the eyes of the world and in law, Scotland would become an entirely new state, separate from the UK. There would be no change to the present arrangements in England, Wales and Northern Ireland, but an independent Scottish state would need to establish its own employment support mechanism, benefits and tax credits system and pensions framework as part of forming a new independent state.

5.13 The Scottish Government's Expert Working Group on Welfare[184] was asked to look at the costs and delivery of the welfare system at the point of independence and to take evidence on early priorities for policy change. Its first report was published in June 2013. The current Scottish Government accepted the Group's recommendation that a transitional period of shared administration for delivery of benefit payments would be necessary, subject to a number of conditions.

Sharing systems and services

5.14 It is highly unlikely that the UK would agree to share its delivery service as it is hard to see how this would be beneficial to the continuing UK. However, any arrangements would need to be agreed between both Governments and the UK Government would focus on the needs of its own citizens and maintaining its effective, efficient and robust system delivering UK Government policies, and the continuation of the delivery of its programme of reform.

5.15 Sharing services would mean that an independent Scottish state would not be able to make changes to existing social security policy or processes or to opt out of Great Britain-wide reforms. Doing so would require the prioritisation of changes desired by the government of an independent Scottish state over the needs of the UK Government. This would not be in the interests of the government of the continuing UK. For example, the current Scottish Government has said that it would "*review the application process to make it simpler*".[185] But this is unlikely to be possible during any transition period – or beyond – if it were to share the UK Government's systems, as the application process is directly linked to IT systems and the way DWP delivers its services. Dr Nicola McEwen (Economic and Social Research Council fellow, University of Edinburgh) explains the issue clearly:

---

181 *DWP Estates efficiency review.*

182 *DWP Estate Charging Database 12/13* P12 v3 plus actual Non-PRIME estate costs.

183 *Scotland analysis: Devolution and the implications of Scottish independence*, HM Government, February 2013. Available at www.gov.uk/government/publications/scotland-analysis-devolution-and-the-implications-of-scottish-independence.

184 Information from the Scottish Government's Expert working group on welfare is available at www.scotland.gov.uk/Topics/People/welfarereform/EXPERTWORKINGGROUPONWELFARE.

185 *Scotland's Future: Your guide to an independent Scotland*, Scottish Government, 2013, page 423, question 156. Available at www.scotreferendum.com/reports/scotlands-future-your-guide-to-an-independent-scotland/.

> *"Put simply, the greater the interdependencies and continuities, the less scope there is for doing things differently. Social security may be delivered across the UK, but the system itself is deeply integrated. Corporate functions and IT systems are managed centrally. Service delivery is dependent upon an integrated payment and accounting system run by the UK DWP. This core engine at the heart of the system calculates benefit entitlements based upon a UK policy framework. Such a system can accommodate relatively minor modifications, as in Northern Ireland. Social security is devolved in Northern Ireland, but it conforms closely to the system designed for the rest of the UK." and "In practical terms, it would be extremely difficult to share the administration and delivery of services in the context of markedly different entitlements north and south of the Border."*[186]

5.16 In addition, although UK Social Security IT systems are able to make payments in a foreign currency, for example the euro or US dollar, assessment of benefits and entitlements is based on pounds sterling. Fluctuating exchange rates would inevitably mean frequent reassessments for many claimants. For example, to take account of increases or decreases in the value of income for means-tested benefits. Changing IT systems to assess social security benefits in a currency other than the pound sterling would be likely to be expensive and complex, putting at risk continuity of payments to people in the continuing UK. As previously discussed, the UK Government would not be prepared to do anything to put at risk the continuity of payments to people in the continuing UK , nor would it be prepared to incur significant costs to change IT systems to cater for changes that an independent Scottish state required. So if an independent Scottish state did not use sterling as its currency, it would not be possible to share a benefit system, even for a transitional period.

Building a new benefit system

5.17 Building a new benefit system and supporting infrastructure would be a major challenge for an independent Scottish state requiring expertise, substantial upfront investment and a lengthy lead-in time while the system is designed, built and tested. Before this work could start it would require the development of the supporting policies, appropriate consultation and passage of the enabling legislation. The current Scottish Government says it would want to be able to make priority changes immediately. Based on DWP's experience of developing and introducing large and complex IT systems it does not seem likely that this would be achievable within the current Scottish Government's stated 18-month timeframe for an independent Scottish state to be established.

5.18 If an independent Scottish state pursued different social security policies it would be necessary for it to build a separate policy development and service delivery infrastructure. The scale of this challenge should not be underestimated. The benefits and pensions system is complex, in terms of the legislation and policy drivers underpinning it, and the interaction between benefits and the need to ensure that there are incentives to work and save. And as illustrated earlier in this chapter the delivery of services is on a massive scale by any standards, both in terms of the scope of services offered and the number of transactions.

---

[186] *SNP must set out their welfare vision*, The Scotsman, 12 June 2013. Available at www.scotsman.com/news/nicola-mcewen-snp-must-set-out-their-welfare-vision-1-2963031.

5.19 The current benefit system in the UK relies on large, complex IT systems to store and process data, as well as a range of smaller applications and web-based services to support interactions with customers. Building infrastructure to deliver benefits in an independent Scottish state would require considerable expertise and experience in this area and additional investment by the government of an independent Scottish state.

5.20 An independent Scottish state would need to quickly develop or procure the expertise to deliver and manage large-scale projects of this nature, and ensure that continuity of service was maintained while these changes took place. The difficulty of such wide-scale change should not be underestimated. This is the reason why the UK Government introduces reforms on a gradual scale over a long period, with lessons being learnt as implementation goes along, rather than as a "big bang". Making changes which require significant IT development and/or changes in claimant and staff behaviour, and doing it effectively, is often measured in many years and not just months.

5.21 Migration of data on existing customers would represent a significant undertaking for both the continuing UK and an independent Scottish state, again at a time when DWP will be delivering major reforms. Developing an entirely separate system would involve a more fundamental disentangling of data, with associated costs.

Implications of separation for claimants

5.22 DWP provides a range of support which, in many cases, claimants are entirely reliant on, such as income-replacement benefits. Any delay or break in payment could have serious consequences for those individuals. Ensuring continuity and the resilience of the system should be the key consideration for an independent Scottish state in any transition plan if Scotland voted for independence.

5.23 An independent Scottish state would need to make key decisions about the design and structure of a system that provides support for those who need it while maintaining incentives to work. It would also need to decide how to manage the services that underpin this support, and fund those decisions. Scotland, along with the other parts of the UK, currently benefits from established services and contracts. Disentangling current services and contracts, and then replicating them in an independent Scottish state would be difficult and expensive. Issues such as ownership of, and access to, historical claimant records, and responsibility for pensioners abroad would need to be negotiated and addressed.

5.24 The UK Government knows how difficult it is to deliver major reform programmes. That is why DWP has taken an iterative approach to, for example, delivering Universal Credit, ensuring that systems are tested fully before they are rolled out more widely. Taking a similar approach to introducing new delivery systems and structures in Scotland would limit the risk to existing claimants and customers, but would mean longer-term limitations on an independent Scottish state's ability to quickly and significantly diverge from Great Britain-wide policies.

5.25 An independent Scottish state would need to carefully consider the trade-off between the competing needs to secure a safe transition and pursuing their own policy objectives.

Organisational implications of separation

5.26 Expenditure on benefits, pensions and tax credits in the UK in 2012/13 was almost £209 billion. This includes £17.7 billion in Scotland.[187] DWP spent £7.4 billion[188] in 2012/13 on the supporting operating costs, £720 million of which was in Scotland.[189] Separation of the system would require substantial reorganisation. As highlighted above, this would need to be handled and sequenced carefully to ensure both continuity of payment/service to claimants and no impact on the significant programme of welfare reform that DWP is currently delivering.

5.27 In addition, this reorganisation would have implications for staffing levels in both DWP and HMRC. For example, around 11 per cent of DWP staff were based in Scotland on 31 March 2013,[190] compared to around nine per cent of claimants.[191]

5.28 For the services currently delivered solely from England and Wales (for example, Industrial Injuries Disablement Benefit), neither the infrastructure nor the expertise currently exists for these services to be delivered locally in Scotland. An independent Scottish state would therefore need to consider how to deliver such services to claimants in an independent Scottish state.

Cost implications of separation

5.29 There are inherent risks and costs associated with creating a new social security system within the current Scottish Government's proposed 18 month timescale for priority changes. These vary depending on the approach taken. It is likely any approach would present significant risks and costs due to potential early termination fees for existing contracts[192] and legal costs for both the continuing UK and an independent Scottish state. An independent Scottish state would also need to consider how to meet costs incurred during the transition process (for example, migrating or replicating data where separation was not possible from one system to another and the relocation of staff).

---

[187] See Chapter 2, Table 2B.

[188] *DWP Annual Report and Accounts 2012/13*, HM Government December 2013. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/264555/dwp-annual-report-accounts-2012-2013.pdf.

[189] Calculation based on the actual cost of delivering services to Scottish people in Scotland or where not available the assumed proportionate cost of delivering for Scotland.

[190] See Paragraph 5.11 for staff numbers.

[191] See Chapter 2, Table 2B for claimant numbers.

[192] DWP and HMRC have a wide range of contracts with numerous suppliers covering for example IT infrastructure, estates or medical services.

5.30 There would be significant upfront costs to building new IT and digital systems to handle customer contact and benefit processing, which would need to be funded. Contracts would need to be let and suppliers allowed sufficient time to mobilise, with long lead in times likely to acquire estates and set up the appropriate IT infrastructure. Building and running a new system (or, more likely, multiple systems) to support a comprehensive social security system of employment, pensioner and disability benefits would cost hundreds of millions of pounds and limit the extent to which people in Scotland could benefit from investments already made in existing UK-wide systems.

5.31 To give a sense of scale, DWP spent £7.4 billion[193] in 2012/13 on the supporting operating costs, £720 million of which was in Scotland.[194] While one off costs for developing a new IT system are estimated to be between £300 million and £400 million.[195] On top of this there would be costs to develop new policy and pass legislation and for exiting existing contracts. Total costs would be subject to the commercial approach taken but they would be due to:

- terminating or amending existing contracts;
- negotiating new contracts;
- developing new IT systems;
- annual running costs; and
- impacts on any subsequent business change initiatives.

5.32 Any large-scale transactional organisation relies on enabling functions such as commercial, procurement, legal services,[196] and IT support. Currently, DWP provides these functions centrally, and the UK Government is looking to share more services across departments to generate further efficiencies. An independent Scottish state would have to fund these services separately, losing the economies of scale generated from sharing corporate functions.

5.33 An entirely separate Scottish delivery organisation would lose the advantages of potential economies of scale offered by the current system. Under the current approach, for example, work can be moved around the DWP network to smooth peaks and troughs where necessary to provide the best and most efficient service.

---

[193] *DWP Annual Report and Accounts 2012/13*, HM Government December 2013. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/264555/dwp-annual-report-accounts-2012-2013.pdf.

[194] Calculation based on the actual cost of delivering services to Scottish people in Scotland or where not available the assumed proportionate cost of delivering for Scotland.

[195] Estimated IT costs are based on extracting all Scottish cases from existing UK systems, transferring them to an alternative infrastructure and agreeing new contracts. The bulk of the costs would depend on the benefits system that an independent Scottish state introduced and the IT systems chosen. An element has also been included for consequential changes.

[196] The legal services referred to here does not include the legal advice, drafting and litigation services provided to the UK Government in relation to Scotland by the Office of the Advocate General for Scotland.

Fraud and error

5.34 DWP paid out over £166 billion in benefits and pensions (excluding tax credits and Child Benefit) to over 22 million people in 2012/13, of which an estimated £3.5 billion was lost to fraud and error.[197] This is a significant sum and the UK Government has invested heavily in reducing this with the joint DWP and HMRC strategy, published in 2010. Fraud and error matter because, although the amount lost to fraud is less than one per cent of the total benefit bill, the public perceives any loss of this kind to be unacceptable and it has the potential to adversely affect confidence in the security and integrity of the social security system.

5.35 Fraud and error services are currently provided both at a local level and through teams based in different parts of Great Britain, but covering all its parts. For example, Benefit Integrity Centres based in Ramsgate, Ilford and Newcastle carry out regular checks on whether the circumstances of claimants living anywhere in Great Britain have changed and their claims remain correct. The Fraud Investigation Service currently has a Great Britain-wide team conducting data exchange, research and development, and analysis of intelligence based in Glasgow. The location of this work would need to be reviewed in the event of a vote for independence.

5.36 In practical terms, the ability of fraud and error services to pool intelligence, to conduct complex investigations (particularly into organised and large-scale fraud) and to work across organisational boundaries with the police, employers, immigration authorities, banks and other financial institutions is best served by operating as a single organisation under a single set of social security laws.

Conclusion

5.37 It is impossible to say for certain what would happen to existing systems and structures in the event of independence. Any agreement to share systems would be subject to negotiation, and if any agreement was reached, given the integrated nature of systems and structures, an independent Scottish state would not be able to make changes to existing social security policy or processes or to opt out of Great Britain-wide reforms during a transitional period.

5.38 The separation of the structures which deliver benefits and credits across Great Britain would be difficult, costly, would take a considerable period of time and would inevitably have a wide range of impacts on claimants, employers and staff based in Scotland.

5.39 If an independent Scottish state wanted to make changes to existing social security policy or processes or to opt out of Great Britain-wide reforms it would have to set up its own systems and services. Unpicking the complex and integrated infrastructure to pay benefits would incur costs to set up new systems and there may also be higher running costs given the loss of economies of scale.

---

[197] *Fraud and error in the benefit system 2012/13 estimates*, Office for National Statistics, January 2014. Available at www.gov.uk/government/publications/fraud-and-error-in-the-benefit-system-201213-estimates.

5.40 Ensuring continuity and the resilience of the system should be the key consideration for an independent Scottish state in any transition plan if Scotland voted for independence.

5.41 Separation would lead to potentially high early termination fees of existing contracts and legal costs for both the continuing UK and an independent Scottish state.

Annex A – Social security benefits, devolution and freedom to deliver

Key income replacement benefits

Jobseeker's Allowance

A.1 Jobseeker's Allowance is a taxable benefit with both means-tested and contributory components designed to meet the day-to-day living costs of individuals and joint claimants during periods of unemployment. Entitlement is conditional on actively seeking employment and taking sufficient steps towards work.

Income Support

A.2 Income Support is a non-taxable benefit, intended to meet the day-to-day living costs of certain groups of working-age claimants who are not normally required to be available for work. It is a means-tested benefit, so any other household income or savings are taken into account in deciding entitlement. The main claimant groups eligible for Income Support are carers and lone parents.

Employment and Support Allowance

A.3 Employment and Support Allowance was introduced in 2008 and is an income-replacement benefit for working-age people with a health problem or disability. To qualify for Employment and Support Allowance a claimant must have limited capability for work; established initially by a medical certificate, but then by them attending a Work Capability Assessment, a functional assessment which looks at an individual's capability for work, taking into account developments in healthcare and the modern workplace. It assesses claimants against a list of activities covering physical as well as mental, intellectual and cognitive functions.

Housing benefits

A.4 Housing benefits are available to help people (whether unemployed or working) pay their rent if they are on a low income. Payments can cover all or part of the rent depending on income and circumstances.

A.5 Support for mortgage interest is intended to protect owner-occupier claimants against repossession, as far as is possible. It makes a contribution towards their housing costs and is paid as part of Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance and Pension Credit.

Support for those in work and for children

Tax credits

A.6 Tax credits are made up of the Child Tax Credit and the Working Tax Credit. They provide a system of support to low-income families and help make work pay (but there is no specific "worksearch" requirement attached to them). The Child Tax Credit brings together income-related support for children and for 16 to 19 year olds in education or approved training into a single tax credit, payable to the main carer. Families can claim whether or not the adults are in work.

A.7 Working Tax Credit provides in-work support for low income people, with or without children. There are extra amounts for working households in which someone has a disability, and the costs of qualifying childcare. The childcare element is paid directly to the main carer of the children.

Child Benefit

A.8 Child Benefit is a payment in recognition of the additional cost of bringing up a child. It is paid for all children up until the age of 16 and certain qualifying young persons who remain in non-advanced education or approved training up to the age of 20. The payment can be claimed by anyone who qualifies, whatever their income or savings.

A.9 People are liable to the High Income Child Benefit charge if they, or their partner, have an individual income of more than £50,000 and one of them is paid Child Benefit. They are still liable to the charge if the child lives with them, but someone else is paid Child Benefit for that child.

Devolution

Social security in Northern Ireland

A.10 Although social security in Northern Ireland is fully devolved, Northern Ireland has historically chosen to maintain essentially the same system and to adopt what is known as the parity principle.

A.11 The parity principle is based on the fact that as people throughout the UK pay consistent rates of National Insurance contributions and non-devolved taxation, they should also be entitled to consistent rights and benefits.

A.12 The principle of parity with respect to social security benefits is reflected in Section 87 of the Northern Ireland Act 1998 which requires the Minister for Social Development and the Secretary of State for Work and Pensions to consult with one another in order to ensure that relevant legislation achieves, as far as possible, a single system of social security, child support and pensions across the UK. The 1998 Act states that "The Secretary of State and the Northern Ireland Minister having responsibility for social security ("the Northern Ireland Minister") shall from time to time consult with one another with a view to securing that, to the extent agreed between them, the legislation to which this section applies provides single systems of social security, child support and pensions for the United Kingdom."

A.13 Historically the long-standing policy of parity in social security between Great Britain and Northern Ireland has been made possible by significant funding transfers known as "subventions" in the form of annually managed expenditure from the UK Tax and National Insurance Funds to Northern Ireland.

A.14 However, there are also strong, practical and administrative reasons why social security benefits are, and should continue to be, broadly aligned throughout the UK, and are best operated on a common basis:

- entitlement to many benefits is transferable throughout the UK. For all practical purposes, actions, evidence and decisions made in one part of the UK are accepted in another part of the UK; and
- services are delivered more efficiently and effectively at national level, and there are economies of scale in sharing the IT infrastructure used to calculate and pay consistent levels of benefits.

Examples of freedom to deliver services

Universal Credit – Local Support Service Framework

A.15 For Universal Credit claimants the UK Government has set out in its Local Support Service Framework, a high-level approach to:

- building local delivery partnerships for the provision of localised claimant support to people who need extra help to make or maintain a claim for Universal Credit, and prepare for work;
- providing funding to cover the incremental costs of supporting the transition to Universal Credit; and
- incentivise local partners, working together, to help claimants move towards self-sufficiency and independence.

Social Fund reform and introduction of local provision

A.16 The UK Government believes in devolution where it is appropriate and, in line with the recommendations made by the Calman Commission on Scottish devolution,[198] has reformed the Social Fund; abolishing some of the discretionary elements and devolving the funding for them.

[198] *Serving Scotland Better: Scotland and the United Kingdom in the 21st century*, the Commission on Scottish devolution, June 2009. Available at www.commissiononscottishdevolution.org.uk/.

A.17 The discretionary elements of the Social Fund were complex, over-centralised and poorly targeted. The UK Government therefore devolved funding for a new local provision to ensure that support goes to those most in need, believing that the governments of Scotland and Wales and local authorities in England:

- are best placed to deliver this support, and have the local knowledge to ensure this money goes to those most in need;
- will have the flexibility to better join up with their existing services and provide a more comprehensive service; and
- should be given the freedom to set their own eligibility criteria, to enable them to tailor the new provision to their local area.

A.18 The Scottish Government has introduced the Scottish Welfare Fund. The Scottish Welfare Fund is a Scotland-wide, centrally-driven scheme delivered through Scottish local authorities. The intention is to allow for a more holistic approach than was possible with the previous UK-wide Social Fund call centre provision, for example, linking to services which may build capacity, such as offering budgeting or other money advice, or encouraging saving. Rather than fully devolving powers to Scottish local authorities the Scottish Government has decided to do this through a framework of set guidelines, a Scotland-wide application form and central allocation of funds to local authorities. The scheme replicates many aspects of the abolished Social Fund scheme, with Crisis Grants available in an emergency when there is an immediate threat to health and safety; and Community Care Grants available to enable independent living or continued independent living, preventing the need for institutional care. Local authorities can link the service to other local service provision if they wish.

A.19 English local authorities on the other hand have the freedom to design their own types of support and build social capital. For example, alongside providing support to individuals facing unavoidable need, they are helping existing support providers to expand their current organisations, enabling them to reach out and help a wider range of people. By using local projects they are achieving the wider ambition of social inclusion, including supporting people into work, budget management and signposting to other support networks.

Annex B: Population and spending projections

B.1 This annex provides more information on the assumptions used in the population and spending projections underpinning the analysis in this paper.

Population projections

B.2 Population projections used are mainly the Office for National Statistics 2012-based projections. These projections rest on three sets of key assumptions – migration, fertility (births) and mortality (deaths).

Migration

B.3 Over the next 15 years net migration is the main uncertainty affecting the old age support ratio, since everyone entering the working-age population during that period will already have been born, and mortality trends tend to change very slowly. Migration, by contrast, can change very rapidly and has many different influences, including events happening elsewhere in the world. By their nature, migration assumptions cannot predict all the different things affecting future migration, and their impact, so they are necessarily stylised assumptions, and apart from the immediate future, are usually constant throughout the projection period.

B.4 Migration then feeds through into births, as inward migrants tend to be younger working-age people, increasing the pool of people likely to have children, and also have higher birth rates than the UK born population, at least currently. In contrast, outward migrants tend to be older, and more likely to be beyond child bearing age, so even if inward and outward migration is in balance, there can be an impact on births.

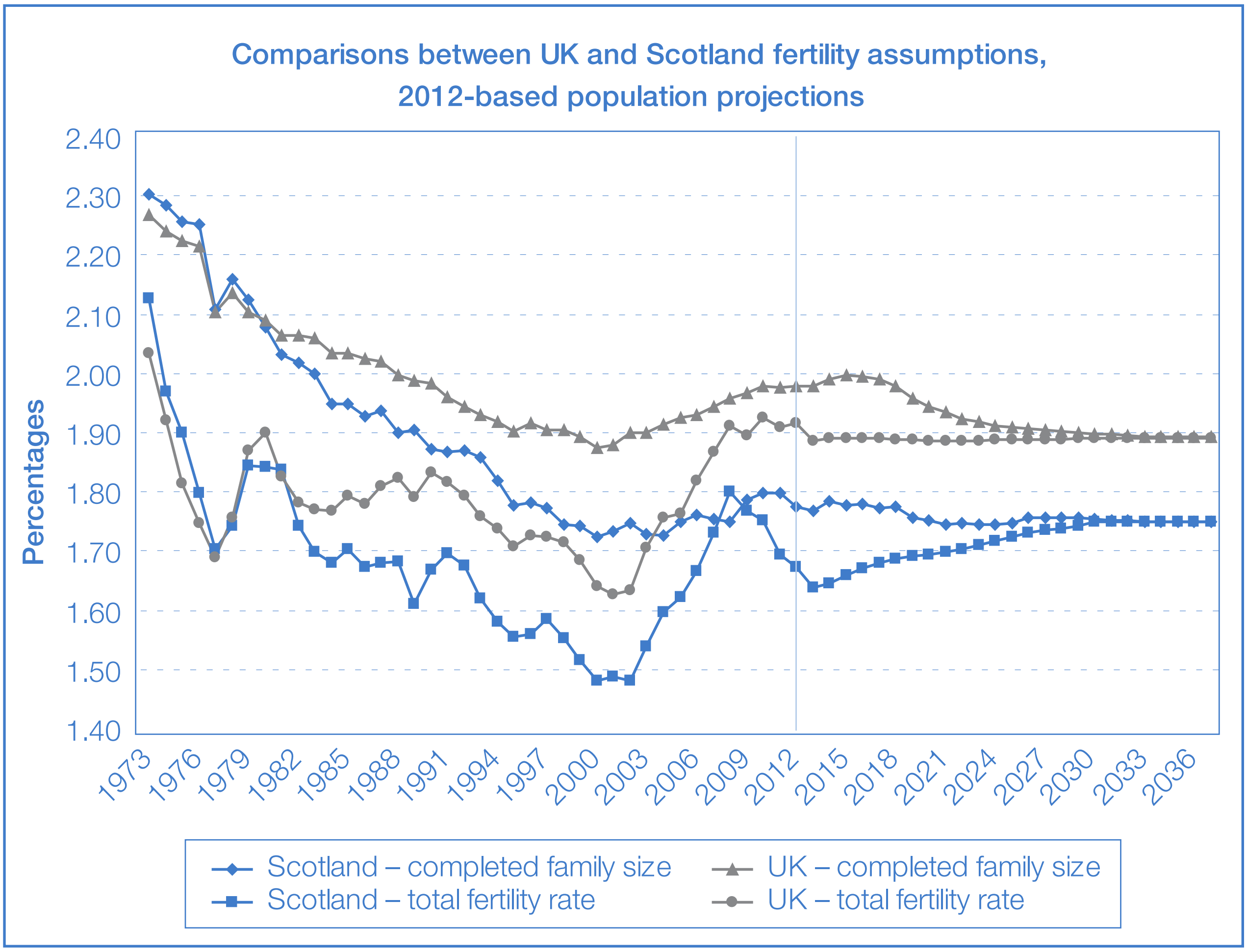
B.5 Given this uncertainty it is important to consider the different migration variants of the population projections: the Office for Budget Responsibility has used in their assessments of fiscal sustainability the Office for National Statistics "low" migration projection for the UK rather than the principal projection, on the grounds that it better reflects the likely direction of current UK migration policy, although in its sensitivity analysis, the Office for Budget Responsibility also publish a projection assuming high migration (with net inward migration that is 120,000 per year higher for the UK). The Office for National Statistics principal projection is mid-way between the two.

B.6 Two other important considerations apply when looking at projections for Scotland compared to the UK. Firstly, migration into and out of Scotland will include a significant element of intra-UK migration. Secondly, it is possible to have different combinations of net migration for Scotland and the UK – so, for example, low net migration to the UK, which would be entirely international, can be consistent with high net migration to Scotland, which will include intra-UK migration. Or vice versa.

Fertility

B.7 In the longer-term, fertility matters more for the overall sustainability of the pensions system, as it contributes most to the numbers of people entering the labour market 20 or more years into the future. Chart B.1 shows historic and projected fertility for the UK and Scotland that underpins the Office for National Statistics principal projections.

Chart B.1 Fertility rates in Scotland and the United Kingdom



B.8 Chart B.1 shows two different measures:

- **Completed family size**: The average number of children women have had by the time they have completed their childbearing, which is assumed by the Office for National Statistics to be the day they reach age 46; and
- **Total fertility rate**: The number of births per year to all women of childbearing age (assumed by Office for National Statistics to be ages 15 to 45 inclusive).

B.9 The comparative trends between Scotland and the UK are broadly similar across the two different measures, but a few key points stand out:

- the decline in fertility rates during the 1970s was broadly similar in both Scotland and the UK overall, but diverged during the 1980s, with the continued fall in fertility throughout the 1980s and 1990s being larger in Scotland than in the UK;
- during the 2000s the total fertility rate for Scotland and the UK increased substantially, and in the UK has flattened off since 2008. By contrast, there has been a significant fall in Scotland over the past five years;
- completed family size in Scotland has been broadly constant since the mid-1990s, but has risen in the UK overall; and
- the assumptions on future fertility, when compared to the historic data, appear quite different for Scotland and the UK. UK assumptions maintain the total fertility rate at recent levels, with the completed family size measure declining from around 2015 onwards. By contrast, the Scotland fertility assumptions show a substantial rise in the total fertility rate, and a broadly stable completed family size.

B.10 Therefore, the fertility projections appear more generous to Scotland than the UK, meaning there is a potentially greater downside risk on fertility for Scotland than the UK overall, based on history over the past few decades.

Mortality

B.11 Mortality rates have a direct impact on the number of pensioners. Whilst there is always some degree of future uncertainty, trends in mortality change relatively slowly and have been reasonably well predicted for the past few years. Future variations in mortality rates from those that are currently expected will be reflected in changes to State Pension age, as proposed by the UK Government, and therefore should automatically be compensated for through this mechanism, ensuring the sustainability of the pensions system is preserved.

B.12 Scotland has higher mortality rates than the rest of the UK, and hence has lower life expectancy, although there is also significant variation in life expectancy between areas within Scotland. This does not necessarily mean the demographic outlook for Scotland is more favourable than that for the UK, as it also depends on the relative sizes of the working-age and pensioner populations, and the future trends in these. The Office for National Statistics projections assume the differences in life expectancy between Scotland and the UK remain broadly constant over the next 25 years and beyond, which means that life expectancy rises by more in percentage terms in Scotland than in the UK, particularly life expectancy at age 65, which is most relevant for the growth in the pensioner population.

B.13 The Office for National Statistics projections assume that the speed of decline in mortality rates reaches a steady state after 25 years; at present mortality rates are declining more quickly than this. Given the uncertainty of future changes in mortality rates, Office for National Statistics also include variant assumptions where mortality rates continue to decline at their current pace, and where mortality rates become constant after 25 years, meaning that life expectancy no longer increases after this point. All these assumptions are stylised – there are many factors likely to affect future mortality, some decreasing it (such as the impact of past reductions in smoking), and some potentially increasing it (such as the increase in obesity in the population). Even if mortality rates decline at a slower pace, or not at all, in future, the point at which this happens is equally uncertain, and the 25 years used by the Office for National Statistics is illustrative.

B.14 These alternative mortality assumptions have large impacts on the projected number of pensioners and illustrate how much potential uncertainty could exist for future numbers of pensioners, in both the UK and in Scotland. It is also possible that future numbers of pensioners lie outside these limits. With Scotland having lower life expectancy than the rest of the UK, progress in reducing this differential would inevitably mean that mortality rates would fall by more in Scotland than in the UK, adding to the pressures of an ageing population in Scotland.

Spending projections

B.15 DWP has not previously produced social security spending projections for Scotland as its remit covers Great Britain and there has not previously been any requirement for these. Similarly, projections of Child Benefit and tax credits are produced at a UK level, reflecting HMRC's geographical coverage.

B.16 Spending projections for Scotland have therefore been produced specifically for this paper. They, and those for the UK, are based on five main sources:

- The Office for Budget Responsibility's 2013 *Fiscal Sustainability Report*;
- The Office for National Statistics 2012-based population projections;
- TThe Office for Budget Responsibility's *Economic and fiscal outlook*. Expenditure forecasts based on Autumn Statement 2013;
- Out-turn data on expenditure in Great Britain, Northern Ireland and Scotland, produced by DWP, HMRC and the Northern Ireland Department for Social Development; and
- DWP Work and Pensions Longitudinal study data on various benefits, particularly by age, gender and country.

B.17 UK expenditure projections use the Office for Budget Responsibility's *Fiscal Sustainability Report*, then update this to take account of the 2012-based Office for National Statistics population projections, and align the resulting projections to the Autumn Statement forecasts – so that the medium-term changes in forecast expenditure (up to 2018/19) detailed in the Autumn Statement are reflected in the long-term projections of spending.

B.18 Scotland projections are derived from this by using out-turn data on expenditure on different benefits by age and gender, determining the amount of expenditure per head in Scotland compared to Great Britain,[199] and assuming any differential for each age/gender remains constant throughout the projection period. The out-turn data is usually for 2012/13, and this statistical data is also used to assess how much of total spending in Great Britain is attributable to people resident in Scotland. For some benefits and tax credits the level of detail available may be less, so the projection may be produced at a higher level: for example, the Child Benefit projection for Scotland takes account of the number of children in aggregate, using those to project forward the relative spending per child seen in 2012/13.

B.19 This approach therefore takes account of different demographic trends in Scotland compared to Great Britain, but assumes any other differences in spending per head seen in 2012/13 continue throughout the projection period. Given the relative trends in Scotland compared to Great Britain seen over the past three years, this simplifying assumption appears reasonable. Similarly, analysis assumes that future policy changes have an equal impact in Scotland as in the UK overall, after taking account of demographic differences.

Presentation of projections

B.20 The projections are produced in nominal terms, including the effect of general inflation, and are also converted to real terms, which takes out the inflation effect. However, such figures are not meaningful for making comparisons between Scotland and the UK over such a long period, so two other changes are made:

- they are expressed per head of working-age population – this reflects the fact that Scotland's population is less than one-tenth of the UK's, and the fact that the majority of taxes funding social security spending will be paid for by working-age people. The differences in spending per working-age person are calculated; and
- they are converted to "today's terms". Over a 20 or 50-year period even taking out the effect of inflation gives a misleading impression of future challenges – overstating them when it can reasonably be expected that living standards will have risen significantly over such a period. Therefore, the differences in spending between Scotland and the UK are expressed as a percentage of UK spending, and then that percentage is applied to the differences seen in 2012/13.

199 DWP's projections cover Great Britain only, but a similar method is used to convert these projections to those for the UK, except that these take account of Northern Ireland-specific forecasts included in the *Autumn Statement* forecast.

Annex C: Timeline of Welfare Reform

This Welfare Reform timeline shows when the individual elements of the programme were introduced or when they will be.

1 April 2013

Social Fund reform
Parts of the discretionary Social Fund (Crisis Loans and Community Care Grants) were abolished. New local provision has been introduced, delivered by local authorities in England and under arrangements made by the Scottish and Welsh Governments. Interim payments and Crisis Loans for alignment were replaced by Short Term Benefit Advances (administered by DWP). Budgeting Loans are gradually being replaced by Budgeting Advances as Universal Credit is introduced. Budgeting Loans continue for existing income-related benefit recipients. The regulated Social Fund (Maternity, Funeral, Cold Weather and Winter Fuel Payments) continues.

Job Grant withdrawal
Job Grant payments ended. Job Grant was one of the job entry payments phased out in advance of the introduction of Universal Credit.

Fraud sanctions
Increased period of benefit lost if convicted of fraud – 13 weeks for a first offence, then for repeat offenders 26 weeks for a second offence where this results in a conviction and three years for a third offence where this results in a conviction. An immediate three-year loss of benefit for serious or organised benefit fraud or identity fraud.

Housing Benefit/Local Housing Allowance
Increases in Local Housing Allowance rates restricted to the Consumer Prices Index – in line with other benefit rates. This enables greater control over the growth of Housing Benefit in the private rented sector and ensures future support for claimants will be kept at a more reasonable and realistic level. Housing Benefit rates for working-age tenants in the social rented sector take account of whether the property is a reasonable size for its occupants, ensuring the taxpayer is not paying for bigger homes than people need.

8 April 2013

Personal Independence Payment controlled start

Personal Independence Payment began to replace Disability Living Allowance for working-age people. This non means-tested benefit helps with extra costs that people with disabilities incur. Personal Independence Payment involves a fairer assessment of individuals' needs, with a face-to-face consultation for most claimants, and more active reviews of entitlement rather than many people receiving lifetime awards. Disability Living Allowance continues for children and those 65 and over.

Appeals reform

Changes aim to improve the disputes and appeals process to ensure that more appeals against benefit entitlement decisions are resolved at the earliest opportunity within DWP, and in doing so reduce the number of unnecessary appeals being referred to Her Majesty's Courts and Tribunals Service. Claimants are encouraged to provide all appropriate evidence when they first make a claim, rather than later in the process. This helps DWP ensure the decision is "right first time".

The key changes are:

- mandatory reconsideration of decisions prior to appeal, where the claimant must give DWP the opportunity to reconsider its decision before the claimant is able to lodge an appeal with Her Majesty's Courts and Tribunals Service; and
- direct lodgement of appeals directly with Her Majesty's Courts and Tribunals Services and not DWP, if the claimant continues to dispute the decision following a mandatory reconsideration.

DWP has 28 calendar days to provide an appeal response in benefits cases, and 42 days in child maintenance cases. These changes were introduced for Personal Independence Payment and Universal Credit in April 2013.

15 April 2013

Benefit Cap – rollout began in Bromley, Croydon, Enfield and Haringey

A cap on the amount of benefits a household may receive so that these are in line with average weekly earnings (£500 per week for couple and lone parent households and £350 per week for single households at time of introduction).

The benefit cap does not apply to those entitled to Working Tax Credit, all households in which somebody, including a child, is receiving Disability Living Allowance, Attendance Allowance, Personal Independence Payment or Constant Attendance Allowance, the support component of Employment Support Allowance; as well as war widows and widowers. There is a grace period of 39 weeks when the cap will not apply for people who have been in work for 52 weeks or more before they claim benefit.

29 April 2013

Universal Credit Pathfinder began

Trials for Universal Credit began early in the Greater Manchester and Cheshire area. Ashton-under-Lyne was the first Jobcentre to accept claims for Universal Credit from 29 April 2013. Wigan, Warrington and Oldham Jobcentres were the first to trial the new Claimant Commitment and took claims for Universal Credit beginning in July 2013, informed by the early testing in Ashton-under-Lyne. Bolton and Glasgow Service Centres provide telephony support to claimants when they need it – including help to get on-line and processing support.

3 June 2013

Post-Work Programme support

The first claimants returning to Jobcentres for help and support after spending two years on the Work Programme, those Jobseeker's Allowance claimants with more complex needs will receive intensive support, known as the mandatory intervention regime.

10 June 2013

Personal Independence Payment new claims – national rollout

Following the controlled start, Personal Independence Payment was introduced for all new claims across the UK. DLA is no longer available for claimants aged 16 to 64. An assessment by a health professional, usually face-to-face, and more regular reviews will help ensure financial support is better targeted.

1 July 2013

Universal Credit Pathfinder

The Universal Credit Pathfinder expanded with Wigan Jobcentre accepting claims for Universal Credit from 1 July and with Warrington and Oldham taking claims from 29 July.

15 July 2013

Benefit cap

National roll-out began.

September 2013

Benefit cap

Rollout completed.

1 October 2013

In Work Credit and Return to Work Credit

New In Work Credit or Return to Work Credit awards ceased. Payments in progress at the start of October 2013 will continue until completion, this could potentially be through to October 2014, or until a change in the customer's circumstances brings the payment to an end. These job entry payments are being phased out in readiness for the introduction of Universal Credit.

28 October 2013

Personal Independence Payment – rollout of natural reassessment

Started inviting some individuals who are in receipt of Disability Living Allowance and living in Wales, West Midlands, East Midlands and East Anglia to claim Personal Independence Payment.

Universal Credit – national roll out began

Universal Credit national roll out began on 28 October with claimants in Hammersmith being able to make a new claim to Universal Credit.

Rugby and Inverness began taking claims to Universal Credit on 25 November. Harrogate, Bath and Shotton will follow by spring 2014.

Improved access to digital services across Jobcentre Plus continued with the announcement that 6,000 new computers would be installed across the country. The roll-out of the Claimant Commitment began with 20,000 Jobcentre Plus advisers being retrained to deliver the Claimant Commitment and enhanced jobsearch support nationally. This rollout is expected to be complete by spring 2014. And 11 in-work conditionality pilots began testing how best to encourage claimants to progress in work.

30 October 2013

Appeals process changes – Child Maintenance and all other DWP benefits.

Introduction of changes to the appeals process to ensure more appeals against decisions are resolved without being referred to Her Majesty's Courts and Tribunals Service. Mandatory reconsiderations of decisions prior to appeal and direct lodgement of appeals with Her Majesty's Courts and Tribunals Service and statutory time limits for DWP to return appeals responses to Her Majesty's Courts and Tribunals Service, were introduced for other DWP-administered benefits and child maintenance cases from October 2013.

13 January 2014

Personal Independence Payment – further rollout of natural reassessment

Further rollout of Personal Independence Payment to existing Disability Living Allowance Claimants living in postcodes beginning:

- DG (Dumfries and Galloway);
- EH (Edinburgh);
- TD (Galashiels); and
- ML (Motherwell).

3 February 2014

PIP – further rollout of natural reassessment

Further rollout of Personal Independence Payment to existing Disability Living Allowance Claimants living in postcodes beginning:

- CA (Carlisle);
- DL (Darlington);
- HG (Harrogate);
- LA (Lancaster); and
- YO (York).

20 February 2014

Disability Living Allowance uprating letters issued

Existing Disability Living Allowance claimants received their annual uprating letter. The letter includes information about Personal Independence Payment to help them identify how they might be affected and from when. Most people claiming Disability Living Allowance won't be affected until at least October 2015.

30 April 2014

Incapacity Benefit reassessment complete

Due completion date for the reassessment of over 1.5 million Incapacity Benefit, or Income Support on grounds of incapacity, claims to determine eligibility for Employment and Support Allowance. The process began with trials in October 2010 and national activity from February 2011.

October 2014

Modified Pension Credit

Under current plans it is proposed that new claims for modified Pension Credit will be taken from October 2014 to provide support for dependent children where appropriate. Changes to policy regarding mixed age couples are also expected at this date.

20 February 2015

Disability Living Allowance uprating letters issued

Existing Disability Living Allowance claimants will receive their annual uprating letter. The letter will include information about Personal Independence Payment to help them identify how they might be affected and from when. Most people claiming Disability Living Allowance won't be affected until at least October 2015.

October 2015

Personal Independence Payment – managed reassessment underway

People claiming Disability Living Allowance with indefinite or long-term awards will be contacted some time between October 2015 and 2017 to ask them to claim Personal Independence Payment. They will receive a letter in plenty of time that explains what they need to do. If they don't choose to claim Personal Independence Payment when asked, then their Disability Living Allowance would end. Reassessment activity should be completed by 2018.

Annex D: Benefits of the UK-wide labour market (supporting information for Chapter 3)

D.1 Successive UK Governments have developed and built on policies and systems to help people into work and making sure that work pays through the design and implementation of a labour market regime, consisting of:

- **rules and incentives**, i.e. the design of the benefit and tax credits system, minimum wage, including who is eligible and what the financial incentives/disincentives are; and
- **interventions**, i.e. the delivery of meetings, training, work experience etc. that aim to move people into work.

D.2 These policy areas that have evolved over many years are built on best practice and are intertwined and mutually supportive of the UK Government's labour market objectives.

Rules and incentives

Increasing participation

D.3 Successive UK Governments have sought to increase participation by broadening the group expected to actively seek work and by increasing the support available to those not yet ready to actively seek work. For example, the lone parent obligations changes meant that from November 2008, lone parents with a youngest child aged 12 or over were no longer entitled to receive Income Support solely on the grounds of being a lone parent. Further changes have been made over time and the Welfare Reform Act 2012 extended them to lone parents with a youngest child aged five and over. Lone parent conditionality[200] changes mean that lone parents with school-age children are now expected to look for and take up work appropriate to their circumstances. This has proved to be a highly successful policy increasing the number of lone parents in work with an equivalent reduction of the numbers receiving any out-of-work benefit. This corresponds to 50,000 fewer lone parents on out-of-work benefits; a reduction of between 11 and 13 percentage points after three months.[201]

[200] *Jobseeker's Allowance and flexibilities for lone parents – information*, DWP, May 2012. Available at www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/@benefits/documents/digitalasset/dg_199922.pdf.

[201] *Lone parent obligations: an impact assessment*, DWP, July 2013. Available at www.gov.uk/government/publications/lone-parent-obligations-an-impact-assessment-rr845.

D.4 In addition, the reassessment of those on Incapacity Benefit, currently underway across the UK, aims to ensure that all those able to work have the support they need to make this possible, through their moving primarily to Employment and Support Allowance or Jobseeker's Allowance where they can receive support appropriate for their job goals and personal circumstances.

D.5 The introduction of Universal Credit will further broaden the group expected to actively seek work to include partners (with school-age children) of those claiming out-of-work benefits bringing them into line with changes made to the Lone Parent conditionality.

Financial incentives

D.6 Successive UK Government policies on wages and benefits have also altered individual incentives to take up work, again impacting growth and poverty objectives. Paying a higher rate of benefit means that the gain from moving into work is lower, especially when childcare, transport and other work-related costs are taken into consideration. Some international and academic evidence[202] suggests that higher rates of benefit are linked to higher unemployment, and therefore a careful balance needs to be struck between preventing poverty and promoting work. Placing clear expectations on claimants offsets the financial incentives to remain on benefit.

D.7 The introduction of Universal Credit brings together the benefit and tax credits systems to create clear financial incentives for people to move into and progress in work. Universal Credit will improve work incentives by allowing individuals to keep more of their income as they move into work. It will also introduce a smoother and more transparent reduction of benefits when earnings increase with the aim that claimants will be better off working more.

D.8 Equally, National Minimum Wage rates also impact incentives to work at the lower end of the income distribution and have played a role in reducing the gender pay gap due to the high concentration of women in low-paid jobs and particularly those women in part-time jobs. The National Minimum Wage is currently set based on recommendations by the Low Pay Commission.[203] The only variations in National Minimum Wage rates are for different age groups and apprentices.

D.9 The Low Pay Commission takes account of extensive evidence from academic and government research, surveys and consultations with employers and workers, as well as the state of the economy and economic outlook, including employment and unemployment levels, when recommending the National Minimum Wage rates. Its aim is to set National Minimum Wage rates that help as many low-paid workers as possible, while not damaging their employment prospects. In the event of an independent Scottish state, this would become the responsibility of the Scottish Government. The Low Pay Commission would cease to take conditions in Scotland into account when recommending National Minimum Wage levels for the UK. Divergence between minimum wage levels in Scotland and the rest of the UK would create costs for businesses operating in both jurisdictions.

---

[202] See Blondal and Pearson, 1995; Layard, Nickell and Jackman, 2005; OECD, 1994, Chapter 8; and Scarpetta, 1996.
[203] Information on the Low Pay Commission is available at www.gov.uk/government/organisations/low-pay-commission.

Interventions

Mandatory Job Reviews

D.10 Mandatory Job Reviews are used both to enforce conditionality for those on Jobseeker's Allowance and to assist claimants with job searches. DWP research has found that these are important in maintaining off-flow rates from Jobseeker's Allowance,[204] delivering approximately £1.60 of savings for every £1 of expenditure.[205] Claimants find the services that Jobcentre Plus advisers provide useful in finding work. Customer research shows that advisers have a positive impact.[206]

D.11 There is evidence that sanctions act as a deterrent against non-compliance, with most Jobseeker's Allowance claimants reporting that knowing their benefit could be reduced or stopped made them more likely to comply,[207] and that the experience of sanctions makes people more likely to comply in the future,[208] again, speeding up individual moves off benefit and into work.

D.12 Early evaluation of mandatory work activity, a short intervention designed for those who need help to re-engage with the system, showed that it has a positive impact on confidence and attitudes to work.[209] A trial of longer mandatory work placements, to be introduced on a national scale in 2014, produced similar results, with participants experiencing increases in motivation and work-related ambition.[210] This suggests that mandatory activity has a part to play in a successful regime.

Work experience

D.13 Work experience can result in increased time in work and off benefits.[211] Evaluation has shown work experience is most effective in getting young people into employment where placements were short and placed emphasis on training.

---

[204] *Jobseekers Allowance intervention pilots quantitative evaluation*, DWP Research Report No. 382, 2006 Available at http://webarchive.nationalarchives.gov.uk/20130314010347/http://research.dwp.gov.uk/asd/asd5/rports2005-2006/rrep382.pdf.

[205] *Flexible new deal evidence paper,* DWP, December 2007. Available at www.dwp.gov.uk/docs/flexible-new-deal-4636.pdf

[206] *The Jobcentre Plus Offer: Findings from the first year of the evaluation*, Coulter, A., Day, N. et al., 2012, DWP Research Report No. 814 shows that around half of Jobseeker's Allowance claimants reporting that the advice and support they received had increased their motivation to find work, increased their chances of findings suitable work, or built up their confidence about finding a job that they could do. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/193342/rrep814.pdf

[207] *The Jobcentre Plus Offer: Findings from the first year of the evaluation*, Coulter, A., Day, N. *et al.*, 2012, DWP Research Report No. 814. Available at http://gov.uk/government/uploads/system/uploads/attachment_data/file/193342/rrep814.pdf

[208] *A review of the JSA sanctions regime: Summary research findings*, Peters, M. and Joyce, L., 2006, DWP Research Report No. 313. Available at www.webarchive.nationalarchives.gov.uk/20130314010347/research.dwp.gov.uk/asd/asd5/rports2005-2006/rrep313.pdf

[209] *Evaluation of mandatory work activity*, DWP, 2012. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/193330/rrep823.pdf

[210] *Evaluation of support for the very long-term unemployed trailblazer*, DWP, 2012. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/193333/rrep824.pdf

[211] *Early impacts of work experience*, DWP, 2012. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/222943/early_impacts_of_work_experience.pdf.

Basic skills training

D.14 Basic skills training can provide positive wage benefits and tackle labour market barriers.[212] Evidence suggests that job-focused training delivers better outcomes than longer occupational training.[213] It is important that training does not delay an individual's return to work – for most claimants training should be undertaken whilst maintaining their job search. The UK Government's sector-based work academy scheme, which provides pre-employment training, work experience and a guaranteed job interview in high-demand job sectors, has been particularly well-received by jobseekers, employers and training providers. This scheme is being successfully delivered in Scotland, in partnership with the Scottish Government.

Supporting people into work

D.15 As well as shaping the incentives to work, successive UK Governments have intervened directly in the labour market through Jobcentre Plus activity and indirectly via employment programmes such as the Work Programme, voluntary and community sector organisations and local government. This both sustains the effective functioning of the labour market and combats poverty.

D.16 This active labour market regime links the receipt of out-of-work benefit payments to the condition that recipients must be actively seeking employment. This makes benefit conditional on taking sufficient steps towards work, tailored to individual circumstances. Alongside this, claimants can expect appropriate employment support. This clear focus on moving into work is a fundamental part of the employment support provided by the UK Government throughout Great Britain. It recognises that the payment of benefit has the potential to reduce a person's incentive to move into work, and therefore needs to be counterbalanced by a clear set of individually tailored work search requirements.

D.17 The UK Government labour market regime that has evolved and developed over many years consists of a balance of rights and responsibilities that is recognised internationally as best practice for supporting jobseekers.[214] Given the numbers unemployed and claiming benefit there is always potential for changes in the regime to have expenditure implications.

---

[212] *The returns to Academic, Vocational and Basic Skills in Britain*, Dearden L., McIntosh, S., Myck, M., Vignoles, A., Bulletin of economic research, 2002.

[213] *The longer term outcomes of Work-Based Learning for Adults: Evidence from administrative data*, DWP Research Report 390, Speckesser, S. and Bewley, H. 2006. Available at http://webarchive.nationalarchives.gov.uk/20130314010347/http://research.dwp.gov.uk/asd/asd5/rports2005-2006/rrep390.pdf.

[214] *The Organisation for Economic Co-operation and Development, Social employment and migration working paper No. 42, Activation strategies and performance of employment services in Germany, the Netherlands and the United Kingdom*, Tergeist P. and Grubb D. December 2006. Available at www.oecd.org/employment/emp/37848464.pdf.

D.18 Germany, through the Hartz reforms, introduced elements of employment support that mirrored the UK system.[215, 216] For example, the reforms introduced "agreements on objectives" that jobseekers were required to sign in order to receive benefit payments. This is in direct alignment with the system in the UK. These agreements require claimants to conduct work search activity and to discuss their strategy for looking for work with their employment adviser. This focus on activation supported by sanctions is replicated across much of the members of the Organisation for Economic Co-operation and Development.

D.19 The UK Government has also delivered back-to-work support to claimants on the other out-of-work benefits – Employment and Support Allowance and Income Support. This is less intensive than the Jobseeker's Allowance regime and focuses on support and advice appropriate to an individual's health conditions, caring responsibilities or other circumstances.

Addressing barriers to work

D.20 Where jobseekers have barriers to employment, such as low skills, lack of work experience and health conditions, they can be referred to additional provision early in their claim. There is a comprehensive menu of help on offer including volunteering opportunities, skills support and work experience.

D.21 The longer someone is unemployed and claiming benefit the more support is available to them. This approach provides value for money because significant numbers of claimants will move into work with a low level of support, therefore intensive support is carefully targeted later in the claim on those who need it most.

D.22 Despite this intensive support, worklessness is a significant problem in many parts of the UK, with around 3.5 million households where no-one works – more than one in six of all households. Those with the most significant barriers can become entrenched in worklessness.[217] Whilst high, there has been significant improvement in the number of workless households in the UK, with Scotland part of this trend. The proportion of households where no one works in the UK is at a record low level of 17.1 per cent. Whilst higher in Scotland at 19.1 per cent, the improvement has been stronger here – a fall of 4.4 per cent since records began in 1996. Scotland also has a higher proportion of households where all adults work than the rest of the UK, 56.1 per cent compared to 54 per cent with the remainder being households where occupants are both in and out of work.[218]

---

[215] ONS definition: Workless households are households, with at least one member aged 16 to 64, where no-one is currently working.

[216] *Welfare transitions before and after reforms of the German welfare system*, Riphahn R. T., and Wunder C., University of Erlangen-Nuremberg, April 2013. Available at http://www.iza.org/conference_files/Safety_Nets_2013/wunder_c2792.pdf.

[217] Defined in the Social Justice Outcomes Framework as people who have received working-age benefits for at least three out of the last four years.

[218] *Working and Workless Households, April-June 2013*, ONS. Available at www.ons.gov.uk/ons/rel/lmac/working-and-workless-households/2013/stb-working-and-workless-households-2013.html.

D.23 The UK Government's focus on social justice seeks to address poverty and entrenched worklessness through addressing the multiple and complex barriers that people face. Social justice is a government strategy, set out in the publication *Social Justice: Transforming Lives*, March 2012,[219] with the vision for a society in which local and national services work together to tackle the causes of poverty in the UK. In April 2013, the UK Government also published the *Social Justice Outcomes Framework*.[220] This presents a more detailed picture of the disadvantage the social justice strategy seeks to address.

D.24 Delivering sustained improvement to the life chances of disadvantaged families and individuals will take years, not months. The outcomes framework is intended to help ensure that social justice remains at the forefront of UK Government policy as changes take effect.

D.25 The UK Government already works directly with the Scottish Government and its local delivery structures on a wide range of policy areas within the social justice agenda, including measures to support ex-offenders, drug addicts and end gang and youth violence.

Sustained employment and progressing in work

D.26 Beyond supporting people to move into work, the UK Government's labour market interventions also look to support people to remain in and progress in work. This role has been relatively limited in the past, but current payments to the Work Programme for sustained job outcomes are intended to provide incentives for providers to work with those in employment to ensure they do not fall back into unemployment.

D.27 The UK Government is already making changes in this area. Under Universal Credit, for the first time, individuals will be supported in work to encourage progression and enable those people that can, to earn more. To ensure effective in-work support is delivered as part of Universal Credit, a variety of different approaches are being trialled following a "Call for Ideas"[221] to understand and gather evidence about what can help people stay in work and progress to earn more.

D.28 The initial trials are already underway. Jobcentre Plus is running 11 different trials, many of them extending adviser support to those in work. Other trials are looking to test ways of working with employers and the role of skills development on people staying and progressing in-work.

D.29 The provision of in-work support, once introduced nationally, should increase claimants' duration of employment following a period of unemployment, and should also improve social mobility through support and incentives for claimants to progress in employment and increase their earnings. This is vital in reducing in-work poverty and meeting the UK Government's child poverty commitments.

[219] *Social Justice: transforming lives*, DWP, March 2012. Available at www.gov.uk/government/publications/social-justice-transforming-lives.
[220] *Social Justice outcomes framework*, DWP, April 2013. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/192024/v3_14.51_SJ_OUTCOMES_FRAMEWORK_APRIL_2013_-_FINAL_VERSION.pdf.
[221] *Consultation: Extending labour market interventions to in-work claimants*, DWP, January 2013. Available at www.gov.uk/government/consultations/extending-labour-market-interventions-to-in-work-claimants.

D.30 There is limited international evidence on support for those in work, and the introduction of Universal Credit puts the UK Government firmly at the forefront of international labour market policy making. If an independent Scottish state does not propose to retain Universal Credit then it will need to take a decision on whether to provide support for those in work, and if so, what form this should take.

Labour market delivery

D.31 The majority of the support outlined above is delivered through the Great Britain-wide Jobcentre Plus network, which brings together employment support and benefit administration to increase efficiency and make the payment of benefits conditional on the requirement to look for work. The activation regime (interventions designed to encourage movement into employment) for people on unemployment benefits is one of the most demanding across the Organisation for Economic Co-operation and Development,[222] with a clear emphasis on the obligations of the unemployed that are conditional to receiving benefits. This linking of employment support and benefit payment has been adopted by other countries, such as Germany, who reformed their system taking a similar approach to the Great Britain system in uniting the benefit delivery and employment support functions.

D.32 This approach, with its immediate focus on job search, ensured that people return to work quickly, contributed to improvements in customer service and delivered efficiency gains.[223]

D.33 While the UK Government provides a national support regime, some aspects are determined at a local level to ensure that a tailored approach can be provided where local and individual differences require it. Jobcentre Plus staff have flexibility over how much time to spend with claimants and what additional support to refer them to. This careful balance of national and local decision making ensures that the regime is structured around what is known to work, while leaving space for altering the service to meet what is required locally.

Employer engagement

D.34 As well as providing employment support for claimants, DWP negotiates with employers UK-wide to provide job opportunities for benefit claimants. At any one time there are around half a million vacancies waiting to be filled.[224] Vacancies are accessible via a digital job site, Universal Jobmatch, which can facilitate a broad geographical search by sectors, work patterns and saved job searches.

[222] *The Organisation for Economic Co-operation and Development, Social employment and migration working paper No. 42, Activation strategies and performance of employment services in Germany, the Netherlands and the United Kingdom*, Tergeist P. and Grubb D. December 2006. Available at www.oecd.org/employment/emp/37848464.pdf.

[223] *The roll-out of the Jobcentre Plus Office network*, The Comptroller and Auditor General, The National Audit Office, February 2008. Available at www.nao.org.uk/wp-content/uploads/2008/02/0708346.pdf.

[224] *Labour Market Statistics*, ONS, March 2014, Table 21. Available at www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/table-vacs02.xls.

D.35 Alongside engagement with national employers, Jobcentre Plus has local employer engagement staff who are able to take advantage of local knowledge and relationships with smaller employers to increase the vacancies available to jobseekers.

Local partnerships

D.36 The Jobcentre Plus network works closely with local authorities, voluntary and community organisations and educational institutions to deliver a joined-up offer to claimants that covers work experience, skills and other aspects of support.

D.37 In Scotland, Jobcentre Plus has set up a hub where skills, employment support and careers services are co-located. This approach tests a co-location partnership model, designed to reduce duplication of services and provide additional job-focused support from the outset of a claim to Jobseeker's Allowance.

D.38 This partnership working is especially important for the most vulnerable in society, as local interventions are most likely to offer a seamless service enabling multiple barriers to be addressed together.

D.39 Overall, the DWP's approach of combining national and local delivery is able to exploit efficiency gains from operating a Great Britain-wide network, with the benefits of local knowledge and joining up of services on the ground.

Bibliography

André, C. *et al*., *Labour Market, Welfare Reform and Inequality in the United Kingdom*. OECD Economics Department Working Papers, No. 1034. 2013.

Beveridge, W., *Social Insurance and Allied Services*, 1942.

Black, C., *Working for a healthier tomorrow*, 2008.

Blondal and Pearson, *Unemployment and other non-employment benefits*, Oxford Review of Economic Policy, Vol 11, Issue 1, 1995.

Dearden L., McIntosh, S., Myck, M., Vignoles, A., *The returns to Academic, Vocational and Basic Skills in Britain*, Bulletin of economic research, 2002.

Department for Business, Innovation and Skills *SET Statistics*, 2013.

Department for Social Development, *Client Group Analysis*. 2013.

Department for Social Development, *Resource Account for the year ended 31 March 2013*. 2013.

DWP, Social security expenditure in the *United Kingdom, including Scotland*. 2014.

DWP, *Long term projections of social security expenditure in the United Kingdom, including Scotland*. 2014.

DWP, *Annual Report and Accounts 2012/13*. 2013.

DWP, *Benefit expenditure and caseload tables,* Tables 2a, 2c and State Pension expenditure. 2013.

DWP, *Benefit expenditure by region 1996/97 to 2012/13*. 2013.

DWP, *Consultation: Extending labour market interventions to in-work claimants*. 2013.

DWP, *DWP business plan transparency measures, rate of people moving from key out-of-work benefits*. 2013.

DWP, *DWP medium-term projections of benefit expenditure, Autumn Statement* – Table 2a and 2c. 2013.

DWP, *Early impacts of work experience*, 2012.

DWP, *Evaluation of mandatory work activity*, 2012.

DWP, *Evaluation of support for the very long-term unemployed trailblazer*, 2012.

DWP, *Flexible new deal evidence paper*. 2007.

DWP, *Fulfilling Potential*. 2013.

DWP, *Household Below Average Incomes 1994/95 to 2011/12*, 2013.

DWP, *Impact assessment – Long term State Pension sustainability: increasing the State Pension age to 67*. 2013.

DWP, *Impact assessment – Universal Credit*. 2013.

DWP, *Jobseeker's Allowance and flexibilities for lone parents – information*. 2012.

DWP, *Lone parent obligations: an impact assessment*. 2013.

DWP, *Longitudinal Study*. 2013.

DWP, Research Report 313, *A review of the JSA sanctions regime: Summary research findings*, Peters, M. and Joyce, L., 2006.

DWP, Research Report 382, *Jobseekers Allowance intervention pilots quantitative evaluation*, 2006.

DWP, Research Report 390, *the longer term outcomes of Work-Based Learning for Adults: Evidence from administrative data*, Speckesser, S. and Bewley, H. 2006.

DWP, Research Report 781, *the introduction of Jobcentre Plus: an evaluation of evaluation of labour market impacts*. Riley R., 2011.

DWP, Research Report 814, *The Jobcentre Plus Offer: Findings from the first year of the evaluation*, Coulter, A., Day, N. et al., 2012.

DWP, Research Report 823, *Evaluation of mandatory work activity*, 2012.

DWP, *Social Justice outcomes framework*. 2013.

DWP, *Social Justice: transforming lives*. 2012.

DWP, *The Introduction of Jobcentre Plus: An Evaluation of Labour Market Impacts*. 2011.

DWP, *The single-tier pension: a simple foundation for saving*. 2013.

DWP, *Work and Pensions Longitudinal Study*, DWP tabulation tool.

DWP, *Workplace Pension Reforms: digest of key analysis*. 2012.

Eurostat, *Monthly (January 2014) harmonised unemployment rates*. 2014.

General Register Office for Scotland, *Migration between Scotland and the Rest of the UK*. 2013.

HM Government, *Scotland analysis: Assessment of a sterling currency union*. 2014.

HM Government, *Scotland analysis: Borders and citizenship*. 2014.

HM Government, *Scotland analysis: Business and microeconomic framework*. 2013.

HM Government, *Scotland analysis: Currency and monetary union*. 2013.

HM Government, *Scotland analysis: Devolution and the implications of Scottish independenc.* 2013.

HM Government, *Scotland analysis: Financial services and banking*. 2013.

HM Government, *Scotland analysis: Macroeconomic and fiscal performance*. 2013.

HM Treasury, *Autumn Statement 2013*. 2013.

HM Treasury, *Whole of Government Accounts 2011/12*. 2013.

HMRC, *Child and working tax credits statistics*. 2013.

HMRC, *Personal pension statistics*. 2014.

HMRC, *Tax and NICs receipts: statistics table.* 2013.

Institute and Faculty of Actuaries, *Scottish Independence: some questions from the Institute and Faculty of Actuaries*. 2013.

Institute of Chartered Accountants Scotland, *Scotland's pensions future: what pensions arrangements would Scotland need?* 2013.

McVicar, D *Jobsearch monitoring intensity, unemployment exit and job entry: quasi-experimental evidence from the UK* Labour Economics, Vol 15, Issue 6. 2008.

NAPF, *Scottish independence: the implications for pension.* 2013.

Northern Ireland Assembly, *Understanding Parity*, Departmental Briefing Paper, 2009.

OBR, *Economic and Fiscal outlook*. 2013.

OBR, *Fiscal sustainability report*. 2013.

OECD, *OECD Employment Outlook*. 2009.

OECD, *OECD tax database, based on single worker at 100 per cent of average earnings with no children*. Official Journal of the European Union, *Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision*. 2003.

ONS, *Census 2001 data*, UK Travel Flows.

ONS, *Fraud and error in the benefit system 2012/13 estimates*. 2014.

ONS, *Labour Force Survey Regional Labour Market: HI11 Headline Indicators for Scotland*. 2014.

ONS, *Labour Force Survey*, non-seasonally adjusted. 2013.

ONS, *Labour Market Statistics*, Table 3, Table 18(1) and Table 21. 2014.

ONS, *Labour Market Status by Ethnic Group*. 2014.

ONS, *Labour Market Status of disabled people*. 2014.

ONS, *National Population Projections, 2012-based projections*. 2013.

ONS, *Population estimates for UK, England and Wales, Scotland and Northern Ireland – Mid-2012*. 2013.

ONS, *Quarterly Labour Force Survey: Labour Market Flows experimental data*, Table X02. 2014.

ONS, *Regional Labour Market Statistics*, Workforce Jobs. 2014.

ONS, *The annual survey of hours and earnings* (ASHE), 2012.

ONS, *Underemployed workers in the labour market*. 2012.

ONS, *Working and Workless Households April-June 2013*.

ONS, *Working and Workless Households*, Table P. 2013.

Riphahn, R. T., and Wunder, C., *Welfare transitions before and after reforms of the German welfare system*, University of Erlangen-Nuremberg. 2013.

Scarpetta, *Assessing the role of labour market policies and institutional settings on unemployment: A cross-country study*, 1996, OECD Economic Studies No. 26. 1996.

Scottish Government, *Pensions in an independent Scotland*, page 49. 2013.

Scottish Government, *Scotland's Future: Your guide to an independent Scotland*, pages 149, 150, 158, 165, 166, 269 and 423. 2013.

Tergeist P. and Grubb D., *The Organisation for Economic Co-operation and Development, Social employment and migration working paper No. 42, Activation strategies and performance of employment services in Germany, the Netherlands and the United Kingdom*. 2006.

The British Institute of Public Opinion, *What Britain thinks of the Beveridge Report* as shown by a Gallup Poll. 1943.

The Commission on Scottish devolution, *Serving Scotland Better: Scotland and the United Kingdom in the 21st century*. 2009.

The Institute for Fiscal Studies, *Incomes in the UK*. 2014.

The Investment Management Association, *Asset Management in the UK 2013-13*, the IMA Annual Survey. 2013.

The National Audit Office, *The roll-out of the Jobcentre Plus Office network*, The Comptroller and Auditor General. 2008.

The National Employment Savings Trust, NEST *Insight*, 2013.

The Pension Protection Fund, *Annual Report and Accounts 2012/13*.

The Pension Protection Fund, *PPF 7800 index*. 2013.

The Pensions Commission, *A New Pension Settlement for the Twenty First Century*, the Second Report of the Pensions Commission. 2005.

The Pensions Regulator, *Annual report and accounts*. 2013.

The Pensions Regulator, *Corporate plan 2013-2016*. 2013.

Waddell, G. and Burton, K. A. *Is work good for your health and well being?* 2006.

This publication can be accessed online at:
www.gov.uk/scotlandanalysis

For more information about this publication, contact:

DWP Strategy - Working Age Benefits,
Caxton House,
Tothill Street,
London SW1H 9NA

Email: workingage.benefitsstrategy@dwp.gsi.gov.uk

ISBN 978-1-4741-0185-1

Department for Work and Pensions

April 2014

www.gov.uk