



House of Commons
Scottish Affairs Committee

The Referendum on Separation for Scotland: Implications for Pensions and Benefits

First Report of Session 2014–15

*Report, together with formal minutes relating
to the report*

Ordered by the House of Commons

to be printed 2 July 2014

The Scottish Affairs Committee

The Scottish Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Scotland Office (including (i) relations with the Scottish Parliament and (ii) administration and expenditure of the offices of the Advocate General for Scotland (but excluding individual cases and advice given within government by the Advocate General)).

Current membership

Mr Ian Davidson MP (*Labour/Co-op, Glasgow South West*) (Chair)
Mike Crockart MP (*Liberal Democrat, Edinburgh West*)
Jim McGovern MP (*Labour, Dundee West*)
Graeme Morrice MP (*Labour, Livingston*)
Pamela Nash MP (*Labour, Airdrie and Shotts*)
Sir Jim Paice MP (*Conservative, South East Cambridgeshire*)
Simon Reeves MP (*Conservative, Dewsbury*)
Mr Alan Reid MP (*Liberal Democrat, Argyll and Bute*)
Lindsay Roy MP (*Labour, Glenrothes*)
Dr Eilidh Whiteford MP (*Scottish National Party, Banff and Buchan*)

The following members were also members of the committee during the Parliament:

Fiona Bruce MP (*Conservative, Congleton*)
Mike Freer MP (*Conservative, Finchley and Golders Green*)
Cathy Jamieson MP (*Labour/Co-op, Kilmarnock and Loudoun*)
Mrs Eleanor Laing MP (*Conservative, Epping Forest*)
Mark Menzies MP (*Conservative, Fylde*)
Iain McKenzie MP (*Labour, Inverclyde*)
David Mowat MP (*Conservative, Warrington South*)
Fiona O'Donnell MP (*Labour, East Lothian*)
Julian Smith MP (*Conservative, Skipton and Ripon*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/scotaffcom. A list of Reports of the Committee in the present parliament is at the back of this volume. The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are Rebecca Davies (Clerk), Rhiannon Hollis (Clerk), Phil Jones (Committee Specialist), Alasdair Mackenzie (Committee Specialist) Tom Barker (Assistant Policy Analyst), Helena Ali (Senior Committee Assistant) and Rosie Tate (Committee Assistant).

Contacts

All correspondence should be addressed to the Clerk of the Scottish Affairs Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 6123; the Committee's email address is scotaffcom@parliament.uk

Contents

Report	<i>Page</i>
Summary	3
Conclusions and recommendations	5
1 Introduction	7
2 The Overall Context	8
3 Pensions	10
The State Pension	10
State Pension Age	12
Dependency Ratio	12
Mass Immigration?	14
Complexity of Pension Liabilities	16
Public Sector Pensions: Who Pays?	17
Occupational and personal pensions: Who regulates?	18
EU rules on the funding of Cross Border Pension Funds	21
4 Welfare (working-age benefits)	22
Changes proposed by the Scottish Government	22
Benefits and flexibility of a UK-wide system	23
The Costs of Establishing a New System	24
Formal Minutes	27
Witnesses	28
List of published written evidence	28
List of Reports from the Committee during the current Parliament	29

Summary

Pensions and welfare together represent one of the most important and sensitive areas of government policy. Individuals and families depend upon clarity and certainty in this area, in order to help them plan for retirement and know what support is available when they may not be able to support themselves.

The Scottish Government have set out a number of proposals outlining the changes they would seek to make to welfare and pensions in the event of separation from the United Kingdom. The Committee acknowledges the broad progressive thrust of these proposals, but is deeply concerned about their lack of detail and failure to consider some of the more practical issues around implementation and, in particular, costs. Their pledges on welfare and pensions will inevitably mean more spending, and when the projected increase in the number of people of pension age to people of working age in Scotland is taken into consideration, the price of separation can only get higher. There are also serious doubts as to whether or not the Scottish Government could hope to achieve the changes it wants within the timeframe it sets out. Our evidence indicates that their stated aim of launching a new benefits system by 2018 is unrealistic.

On the State Pension, the Scottish Government propose a higher starting-rate than the rest of the UK and to delay the decision on whether or not increase the state pension age to 67. We call on Scottish Government to spell out the full cost of these pledges, and to make a decision on their proposed State Pension Age before the referendum, in order to give the Scottish people a clear idea of the pension arrangements they could expect in a separate Scotland.

Many people also rely on or are expecting public sector pensions, which the Scottish Government plan to administer through the already-existing Scottish Public Pensions Agency. However, this organisation currently does not cover all public service pensions, so would have to be expanded to cover currently reserved schemes. Moreover, many public sector pension schemes are not funded up to sufficient levels to cover all their commitments to their members, so have had to receive additional funding from Westminster. In the event of separation the Scottish Government would have to take on responsibility for making up any shortfall, the amount of which is presently unknown.

Holyrood have acknowledged the positive steps the UK Government is taking to increase private saving for retirement, and have promised to continue the current policy of auto-enrolment for occupational pensions. However, we have heard evidence that a Scottish version of the National Employment Savings Trust (NEST)—which the Scottish Government propose in order to cover small savers—would fail to achieve the value for money of its larger, UK equivalent, and could take a long time to set up. A number of the Scottish Government's other statements on occupational pensions, such as on pension protection, take the form of vague, speculative comments. This is completely unacceptable.

On working-age benefits, the Scottish Government make a number of bold commitments, such as the abolition of the Bedroom Tax and the halting of Universal Credit (UC) and the Personal Independence Payment (PIP). While the Committee has called for an end to the

Bedroom Tax on a number of occasions, unlike the Scottish Government we also acknowledge the underlying strength of the UK system as a large and economically diverse risk-pool and well-integrated labour market. Holyrood also fails to acknowledge the logistical complexity and significant costs of disentangling Scottish welfare claimants from the current UK-wide system.

Finally, we consider the costs and difficulties of setting up new infrastructure to deliver all these promises. The Scottish Government assumes that Westminster can run two parallel systems in a transition period, but we have been assured this is not feasible. There is clear evidence that the process of establishing a new welfare system will be difficult and costly. Our evidence indicates that the process would take many years, and we do not believe that interim changes of the sort the Scottish Government has promised could be made in the timescale it has set.

Conclusions and recommendations

The Overall Context

1. The Scottish people deserve a more realistic assessment of the likely costs of the social security system the Scottish Government envisages, and where additional money would come from, particularly given the demographic projections and economic structure of Scotland. We therefore call on the Scottish Government to provide more information on costs. In addition, we urge them to provide greater detail about the pensions and welfare settlement they envisage for the longer term and how it would be afforded. In their proposals, a great deal of emphasis is placed on halting or reversing certain UK policies, such as the Bedroom Tax or Universal Credit, in the short term, while little is said about the longer-term system beyond general statements of principle. For example, given that information already exists about future demographic changes, we call on the Scottish Government to make a decision on what the State Pension Age would be if Scotland were to leave the Union and become a separate state, rather than delaying the decision on whether or not it should rise to 67, as proposed in the White Paper. Such information will help create greater certainty and clarity on this most important of policy areas and provide reassurance for the people of Scotland. (Paragraph 9)

Pensions

2. Scotland's future higher age dependency ratio has very significant consequences for the affordability of old age pensions. The Scottish government have been very reluctant to acknowledge this reality. (Paragraph 19)
3. Given the expected decline in oil revenues and the projected higher number of dependents to those of working age in Scotland compared to the UK, the Scottish Government must provide more detailed costing of their proposed changes to the new Single-tier Pension settlement. In addition, we recommend that the Scottish Government bring forward their decision on whether or not to raise the SPA to 67 in the event of separation. The UK Government has already taken this step, and enough information already exists for the Scottish Government to be able to state clearly what it would do, given the choice. Greater certainty on this vital issue is essential, if voters are to be given the opportunity to make an informed choice. (Paragraph 33)
4. It is clear that the process of disentangling Scottish and UK-wide public sector pensions, and negotiating responsibility for their payment, will be a lengthy process. It could take years to resolve these questions. (Paragraph 37)
5. Pension provision is an extremely important and sensitive issue, affecting every person in the UK. People understandably worry about the integrity of their retirement savings and want reassurance and certainty about how their money will be safeguarded. The Scottish Government's vague and woolly statements on arrangements for the regulation of private pensions are therefore of concern to the Committee, and we call for much greater clarity on exactly what changes the Scottish

Government would or would not make to the present institutions and arrangements. (Paragraph 44)

6. Uncertainty is inevitable when a decision as far reaching as the possibility of separation is being considered, and for some people, no doubt, the possibility of change is attractive. However, pensions require long-term, responsible stable government policies, because individuals and companies are making long-term commitments which matter a great deal. The Scottish government's approach is apparently to make ill-defined, uncosted and possibly undeliverable promises. This can only add to individuals' uncertainty about their financial future. Scottish ministers are free to make promises, but it is ordinary voters who may have to pay a price in terms of their long-term financial security. (Paragraph 51)

Welfare (working age benefits)

7. These points indicate that Scottish Government's proposal to establish an independent welfare system "that better reflects Scotland's priorities" by 2018, just two years after their preferred independence date, is over-optimistic. In reality this process will take much longer. (Paragraph 59)
8. There is clear evidence that the process of establishing a new welfare system would be difficult and costly. Our evidence indicates that the process would take many years, and we do not believe that interim changes of the sort the Scottish Government has promised could be made in the timescale it has set; nor is it clear that UK systems could in reality be used to administer two separate benefits regimes. The Scottish Government should produce further analysis of the methodology and costings by which a transitional welfare system could be implemented. The Scottish Government should not make promises it cannot deliver. (Paragraph 66)

1 Introduction

1. Of all the issues Scottish voters will have to consider ahead of September's referendum, few can be more important—or more emotive—than pensions and benefits, and the social security system as a whole.¹ Virtually everyone in the UK, at some point in their lives, will receive help from the UK's long-established system of provision, whether in the form of a pension or working-age benefit. A 'yes' vote in September will have a major impact upon social security in Scotland. Scotland would leave the long standing system of sharing risks and resources that underpins the UK welfare state, and be responsible for organising and funding its own welfare system. The Scottish Government say they would move towards a new system based on different principles by 2018, which they claim would be preceded by a transition period of shared administration with the continuing UK, during which time social security policies in the two states would start to diverge.² This report discusses what would happen in the event of separation, and the possible effects of these plans.

2. Aside from the vote on separation itself, the unavoidable context for this report is one of historic changes to the UK social security system. The mounting pressure of an ageing population—a phenomenon being felt in many parts of the world—has led to reform of the State Pension, including the first rise in the State Pension Age (SPA) for over sixty years. Meanwhile, major reforms are also being made to working-age welfare, with a number of benefits being combined with the new Universal Credit (UC) system, the primary aim of which—according to the UK Government—is to help improve incentives to work.³

3. The Government's reforms to social security have proved controversial throughout the UK. Some have welcomed what they see as a tougher stance that properly incentivises work, while others attack the perceived harshness of the Coalition's reforms. The Holyrood Government's statements on these issues tap into this wider public debate and paint a picture of a future Scottish state that would follow some different path to that currently pursued by the UK.⁴ The Scottish Government say that there would be changes to the system which would, on the face of it, make it more generous, with a possible higher pension rate or even earlier retirement age; but they would also make it more expensive. The potential costs are nowhere discussed or detailed in the White Paper.

4. The Scottish Government's White Paper says much about fairness and social justice, but there is a noticeable lack of facts, clear commitments, and consequences for the people of Scotland. This report therefore draws attention to some of the unanswered questions about the commitments that are being made on pensions and working age benefits by the Scottish Government, and calls for clarification of a number of specifics.

1 In this report, the term 'social security' is used to encompass pensions and a range of working-age benefits and welfare payments.

2 Scottish Government, *Scotland's Future: Your guide to an independent Scotland* (November 2013), p.165.

3 <https://www.gov.uk/government/policies/simplifying-the-welfare-system-and-making-sure-work-pays>

4 "With independence...we can afford to choose a different path for Scotland, with an approach to social justice that is based on our view of what a healthy and flourishing society should be. This is an opportunity for us to create a new Scotland." *Scotland's Future*, p.151.

2 The Overall Context

5. It is an inevitable consequence of separation that Scotland would no longer participate in the pooling of risk and sharing of resources that underlies the UK welfare state. Scotland would be independent of that and separate from it. Significant consequences follow, but are consistently ignored by the Scottish Government. A central problem is the failure to acknowledge the full costs of the demographic challenge Scotland faces after separation and how to pay for the pensions and welfare policies they would seek to implement. As already mentioned, many countries face rising costs associated with an ageing population and the UK as a whole is not excluded from this. Indeed, Scotland faces a particular challenge because it will have fewer working-age people for every pensioner than the rest of the UK does.⁵ Taking the less favourable demographic outlook into account and adding up the various pledges on social security made by the Scottish Government, UK Government analysis has found that Scotland would face additional costs of nearly £1.55 billion more per year over the next 20 years in today's terms, which amounts to around £450 per working-age person per year.⁶

6. Nor is it just the UK Government pointing out rising costs in Scotland. In his evidence, David Phillips of the Institute for Fiscal Studies, warned that

...our research at the IFS would suggest that funding the Scottish state in the long term—not just welfare but also other public services—will require tax rises or spending cuts because of the ageing population and falls in oil revenues. That affects the UK as well. It looks likely to be a bit harder in Scotland.⁷

7. This point about declining oil revenues is particularly important because it highlights the way in which the UK represents a much larger risk pool than Scotland taken on its own, enjoying a broader tax base. The UK-wide social security system is better able to absorb economic fluctuations in particular sectors or geographical regions than an equivalent system within a smaller economy reliant on a smaller number of industries.⁸

8. The potential problems of disentangling Scottish pension and benefit claims from UK systems are also largely overlooked in the Scottish Government's publications. As the Minister of State for Pensions Steve Webb MP pointed out in his evidence, this could prove a difficult and time-consuming business, particularly given that not all the data that might be needed for such a task—such as an individual's place of work—are currently recorded.⁹ Following a 'yes' vote in the referendum, Scotland would face the prospect of establishing its own social security infrastructure, with significant start-up costs for major IT projects. While the Scottish Government also says that it intends to share IT systems with a

5 *HM Government, Scotland Analysis: Work and pensions*, pp. 35-36

6 *HM Government, Scotland Analysis: Work and pensions*, p.14.

7 Oral evidence taken on 29 April 2014, HC (2013-14), Q5333

8 *Scotland Analysis: Work and Pensions*, p.7.

9 Oral evidence taken on 6 May 2014, HC (2013-14) Q5460

continuing UK during a transition period, this could prove highly problematic if it seeks to pursue markedly different policies.¹⁰

9. The Scottish people deserve a more realistic assessment of the likely costs of the social security system the Scottish Government envisages, and where additional money would come from, particularly given the demographic projections and economic structure of Scotland. We therefore call on the Scottish Government to provide more information on costs. In addition, we urge them to provide greater detail about the pensions and welfare settlement they envisage for the longer term and how it would be afforded. In their proposals, a great deal of emphasis is placed on halting or reversing certain UK policies, such as the Bedroom Tax or Universal Credit, in the short term, while little is said about the longer-term system beyond general statements of principle. For example, given that information already exists about future demographic changes, we call on the Scottish Government to make a decision on what the State Pension Age would be if Scotland were to leave the Union and become a separate state, rather than delaying the decision on whether or not it should rise to 67, as proposed in the White Paper.¹¹ Such information will help create greater certainty and clarity on this most important of policy areas and provide reassurance for the people of Scotland.

10 Q5564

11 *Scotland's Future*, p.142.

3 Pensions

The State Pension

10. The UK has provided a state pension since 1909, after the Old Age Pensions Act 1908 introduced basic provision for people of 70 years or over who could not afford to provide for themselves.¹² Since then, successive governments of all shades have maintained a commitment to a state pension, which has expanded to cover everyone in the United Kingdom who has satisfied the contribution conditions.

11. Old age pensions matter hugely to Scots. Over 1 million Scots, virtually one in five of the population, are in receipt of an old-age pension today, and that number is forecast to grow in absolute terms and in comparison to the working-age population in the coming decades. Total expenditure on pensioner benefits in Scotland is at present £9.6bn a year and this is higher per capita than the UK average,¹³ reflecting not just the age structure of Scotland's population but the individual needs of Scottish pensioners.¹⁴ As the UK Government's Scotland Analysis Paper on Welfare and Pensions points out, "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."¹⁵

12. The UK Government has recently legislated to bring about changes to the State Pension, which it said were intended to simplify and modernise the system and mitigate the rising costs associated with an ageing population.¹⁶ The old twin-track system of the Basic State Pension and Additional State Pension (whose various iterations include the State Earnings-Related Pension and the State Second Pension) is being replaced by the Single-tier Pension, which will apply to individuals who reach retirement age on or after 6 April 2016. The new pension, which will be no less than £148.40 per week (with the actual amount to be set in autumn 2015) will be available to those who have contributed to the National Insurance system for 35 years, either through in-work payments or through National Insurance Credits gained, for example, while on unemployment benefits.¹⁷ In addition there is an increase in the State Pension Age (SPA), which remained fixed at 60 for women and 65 for men between 1948 and 2010, but which is changing to see an equalization at 65 in December 2018, and then rises to 66 by October 2020 and 67 between 2026 and 2028.¹⁸

12 'Old Age Pensions Act 1908', House of Commons Library (SN 4817), August 2008.

13 *Scotland Analysis: Work and Pensions*, p 31

14 *Scotland Analysis: Work and Pensions*, p 30

15 *Scotland Analysis: Work and Pensions*, p 38

16 Department for Work and Pensions, *The single-tier pension: a simple foundation for saving*, Cm 8528 (January 2013), p.5.

17 <https://www.gov.uk/new-state-pension>. Usually, a minimum of 10 qualifying years of National Insurance contributions will be required in order to receive any money through the Single-tier Pension—between this minimum and the full 35 years, a pro-rata sum will be paid.

18 *Pensions in an Independent Scotland*, p.30.

13. The Scottish Government have welcomed elements of the new state pension reforms; however, they also say that after separation they would make the pension system more generous in various ways:

- maintaining provision for those expecting to receive a state pension based on their spouse's contributions for 15 years after the introduction of the single-tier pension;¹⁹
- keeping the Savings Credit element of Pension Credit for new pensioners on low incomes, and then increasing it in line with earnings;²⁰
- guaranteeing the 'triple-lock' on increases to the Single-tier Pension, the old Basic State Pension and the Guarantee Credit element of Pension Credit, initially for the first term of an independent Scottish Parliament (the triple-lock means pensions will increase by whichever is the highest of the rate of inflation, the increase in average earnings, or 2.5 per cent);²¹
- setting the full rate of the Single-tier Pension at £160 per week (£8,320 per annum), or matching the UK rate if this is higher;²²
- "reserving judgement" on the increase in the SPA to 67, and establishing an independent commission to look into the appropriate age for Scotland.²³

14. Taken together, these changes might, if they could be delivered, represent a more generous state pension settlement than that being rolled-out by the current UK Government. However, generosity comes at a price, and the likely costs of such a system must be clearly laid out. For example, on the Scottish Government's proposal for a higher pension rate than that currently indicated by the UK Government, the recent *Scotland Analysis* paper on welfare and pensions cites DWP data indicating that, for every additional £1 in the starting level of the Single-tier Pension, the costs to Scotland could be in the region of an extra £50 million a year in around 20 years' time.²⁴

15. On the proposal to continue with Savings Credit—which is being discontinued in the UK—the paper goes on to point out that this could prove both costly and unnecessary for a separate Scottish state. In 20 years' time, the cost of maintaining this benefit could be in the region of £200 million a year (in current prices), while the paper points out that Savings Credit was introduced in order to provide a means-tested reward for those with only modest savings, while the new Single-tier Pension rate is deliberately set above the basic level of means-tested support.²⁵

19 Ibid. p.vii. The new Single-tier Pension will put an end to the old system of 'derived rights', whereby an individual could build up a state pension based on their spouse's or civil partner's National Insurance contributions. However, the UK Government have promised to put in place "transitional protection to cover a variety of circumstances where the Government believes it is right to recognise contributions made prior to the implementation of the single-tier pension." *The single-tier pension: a simple foundation for saving*, p.93.

20 *Pensions in an Independent Scotland*, p.vii.

21 *Scotland's Future*, p.141.

22 *Pensions in an Independent Scotland*, p.vi.

23 *Scotland's Future*, pp.141-2.

24 *Scotland Analysis: Work and Pensions*, p.10.

25 Ibid. p.65.

16. Meanwhile, on the issue of the triple-lock, since the publication of the Scottish Government's pledge there has been a growing consensus among the three largest parties at Westminster that the triple-lock should be kept in place for the State Pension beyond the 2015 general election.²⁶

State Pension Age

17. The Scottish Government have taken to arguing that the State Pension Age should be lower in Scotland than in the UK as a whole, because on average life expectancy is lower in Scotland. This is an outrageous argument. An individual's entitlement to the state pension should not depend on the life expectancy of his or her neighbours. There are very wide variations within Scotland on life expectancy, from extremely good to the wholly unacceptable.²⁷ Simply to look at the average life expectancy is to ignore these patterns; if the Scottish Government's argument were to be accepted, pensions age would logically have to change depending on which part of Scotland someone lived in. Moreover, to set pension age on the assumption that Scots will continue, on average, to die younger than people elsewhere in the UK seems to us to be a doctrine of despair and to show no confidence that a separate Scotland could do anything to affect these unacceptable health outcomes.

18. It is important to note that the Scottish government are not promising to set a lower state pension age than the rest of the UK in the event of separation: they are merely proposing to "reserve judgement on the UK government's timetable for the SPA increase to 67 between 2026 and 2028".²⁸ But if separation were to occur and a decision were ultimately taken to abandon the increase to 67, the UK Government estimates this would cost people in Scotland around £6 billion between 2026/27 and 2035/36 and could see around £9 billion lost in GDP as people leave the labour market earlier than they would otherwise have done.²⁹

Dependency Ratio

19. The potential costs of not increasing the SPA in line with the rest of the UK cannot simply be ignored, nor can the particular demographic challenge that Scotland faces over the coming decades. At present, pensioners make up 19.8 per cent of the population of Scotland compared to 19.2 per cent in the rest of the UK. By 2032, this gap will have almost 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.³⁰ Obviously a very important factor in considering whether state old-age pensions are affordable is the so-called age dependency ratio, that is to say the number of pensioners as a proportion of the number of people of working age. This is because it is people of working age who pay the taxes from which pensions are met.

26 Jim Pickard and Sarah Neville, 'Lib Dems set to back 'triple lock' for UK state pensions', <http://www.ft.com/cms/s/0/4532b902-8aa3-11e3-9465-00144feab7de.html#axzz33mSqk7eo>, 2 Feb 2014.

27 National Records of Scotland, "Life Expectancy for Administrative Areas within Scotland 2010-2012, Including revised estimates for 2000-2002 to 2008-2010". For example, male life expectancy at birth for 2010-12 varies by up to 7.5 years between Council areas.

28 *Pensions in an Independent Scotland*, p.49.

29 *Scotland Analysis: Welfare and Pensions*, p.10.

30 *Scotland Analysis: Welfare and Pensions*, p.10. ONS population projections and DWP calculations.

This is the essence of national insurance. All across the Western world, this ratio is changing, as life expectancy increases, and because of the present age structure of the population. This affects the United Kingdom, though not as acutely as some other European countries. But it is, as we have seen, particularly important for Scotland. **Scotland's future higher age dependency ratio has very significant consequences for the affordability of old age pensions. The Scottish government have been very reluctant to acknowledge this reality.**

20. Indeed, the Scottish Government were rebuked by the UK Statistics Authority (UKSA) over their treatment of dependency ratio projections. In *Pensions in an Independent Scotland*, the Scottish Government argued that Scotland's dependency ratio will remain lower than that of the UK until around 2026, beyond which they will begin to converge. By 2035, they claim that the dependency ratio will be "...645 dependents per 1,000 working-age adults, compared with 639 dependents per 1,000 working-age adults in the UK as a whole."³¹ However, the UKSA notes that the Scottish Government choose to look at the overall dependency ratio, which includes children and people of pension age relative to working-age population, ignoring the age dependency ratio for just those of pension age. Because the dependency ratio for children is lower in Scotland than the UK (as there are fewer children per working-age person in Scotland) and is expected to remain so for many years, combining this figure with the age dependency ratio therefore paints a more favourable picture. If we look just at the dependency ratio for those of pension age, a substantial gap opens up between Scotland and the UK (to Scotland's disadvantage) well before 2035.³²

21. If Scotland chooses to remain part of the United Kingdom, these risks will be shared across the whole UK as they have always been. If it chooses to become separate, then the age dependency ratio represents a significant challenge for any future government of a separate Scottish state, which will have to find a solution to this looming problem, or potentially face substantial extra costs, which will most likely have to be funded through spending cuts to other areas of the state budget or through tax increases. The Scottish Government's preferred approach is to try and increase the number of working-age people living in Scotland contributing to the economy. As the Scottish Government's own White Paper on separation makes clear, one of the main ways it proposes to achieve this is by promoting immigration:

An independent Scotland can address population growth by creating new opportunities for young people to build their careers and families within Scotland, and through action to attract the right people with the right skills to Scotland – either Scots who have moved away or new migrants.³³

31 *Pensions in an Independent Scotland*, p.14.

32 Letter from Sir Andrew Dilnot, UK Statistics Authority, to Mr. Alasdair Darling MP, 28 October 2013. See also UK Statistics Authority, *Monitoring Report: Official statistics in the Context of the Referendum of Scottish Independence*, 2013, pp.10-11.

33 *Scotland's Future*, p.140.

Mass Immigration?

22. In his evidence to the Scottish Affairs Committee on 6 May 2014, the Minister of State for Pensions was asked how much immigration would be required in order to make up the gap in spending caused by Scotland's less favourable demographics and higher spending commitments: "The short answer is implausible levels. At any plausible level of migration, there is still a significant hit on the working-age population."³⁴ He provided some figures which take into account the cost of the Scottish Government's promises on pensions, other working-age welfare commitments (which we will consider in more detail in the next chapter) and demographic pressures. To begin with, the promises on increased pension benefits discussed above amount to an extra cost to Scottish taxpayers of £210 per working-age person per year:

If you add the demographic pressures—an ageing population and all of that relative to the working population—that is another £200, so you end up at £410 just on the pensions side. We think there is about another £40 on the working-age side. I will come back to migration in a second, but our headline number is £450 per working-age person to pay for demographics and the Scottish Government's promises.³⁵

23. Assuming a higher level of net immigration, of around 15,000 people per year, the cost per working-age person only comes down to £420, explaining the Minister's claim that "implausible" levels of immigration are required to neutralise the extra costs.³⁶

24. This view is backed up by comments made by David Phillips of the Institute for Fiscal Studies, in which he pointed to longer-term economic factors which would negate the impact of even very high levels of migration:

We looked at the high migration forecasts, which roughly had migration three times as high: rather than 9,000 people a year inward migration, 27,000 a year. We showed that that was not enough to close the fiscal gap that opened up in Scotland. In part that was because of greater ageing, but it was mostly because of the declining oil revenues in the long term.³⁷

25. The Scottish Government has set out a policy of increasing migration into Scotland so as to promote economic growth and make their policies more affordable. However, they have not acknowledged the challenges associated with the scale of migration that would be necessary. For many years Scotland has been a net exporter of population, and it is good news that in the most recent years Scotland has been attracting more people than have left. But migration requires careful management, especially for its effects on public services, such as schools. Even the highest estimates of likely additional migration which we have seen, such as those by the IFS, would be very challenging indeed to manage; and yet these levels are still not enough to address the affordability problems in relation to old age pensions which are thrown up by separation. Net inward migration of 27,000 a year over the first two decades of separation, the highest figure covered in projections by the IFS,

34 Q5493

35 Q5489

36 Qq5489-5492

37 Oral evidence taken on 29 April 2014, HC (2013-14), Q5325

would mean taking into Scotland migrants on a scale almost equivalent to the population of the city of Edinburgh.

26. Dr David Comerford of Stirling University, who gave evidence to us, has subsequently made public his estimates of the amount of immigration that would be needed to put Scotland in the same position as the UK as a whole in relation to the affordability of old age pensions.³⁸ All such projections are subject to uncertainty, as they depend on assumptions especially about migration which can only be verified after the event. Dr Comerford's estimate was that over the decades after independence, each year Scotland would have to have net migration of 23,000 people in order (on certain assumptions) to be in the same position as the UK as a whole. He describes this additional amount of migration as "relatively modest", but it would be a major change from Scotland's historical experience of net emigration. Over each six years, it would mean adding a city the size of Dundee to Scotland's population.

27. Migration into Scotland is something which should be discussed in rational and moderate terms, and the fact that in the most recent couple of years, Scotland's population has grown is something we welcome, as we welcome those from the rest of the UK, the EU and elsewhere who choose to settle in Scotland. But we have serious concerns that the affordability of pensions in a separate Scotland is predicated on sustained immigration over many decades. The consequences of that for a range of issues, including public services such as education and health, and housing supply, and for public opinion, would have to be carefully thought through, before we set off down such a road. Within the UK, that is not an issue we are forced to address simply to be sure of being able to afford our welfare state. The Scottish Government, however, are simply unwilling to discuss the costs and challenges associated with such a high level of net immigration, and have set out no plans for how it would be managed. This is deeply irresponsible, as well as misleading. It is also probable that in the long term new migrants may themselves add to pension costs.

28. It is also important to consider the potential knock-on effects the Scottish Government's proposals may have in other areas. A separate Scottish state would certainly have the right to pursue its own immigration policy and seek to encourage more people of working age to come and live in Scotland. However, this must be considered in the light of the Scottish Government's stated aim, in the event of separation, to establish a Common Travel Area (CTA) with the rest of the United Kingdom and Ireland along the lines of that currently in operation.³⁹ At present, the CTA operates on the principle of broad harmonisation of immigration policy amongst its constituent countries and regions. As the Immigration Minister James Brokenshire MP made clear to us previously, any move by a newly separated Scottish state to enact a markedly different immigration policy—i.e. encouraging substantially more people into the country—could prompt the Government of the continuing UK to seek to maintain the integrity of its own immigration policy and thus to implement an entry policy on the Scottish border, effectively precluding anything like the present CTA.⁴⁰

38 <http://scotfes.com/2014/03/06/the-ageing-population-problem/>

39 *Scotland's Future*, p.14.

40 Oral evidence taken on 9 April 2014, HC (2013-14), Q5276

Complexity of Pension Liabilities

29. The Scottish Government has made a commitment to take on its share of responsibility for state pension liabilities in the event of separation:

...for those people living in Scotland in receipt of the UK State Pension at the time of independence, the responsibility for the payment of that pension will transfer to the Scottish Government [...] for those people of working age who are living and working in Scotland at the time of independence, the UK pension entitlement they have accrued prior to independence will form part of their Scottish State Pension entitlement. Any pension entitlement accrued in Scotland after independence would also form part of that Scottish State Pension. On reaching the State Pension Age, their Scottish State Pension would be paid by the Scottish Government.⁴¹

30. For those who have accrued rights to a Scottish state pension, but who retire outside Scotland, the Scottish Government propose either to establish their own equivalent of the International Pensions Centre (which offers advice about the UK State Pension for those living overseas), or that the pension should be paid by the relevant institution of the country of residence concerned. For those who have built up state pension entitlements in a range of countries, the Scottish Government says that "...the current situation will continue. The only difference will be that, from independence, pension entitlement accrued from working in Scotland will be to the Scottish State Pension, rather than to the UK State Pension."⁴² The UK Government has however pointed out that Scotland may be liable for a greater share of the cost of pensions payable to UK pensioners living overseas.⁴³

31. In a letter to the Committee following his evidence session, Steve Webb noted that responsibility for state pension liabilities would be a subject of negotiation between the UK and Scottish Governments in the event of a 'yes' vote in the referendum. However, he also made clear the responsibilities that would most likely fall upon the Scottish Government:

While there are to be no pre-negotiations, I would think the Scottish people would expect their Government to take on full responsibility for paying pensions to people in Scotland including where liabilities had arisen before independence. Similarly people in the rest of the UK would not be expecting to guarantee or underwrite the pensions of those living in what would then have become a separate country. The security and sustainability of pensions being paid to people in Scotland would, therefore, depend on the ability of Scottish taxpayers to fund them.⁴⁴

32. Aside from the share of liabilities, however, there is also the technical issue of how to separate out Scottish cases from those related to the continuing UK. The UK Government's recent Scotland Analysis paper suggests that "...a system of complex bilateral

41 *Scotland's Future*, p.144.

42 *Ibid.* pp.145.

43 *Scotland Analysis: Work and Pensions*, p.65

44 Steve Webb, letter to Scottish Affairs Committee, 30 May 2014, pp.1-2, <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/scottish-affairs-committee/the-referendum-on-separation-for-scotland/written/10449.html>

arrangements would be needed for many years making it more difficult for individuals to work out their State Pension entitlement.⁴⁵

33. Given the expected decline in oil revenues and the projected higher number of dependents to those of working age in Scotland compared to the UK, the Scottish Government must provide more detailed costing of their proposed changes to the new Single-tier Pension settlement. In addition, we recommend that the Scottish Government bring forward their decision on whether or not to raise the SPA to 67 in the event of separation. The UK Government has already taken this step, and enough information already exists for the Scottish Government to be able to state clearly what it would do, given the choice. Greater certainty on this vital issue is essential, if voters are to be given the opportunity to make an informed choice.

Public Sector Pensions: Who Pays?

34. The Scottish Government has stated that it will take on a share of the UK's public sector pension liabilities in the event of separation.⁴⁶ It has sought to assure people that there "will be no difference to how much people pay for their pensions or the level of benefits they receive as a result of the move to independence".⁴⁷ However, this is not inevitable and will be dependent upon decisions taken by future Scottish Governments. The Scottish Government also argues that the necessary infrastructure to administer public sector pensions already exists in the form of the Scottish Public Pensions Agency⁴⁸. However, this deals only with certain public sector pension schemes notably those for teachers and NHS workers.⁴⁹ New arrangements would have to be made for others, such as civil service pension schemes.

35. The UK Government has estimated Scotland's share of public sector pension liabilities to be in the region of £100 billion.⁵⁰ A large proportion of public sector pensions are unfunded, meaning there is no dedicated set of assets or pot of money set aside; rather, today's workers pay for today's pensioners with, if need be, taxpayer support. The recent Scotland Analysis paper argues that the UK as a whole is better placed to shoulder the risks associated with large unfunded schemes like those for the NHS and teachers,⁵¹ while Steve Webb told us that, in 2013-14, pension schemes for Scottish teachers and nurses received £1.7 billion in contributions from current workers and employers, but paid out £2 billion, leaving a £300 million funding hole that had to be filled by the UK taxpayer. By 2018, the gap is set to double to £600 million.⁵² While Scotland is not unique amongst the regions of

45 *Scotland Analysis: Work and Pensions*, p.67.

46 *Scotland's Future*, p.139.

47 *Ibid.* p.149.

48 *Ibid.*, pp.149-150.

49 <http://www.sppa.gov.uk/>

50 *Scotland Analysis: Work and Pensions*, p.71. On the £100 billion figure the paper notes, "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."

51 *Ibid.* p.70

52 Q5454

the United Kingdom in requiring such support for pensions in payment, it is a fact that cannot be disregarded when considering the Scottish Government's proposals.

36. As with state pension liabilities, Mr. Webb also raised the problem of disentangling or disaggregating public sector pension liabilities in the event of separation. This could lead to problems in determining which state—the continuing UK or Scotland—would be liable for paying out:

If I am a member of the civil service, whether I work ... in Dundee or in Burnley does not matter—I am building up the same rights. We may not even know, for example, where somebody was when they did the work, if they are in a UK-wide scheme [...] The difficult thing to disentangle would not principally be the level of the pension right you had already built up—we have a figure for that; it would be who pays the bill. That would be the source of endless negotiation and take years to disentangle.⁵³

37. It is clear that the process of disentangling Scottish and UK-wide public sector pensions, and negotiating responsibility for their payment, will be a lengthy process. It could take years to resolve these questions.

Occupational and personal pensions: Who regulates?

38. Of course, people in the UK also save for their retirement through occupational or personal pensions. For all such schemes a stable, fair regulatory environment is essential, as individuals and companies are planning for the very long term. UK governments of all political persuasions have recognised this, and have also given people incentives through the taxation system to save for the long term in this way. Indeed, in an effort to ensure that more individuals save for their retirement, the UK Government has recently introduced changes requiring the automatic enrolment of employees onto occupational pension schemes. This policy is being rolled out gradually and should reach all firms by 2017-18.⁵⁴ The Scottish Government has accepted auto-enrolment as a necessary measure to increase levels of individual saving for retirement and has pledged to continue the policy in the event of separation.⁵⁵

39. In introducing auto-enrolment, the UK Government recognised that some smaller businesses might face difficulties in signing their employees up to private pensions. To pre-empt such market failure, the Government has established the National Employment Savings Trust (NEST), which has a legal obligation to take on *all* savers, regardless of the size of their investment. The Scottish Government have stated their desire to maintain access to the scheme for Scottish workers in any transitional period following a 'yes' vote in the September 2014 referendum.⁵⁶ However, their longer term goal is to establish a Scottish equivalent that would take on similar responsibilities in a future separate state.⁵⁷

53 Qq5513 and 5515

54 <https://www.gov.uk/government/news/new-timetable-clarifies-automatic-enrolment-starting-dates>

55 *Scotland's Future*, p.146.

56 *Pensions in an Independent Scotland*, p.62.

57 *Scotland's Future*, p.147.

40. Steve Webb gave us evidence about the potential for a Scottish version of NEST, arguing that it would struggle to achieve similar value for money to the current UK scheme, given that it would be operating at approximately one tenth of the scale of the present plan. He also raised the prospect of a lengthy wait for the establishment of a Scottish NEST, based on the experience of the UK scheme:

We had the Turner commission over a decade ago. NEST was only set up in 2012. We—the Government—had to lend NEST hundreds of millions of pounds to get started. We had to negotiate it with the EU, because of state-aid issues. Setting up a Scottish NEST would require, first, a lot of money up front, and secondly, negotiation with the EU—if they were in the EU.⁵⁸

41. Given these potential problems in setting up a Scottish NEST, with nowhere for employees of small businesses to go, Steve Webb warned that the whole process of auto-enrolment could come “to a grinding halt”.⁵⁹

42. Some other aspects of the Scottish Government’s proposals on occupational pensions are also found wanting when scrutinised in greater detail. A key problem is the underdeveloped, speculative nature of some of the Scottish Government’s proposals on occupational pensions. For example, their document, *Pensions in an Independent Scotland*, states somewhat vaguely:

A future Scottish Government would, of course, be able to vary arrangements for automatic enrolment in order to ensure effective implementation of the policy, informed by analysis of the level of saving needed by people in Scotland to maintain their standard of living in retirement. In considering any changes to the current arrangements, it would be important to achieve a balance to ensure that the level of employee contribution is not onerous and that the impact on employers, particularly small and medium-sized enterprises, is proportionate and affordable.⁶⁰

43. Similarly, on the issue of regulation, the White Paper on separation lacks clarity, making suggestions rather than firmer commitments:

We consider that the current arrangements for the protection of individuals’ pensions by the Pension Protection Fund (including its responsibility for the Financial Assistance Scheme and the Fraud Compensation Fund) should continue, with Scotland playing our full part. However, it will also be possible for the Scottish Government to establish a Scottish equivalent to the Pension Protection Fund. Individuals will have the same level of protection as they do now.⁶¹

44. Pension provision is an extremely important and sensitive issue, affecting every person in the UK. People understandably worry about the integrity of their retirement savings and want reassurance and certainty about how their money will be safeguarded. The Scottish Government’s vague and woolly statements on arrangements for the

58 Q5484

59 Q5484

60 *Pensions in an Independent Scotland*, p.61.

61 *Scotland’s Future*, pp.147-8.

regulation of private pensions are therefore of concern to the Committee, and we call for much greater clarity on exactly what changes the Scottish Government would or would not make to the present institutions and arrangements.

45. The Scottish Government's policy documents make other aspirational and vague statements on occupational pensions. For example, on the subject of providing savers with more regular and detailed knowledge about their pensions, *Pensions in an Independent Scotland* suggests,

A future Scottish Government could [...] ensure that individualized, accessible Scottish State Pension forecasts are provided direct to individuals on a regular basis from early in most people's working lives (for example, from age 25). Further development of private pension information could also be encouraged, making it easier to take decisions regarding any additional pension saving that might be required.⁶²

46. The document then goes on discuss possibilities for financial innovation without actually making any original product suggestions, "... a future Scottish Government would be able to work with the pensions industry, employers and other stakeholders on proposals to develop innovative pensions and other savings products."⁶³

47. Finally, in the same section there are hints about possible future changes to the tax treatment of pensions: "While this Scottish Government plans no immediate changes to the tax treatment of private pensions at the point of independence, future Scottish Governments will wish to consider whether adjusting tax relief arrangements would improve incentives to save."⁶⁴ These examples arguably serve to highlight the privileged position of the Scottish Government in the referendum debate, in being able to hint at possible future benefits in a hypothetical Scottish state, without feeling the need to make concrete promises. Such vagueness is particularly irresponsible in the area of pensions, where companies and individual workers have to take decisions which are of great significance for their personal financial futures, and have the right to expect that governments will act with a high degree of clarity and responsibility. This is lacking in the Scottish Government's vague suggestions about pensions.

48. Setting these aspirational claims to one side, more practical concerns have been raised about the Scottish Government's proposals on occupational pensions, compared to present arrangements. Steve Webb has pointed to the much larger risk pool represented by the UK and its Pension Protection Fund, which means that, if a defined benefit pension fund becomes insolvent, the costs can be absorbed, more easily than they could be by any potential Scottish equivalent, which would naturally operate at a much smaller scale.⁶⁵ This is a further example of the benefits of a larger risk pool provided by the UK.

62 *Pensions in an Independent Scotland*, p.65.

63 *Ibid.*

64 *Ibid.* p.66.

65 Q5450

EU rules on the funding of Cross Border Pension Funds

49. EU rules have a significant effect on occupational pensions and would constrain an independent Scotland, and not only in relation to the issue of NEST mentioned above. The IORP Directive (Institutions for Occupational Retirement Provision) is a pan-European prudential framework for occupational pensions, which includes the requirement that cross-border pension funds must be properly funded within a two-year time-frame.⁶⁶ In the event of Scottish separation, a new international border would be created, activating this requirement in relation to current UK-wide schemes. In his evidence to the Committee, Steve Webb described a potential scenario:

If you worked in Scotland for a big supermarket with headquarters in England, potentially you would immediately become a member of a cross-border scheme. If that supermarket scheme had a shortfall in it, within the next couple of years your employer would suddenly have to fill that gap or do complicated restructuring of the pension scheme. That is bad news for your employer. There are going to be costs associated with all of that. The current rules would allow the employer to fill the deficit over a reasonable length of time. If firms suddenly have to find that money in the short run, potentially that is bad news for the business.⁶⁷

50. The Institute of Chartered Accountants has noted that “EU solvency requirements (as currently interpreted) would have major cost and cash flow implications for employers with cross-border defined benefit and hybrid schemes [...]”.⁶⁸ However, in spite of the potential additional pressure the Directive could place on businesses to plug gaps in pension funds, the Scottish Government strike an optimistic tone, recommending that discussions begin “immediately” to negotiate transitional arrangements to allow flexibility for companies based in Scotland and the continuing UK. The White Paper argues that flexibility in interpreting the IORP Directive would be in the interests of the Scottish and Westminster Governments, the European Commission, employers and employees and that other EU Member states already interpret the rules in different ways.⁶⁹ However, this position seems to us to be little more than unsubstantiated wishful thinking and provides no security for the individuals or firms likely to be affected.

51. Uncertainty is inevitable when a decision as far reaching as the possibility of separation is being considered, and for some people, no doubt, the possibility of change is attractive. However, pensions require long-term, responsible stable government policies, because individuals and companies are making long-term commitments which matter a great deal. The Scottish government's approach is apparently to make ill-defined, uncostered and possibly undeliverable promises. This can only add to individuals' uncertainty about their financial future. Scottish ministers are free to make promises, but it is ordinary voters who may have to pay a price in terms of their long-term financial security.

66 *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.

67 Q5529

68 <http://icas.org.uk/News/ScotlandsPensionsFutureNewsrelease/>

69 *Scotland's Future*, pp.148-9.

4 Welfare (working-age benefits)

52. One policy area perhaps even more sensitive than pensions is working-age benefits. Since 2010, the Coalition Government has introduced a series of major reforms to the UK's system of social security, following earlier reforms. In recent years, the Committee has several times raised its concerns about changes to housing benefit which have been made as part of this reform process. For example, a report published in May 2014 urged the UK Government to abolish the Bedroom Tax, failing which, the Scottish Government should use its existing devolved powers to mitigate the impact of the Tax on social tenants.⁷⁰

53. Issues around welfare are extremely important, understandably taking up many newspaper column inches and provoking strong reactions from all schools of political opinion. They have also been a major feature of the referendum debate, with the Scottish Government proposing to take a different course on welfare policy from that taken by the present Coalition Government at Westminster.⁷¹ It is easy to make impressive promises about generous provision, but it is equally important to be able to back up those claims with practical plans to make them work. This chapter examines some of the practical issues raised by the Scottish Government's proposals.

54. The UK represents a large risk-pool and has a broad tax-base, and is better able to absorb economic shocks to particular regions and industries than a system operating at a smaller scale.⁷² It enjoys a long-established and well integrated social security infrastructure, with national computer systems, databases and a network of Job Centres to help unemployed people back into work. Proposals to break up the current arrangements, disentangle information on Scottish benefit claimants from UK systems and establish new infrastructure to deliver a new and separate Scottish welfare programme raise the prospect of a long and expensive period of transition.

Changes proposed by the Scottish Government

55. The White Paper on separation sets out a number of "priorities for action" on working-age benefits. Firstly, the Scottish Government plan to abolish the 'Bedroom Tax' within the first year of the first independent Scottish parliament.⁷³ We note that under the existing system of devolution agreement has been reached to mitigate the entire effect of the Bedroom Tax in Scotland in 2014-15 with the Committee having called for it also to be mitigated for 2013-14. We also note that the present opposition have promised, if elected, to abolish the Bedroom Tax throughout the UK in 2015, a year earlier than could be achieved by a separate Scotland. Two other major Scottish Government policy promises are to halt the roll-out of the new Personal Independence Payment (PIP) and Universal Credit (UC).⁷⁴ While the Scottish Government acknowledge that it will take time to

70 Scottish Affairs Committee, Fourteenth Report of Session 2013-14, *The Impact of the Bedroom Tax in Scotland: Devolving the DHP Cap*, HC 3.

71 *Scotland's Future*, p.151.

72 *Scotland Analysis*, p.7.

73 *Scotland's Future*, p.158.

74 *Ibid.* p.158.

establish an entirely new and separate social security system—which is what rejecting UC will ultimately entail—they plan to implement transitional measures to help those already in receipt of UC by May 2016. Specifically, they pledge to keep Housing Benefit as a separate benefit (rather than as part of the single UC payment), reinstate the system of direct Housing Benefit payments to social landlords, restore the ability of claimants to receive individual support rather than single household payments and equalise the earnings disregard between first and second earners. In addition, the Scottish Government also pledge to ensure that benefits and tax credits increase in line with inflation.⁷⁵ They do not however say what they will do for those people who will gain from UC.

Benefits and flexibility of a UK-wide system

56. It is important to consider the present system of working-age benefits in the context of the national labour market. People in the UK currently take full advantage of the ease with which they can travel between the constituent nations of the Union to seek out work. Current data shows that over half a million people born in England, Wales and Northern Ireland now live in Scotland, while 700,000 born in Scotland have subsequently moved to other parts of the UK.⁷⁶ This ease of movement is not simply due to the Common Travel Area and shared immigration policy, but is possible thanks to a whole range of shared rights, rules and institutions which means individuals and businesses can enjoy continuity across the length and breadth of the UK. As Steve Webb argued, “If you are working for a UK-wide company that wants you to work in Scotland, there is no issue about being paid in a different currency, your future state pension rights being built upon on a different basis or, if you lose your job, your benefit position being different.”⁷⁷

57. As mentioned above, the system of unemployment benefit in the UK is changing. The old Jobseekers’ Allowance is gradually being replaced, along with a range of other benefits, by Universal Credit (UC). The Scottish Government have proposed to halt further roll-out of UC and put in place measures to ensure that those already in receipt of it by May 2016 “are no worse off than anyone else” still receiving benefits under the old system.⁷⁸

58. Whatever the merits of these proposals in principle, care must be taken in considering how the Scottish Government will implement and operate markedly different welfare policies from the continuing UK. Particular issues arise over costs, timescales, and the flexibility of the IT systems used to administer nationwide benefits. The Scottish Government have accepted the recommendation of their Expert Working Group on Welfare that Scotland should share systems for the administration of welfare with the continuing UK for a “transitional period”, which they envisage lasting up until 2018.⁷⁹ However, drawing on experience of introducing changes to the UK benefit system, Steve Webb, explained that lead-in times for such major projects can be long, “The Welfare Reform Act that provided for universal credit to come in was in 2011, or early 2012, so the

75 Ibid. pp.158-9.

76 HM Government, *Scotland Analysis: Macroeconomic and Fiscal Performance*, p.5. Original source: 2001 Census.

77 Q5548

78 *Scotland’s Future*, p.158.

79 Ibid., p.165.

lead time is about six or seven years from getting the law through to having the payments on the ground to everybody, certainly when you are bringing together complex systems.”⁸⁰

59. These points indicate that Scottish Government’s proposal to establish an independent welfare system “that better reflects Scotland’s priorities” by 2018, just two years after their preferred independence date, is over-optimistic. In reality this process will take much longer.

The Costs of Establishing a New System

60. The costs of designing and creating new social security systems are also considerable. One-off costs for establishing a new IT system are estimated to be in the region of £300-£400 million, with additional costs on top of this for developing new policy and exiting any existing contracts.⁸¹ Moreover, as Steve Webb noted, these costs are fixed and do not alter depending on the size of the system, “whether you are doing it for 5 million or 50 million”, so Scotland could not hope to save money on this by virtue of its smaller population size.⁸²

61. In terms of other (non-IT) infrastructure, the Scottish Government have argued that Scotland already delivers “almost all parts” of the current benefits system to the people of Scotland from within Scotland.⁸³ This is simply not so. Some benefits claimed in Scotland are administered only in England and Wales, namely Attendance Allowance, Industrial Injury Disablement Benefits, Maternity Allowance, Carer’s Allowance and Bereavement Benefits, while Child Benefit claims are processed in Washington, Tyne and Wear, for the whole of the UK. Moreover, some benefits for England and Wales are administered in Scotland.⁸⁴ Clearly a complex process of disentangling would have to be undertaken in order to separate Scottish claimants from those of the continuing UK.

62. However, before a truly separate and autonomous Scottish social security system could be established, transitional arrangements would have to be agreed upon for delivering welfare in the interim period. While the Scottish Government has indicated it would want to start deviating substantially from UK welfare policy as soon as possible—for example by halting further roll-out of UC and separating Housing Benefit from the new single payment—Steve Webb explained the difficulties of attempting to operate different policies at the same time, sharing the same computer systems:

[The Scottish Government] anticipate paying the UK Government, presumably, to go on administering these things post-independence, but the UK Government will only be administering UK social security benefits according to UK rules, so there will be a computer system delivering universal credit, personal independence payment and all these things. The UK Government will not want to jeopardise what it delivers to its own citizens by changing its computer systems to do versions of its own benefits system that work for a different country. Either the Scottish Government

80 Q5569. The UK Government aims to see Universal Credit fully implemented by 2017, <https://www.gov.uk/universal-credit>.

81 *Scotland Analysis*, p.12.

82 Q5570

83 *Scotland’s Future*, p.165.

84 *Scotland Analysis*, pp.77-78.

sets up its own systems or it pays the continuing UK Government to run UK benefits, but what it cannot do is immediately deliver its own version of those benefits.⁸⁵

63. The Minister was pressed further on this question of sharing IT systems, and asked why pre-Universal Credit systems could not continue to be used to administer Scottish policies. While Steve Webb accepted that old systems still exist, he raised doubts about the possibility of continuing to run them:

I think it is very unlikely that the UK Government will want to be running what we call in the jargon legacy systems; a lot of them, not all, are very old, and some we are eking out until the day when we can switch them off. To keep them going into the medium term would probably cost a lot of money. I cannot see the UK Government wanting to spend that money, or to be diverted from doing the day job. That is the important point. The UK Government will still be trying to pay hundreds of billions of pounds in benefits and pensions to its own citizens; it will not want to be diverted to running legacy systems for a small number of people.⁸⁶

64. Evidence given by David Phillips of the IFS, however, offers a different perspective. When questioned on the feasibility of variations in welfare policy between Scotland and the continuing UK during any transition period, he pointed out that variations occur even within the current UK system:

For instance, for a while we had things like the lone parent obligations operating in some parts of the country but not in others. We had in-work credits and work-related activity payments operating in different parts of the country [...] DLA—the thing that PIPs is replacing—will still be operating in the rest of the UK at least for some claimants for most of that time. Most people will not be rolled on to universal credit until 2018 anyway. There is experience in the past of having two systems with slightly different parameters operating at the same time.⁸⁷

65. However, Mr Phillips recognised that difficulties would arise in making more significant changes, which is why the Scottish Government will have to bring in their own system. As Steve Webb has suggested however, it may be a question of multiple computer systems, given the range of separate benefits being mooted:

Bear in mind that universal credit replaces three separate streams of benefit: local authority housing benefit, or rent rebates; DWP jobseeker's and ESA; and tax credits. The Scottish Government would have to keep, presumably, three separate computer systems going for those three things. It would not have the personal independence payment; it would have disability living allowance, so it would need a system for that. It would keep the savings credit bit of the pension credit, which we are getting rid of for new cases, so it would have to add a bit. You start to see multiple systems over many years. Trying to merge all of those into one has proven demanding to the DWP over a period of many years. These things take several years to do, even when

85 Q5564

86 Q5567

87 Qq5425-5426

you have had plenty of time to think them through, plan and get the legislation through. Before you do the systems you write the laws, so the lead times on these things are huge.⁸⁸

66. There is clear evidence that the process of establishing a new welfare system would be difficult and costly. Our evidence indicates that the process would take many years, and we do not believe that interim changes of the sort the Scottish Government has promised could be made in the timescale it has set; nor is it clear that UK systems could in reality be used to administer two separate benefits regimes. The Scottish Government should produce further analysis of the methodology and costings by which a transitional welfare system could be implemented. The Scottish Government should not make promises it cannot deliver.

Formal Minutes

Wednesday 2 July 2014

Members present:

Mr Ian Davidson, in the Chair

Mike Crockart
Jim McGovern
Graeme Morrice

Pamela Nash
Mr Alan Reid
Lindsay Roy

Draft Report (*The Referendum on Separation for Scotland: Implications for Pensions and Benefits*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 66 read and agreed to.

Summary agreed to.

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 8 July at 11.15 am]

Witnesses

The following witnesses gave oral evidence. The evidence is available on the Committee's website at www.parliament.uk/scotaffcom

Wednesday 5 March 2014

Question number

Professor Robert Wright, Professor of Economics, Strathclyde University, and **Dr David Comerford**, Professor of Economics, Stirling University Qq4862 - 5095

Tuesday 29 April 2014

Professor Kenneth Gibb, Professor of Housing Policy, University of Glasgow, **Dr Sharon Wright**, Senior Lecturer in Public Policy, University of Glasgow, and **David Phillips**, Senior Research Economist, Institute for Fiscal Studies Qq5319 – 5449

Tuesday 6 May 2014

Rt Hon David Mundell MP, Parliamentary Under-Secretary of State for Scotland, Scotland Office, and **Steve Webb MP**, Minister of State for Pensions, Department for Work and Pensions Qq5450 - 5615

List of published written evidence

The following written evidence was received and can be viewed on the Committee's inquiry web page at www.parliament.uk/scotaffcom.

1 Steve Webb MP, Minister of State for Pensions ([RSS0004](#))

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Postal Services in Scotland	HC 669 (HC 884)
Second Report	Video Games Industry in Scotland	HC 500 (Cm 8067)
Third Report	UK Border Agency and Glasgow City Council	HC 733
Fourth Report	The Scotland Bill	HC 775
Fifth Report	Student Immigration System in Scotland	HC 912 (Cm 8192)
Sixth Report	The Referendum on Separation for Scotland: Unanswered Questions	HC 1806
Seventh Report	The Crown Estate in Scotland	HC 1117
Eighth Report	The Referendum on Separation for Scotland: Do you agree this is a biased question?	HC 1942

Session 2012–13

First Report	A Robust Grid for 21 st Century Scotland	HC 499
Second Report	The Referendum on Separation for Scotland: making the process legal	HC 542
Third Report	The Referendum on Separation for Scotland: a multi-option question?	HC 543
Fourth Report	The Referendum on Separation for Scotland: Terminating Trident—Days or Decades?	HC 676 (HC 861)
Fifth Report	The Future of HM Coastguard in Scotland	HC 583
Sixth Report	The Referendum on Separation for Scotland: The proposed section 30 Order—Can a player also be the referee?	HC 863
Seventh Report	The Referendum on Separation for Scotland: Separation shuts shipyards	HC 892
Eighth Report	The Referendum on Separation for Scotland: How would Separation affect jobs in the Scottish Defence Industry?	HC 957 (HC 257)
Ninth Report	Blacklisting in Employment: Interim Report	HC 1071

Session 2013–14

First Report	Remploy Marine Fife	HC 454
Second Report	The Referendum on Separation for Scotland: The Need for Truth	HC 828
Third Report	The Referendum on Separation for Scotland: A Defence Force for Scotland—A Conspiracy of Optimism?	HC 842
Fourth Report	The impact of the Bedroom Tax in Scotland: Interim Report	HC 288
Fifth Report	The Crown Estate in Scotland: follow up	HC 889
Sixth Report	Blacklisting in Employment: addressing the crimes of the past; moving towards best practice	HC 543
Seventh Report	Referendum on Separation for Scotland: the impact on higher education, research and tuition fees	HC 1144
Eighth Report	Land Reform in Scotland: Interim Report	HC 877
Ninth Report	The impact of the Bedroom Tax in Scotland: Plan B—charges, arrears and refunds; incorporating the Government Response to the Committee's Fourth Report of Session 2013-14	HC 937
Tenth Report	Zero Hours Contracts: Interim Report	HC 654
Eleventh Report	Power Outages and Extreme Weather Conditions in the West of Scotland	HC 484
Twelfth Report	The Referendum on Separation for Scotland: Scotland's membership of the EU	HC 1241
Thirteenth Report	Blacklisting in Employment – Update: Incorporating the Government's Response to the Sixth Report of Session 2013-14	HC 1291
Fourteenth Report	The Impact of the Bedroom Tax in Scotland: Devolving the DHP cap	HC 1292