BW 07
Ymchwiliad i Fudd-daliadau yng Nghymru: opsiynau i'w cyflawni'n well Inquiry into Benefits in Wales: options for better delivery
Ymateb gan: Canolfan Llywodraeththiant Cymru
Response from: Wales Governance Centre

PRIFYSGOL CAERDYDD CARDIFF UNIVERSITY | Dadansoddi Cyllid Cymru | Wales Fiscal Analysis

Written evidence to Equality, Local Government and Communities Committee

Benefits in Wales: options for better delivery

The following evidence paper has been prepared by the *Wales Fiscal Analysis* team at the Wales Governance Centre, Cardiff University. It summarises the findings of our report into the fiscal sustainability of devolving aspects of welfare to the Welsh Government. The full report, *Devolving Welfare: How well would Wales fare?*, is available for download at the following web address:

https://www.cardiff.ac.uk/__data/assets/pdf_file/0010/1476352/devolving_welfare_final2.pdf

1. Introduction

1.1 The Scotland Act (2016) made provisions for devolving control over 11 welfare benefits to the Scottish Government. Among these were ill health and disability benefits (including Disability Living Allowance, Personal Independence Payment, and Attendance Allowance) and several miscellaneous, smaller benefits (including Cold Weather Payment, Discretionary Housing Payment and Winter Fuel Payment).

1.2 The Act also conferred several other powers including the ability to create new social security benefits in non-reserved policy areas, vary elements of Universal Credit and top-up existing benefits.

1.3 This evidence paper summarises findings from our report, *Devolving Welfare: How well would Wales fare?*, examining the fiscal implications of devolving these benefits (hereafter referred to as S-benefits) to Wales.

1.4 We do not endorse a recommendation either a way on whether S-benefits ought to be devolved to Wales. There are other considerations besides the fiscal sustainability of the proposal that ought to inform that decision. Rather, we seek to answer whether devolving S-benefits to Wales would be fiscally sustainable and outline the risks and opportunities associated with their devolution.

2. Spending on S-benefits in Wales

2.1 In 2017-18, identifiable Welsh expenditure on those benefits that have been devolved to Scotland amounted to £2.03 billion (Figure 2.1). Total devolved and non-devolved social protection spending in Wales in that year was £14.57 billion, meaning that S-benefits accounted for 13.9% of that total.[1]

2.2 Had S-benefits been devolved, Welsh-administered welfare payments would have accounted for 35.8% of devolved and non-devolved Welsh social protection spending in 2017-18.

Figure 2.1

Total Welsh identifiable expenditure on benefits devolved to Scotland (S-benefits), 2017-18

Benefit	Outturn 2017-18 (£'000s)	Share of total (%)
Personal Independence Payment and Disability Living Allowance	1,264,071	62.3
Attendance Allowance	378,589	18.7
Carer's Allowance	176,996	8.7
Winter Fuel Payment	110,247	5.4
Industrial Injuries Disablement Allowance[2]	55,501	2.7
Cold Weather Payment	21,520	1.1
Severe Disablement Allowance	10,249	0.5
Discretionary Housing Payment	9,744	0.5
Sure Start Maternity Grants	1,295	0.1
Total	**2,028,212**	**100.0**

Source: HM Treasury (2018) Country and Regional Analysis

2.3 In 2017-18, per capita spending on S-benefits in Wales was £649, markedly higher than the equivalent figure for England, which was £434.

2.4 Per capita spending on S-benefits in Wales has been falling relative to the English level since 2010-11. Welsh spending on S-benefits has fallen from 154.5% of the English level to 149.7% between 2010-11 and 2017-18.

2.5 The recent convergence in per capita spending levels can largely be attributed to an even more dramatic convergence in per capita spending on Personal Independence Payments and Disability Living Allowance — this has decreased from 171.4% to 156.9% of the English level between 2010-11 and 2017-18. Reasons for this

[1] Unless otherwise noted, all figures cited in this section are based on *Country and Regional Analysis* datasets published by HM Treasury.

[2] The Scottish Government recently announced the abandonment of plans to devolve the Severe Disability Allowance citing a small and declining caseload. See, https://www.gov.scot/publications/severe-disablement-allowance-policy-position-paper/

convergence include the fact that claimant rates for these benefits are growing relatively slower in Wales, and there is significantly less variation in claimant rates between the two countries among younger generations.[3]

2.6 Even in the absence of S-benefit devolution, past trends and future projections suggest that we can expect the convergence in per capita spending on S-benefits to continue (Ifan & Siôn 2019: 18).

3. Trends and patterns in the characteristics of S-benefit claimants in Wales

Personal Independence Payment (PIP) and Disability Living Allowance (DLA)

3.1 Between February 2004 and February 2018, the number of Welsh claimants for Disability Living Allowance (DLA) and Personal Independence Payment (PIP) increased by 41,677, representing an average growth rate of 1.4% a year. This is markedly less than the equivalent growth rate in England over the same period which was 3.1% a year.[4]

3.2 Were S-benefits devolved and assuming that current trends continue, the slower rate of increase in the size of the Welsh caseload could help mitigate some of the effects of the "Barnett Squeeze" by allowing Wales to take advantage of relatively larger yearly increases in spending on PIP and DLA payments in England and relatively smaller annual increases in the caseload size in Wales.[5]

3.3 Although PIP and DLA claimant rates are higher in Wales across all age groups, this is particularly so among the over 65 cohort. In Wales, over 65s are nearly twice as likely to be claiming PIP or DLA as in England, whereas for those under 25, the rate is roughly similar for both countries (Figure 3.1).

3.4 Claimant rates among the 45 – 64 age cohort have been in steady decline in Wales over the past 18 years whereas in England, there has been relatively little change in this figure (Figure 3.1). The declining claimant rate in Wales may reflect the population who used to work in heavy industries (disproportionately affected by disabilities) making the transition to the over 65 cohort (Ifan & Siôn 2019: 24-26).

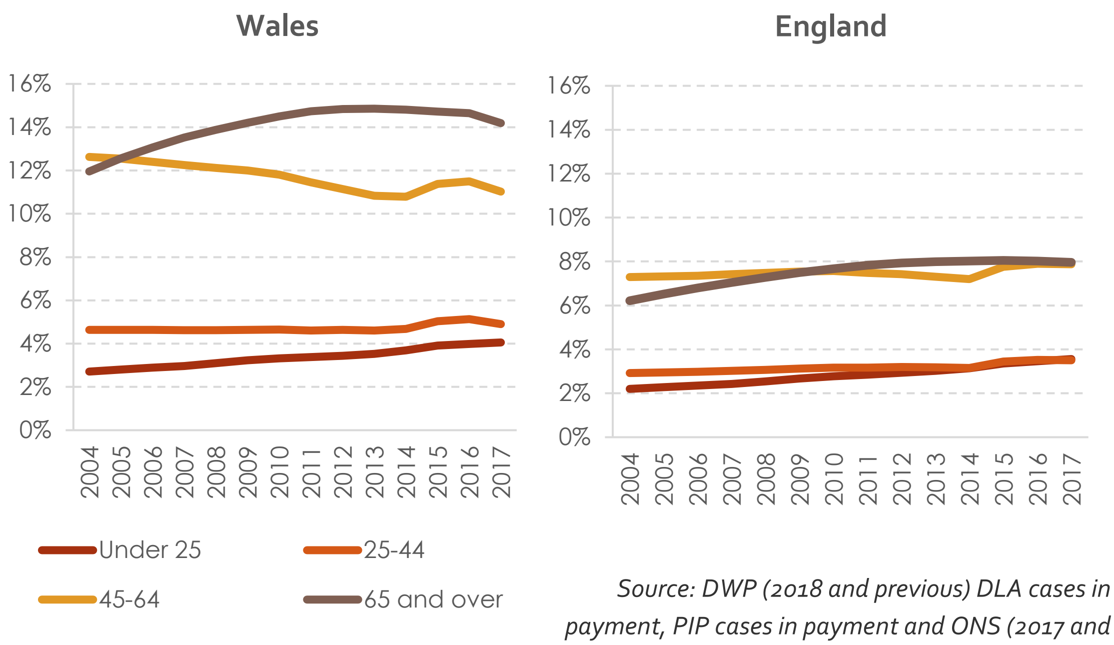
3.5 PIP/DLA claimant rates are highest in Merthyr Tydfil (12.4%) and Neath Port Talbot (12.1%) and lowest in Gwynedd (5.5%) and Monmouthshire (5.6%). Generally,

[3] See, Paragraph 3.3 and Figure 3.1 for further details.
[4] Claimant data presented in this section has been sourced from datasets produced by the Department for Work and Pensions (DWP) and published online on *Stat-Xplore*.
[5] The *Barnett Squeeze* refers to an in-built property of the Barnett formula which means that if spending is growing in England, it results in convergence in per person spending over time between Wales and England (Poole & Ifan 2016: 10).

claimant rates are higher in the densely populated, post-industrial communities of south Wales and lower in rural local authorities.

Figure 3.1

DLA and PIP claimant rates by age group, 2004-2017



Source: DWP (2018 and previous) DLA cases in payment, PIP cases in payment and ONS (2017 and previous) Population mid-year estimates

Attendance Allowance (AA)

3.6 In February 2018, there were 94,759 people in receipt of AA in Wales. This is down from a high of 115,637 in November 2009.

3.7 In 2004, the AA claimant rate among over 65s was 20.0% in Wales, compared to 14.4% in England. By 2017, this gap had narrowed and the claimant rates were 14.8% and 12.1% respectively.

3.6 The absolute size of the AA caseload is projected to increase by roughly 7,000 (7.2%) in Wales between 2017 and 2030 whereas in England, the caseload is projected to grow by 173,000 (14.2%) (Ifan & Siôn 2019: 26-27).[6]

3.7 The relatively modest projected increase in Wales is partly a result of claimant rates declining relatively faster in Wales in recent years and projections that the over 65 population will grow more quickly in England than in Wales over the next decade.[7]

[6] See Appendix 1 in the full report for forecast methodology.

[7] As a share of the total population, the population over 65 will continue to grow more quickly in Wales.

3.8 Conwy has the highest AA claimant rate of all Welsh local authorities (4.0%). Conwy is also the local authority with the highest share of over 65s as a proportion of its total population.

3.9 Conversely, Cardiff's low claimant rate (2.2%) will be attributable to the capital having a relatively small share of over 65s as a proportion of its total population.

Carer's Allowance (CA)

3.10 Between 2004 and 2017, the CA caseload size in Wales has increased by 21,691 (74.0%) compared to 341,602 (97.0%) in England.

3.11 Using our forecast model, the Wales caseload will have increased to 84,000 by the end of the next decade (four times the 2004 level) (Ifan & Siôn 2019: 30).

3.12 The local authority with the highest CA claimant rate is Neath Port Talbot (2.6%) and the lowest is Monmouthshire (1.0%).

4. The fiscal implications of welfare devolution

4.1 The devolution of specific social security benefits to the Welsh Government would require a transfer of funding from the UK government and an appropriate fiscal framework thereafter. These fiscal arrangements would determine the type of financial risks borne by the Welsh Government after devolution.

4.2 Under the **Barnett formula**, subsequent changes to the block grant would equate to a Welsh population share of changes in spending on S-benefits in England

4.3 An in-built property of the Barnett formula is that if spending is growing in England, it results in convergence in per person spending over time between Wales and England. This is because the same pounds-per-person increase in spending in Wales and England represents a smaller percentage increase in Wales (Poole et al. 2016: 10). Over time therefore, one would expect per person spending levels on S-benefits to converge unless resources are found from elsewhere in the Welsh budget.

4.4 As a result of the fiscal framework agreement of December, increments to the Welsh block grant triggered by the Barnett formula are now multiplied by a **Needs-Based Factor (NBF)** of 105%.[8] This leads to larger increases in the Welsh block grant and thus limits the rate of convergence in relative spending levels.

4.5 An alternative method of calculating subsequent block grant changes discussed in the Scottish Fiscal Framework negotiations was the **Indexed Per Capita (IPC)** method. Under this method, if spending per person on S-benefits grows by 5%, then Wales'

[8] The NBF level will switch to 115% if total relative spending per person in Wales on devolved areas converges to 115% of the English level.

block grant change for S-benefits would also grow by 5% per person. The IPC method does not therefore have the same convergence property as the Barnett formula, and Wales' initial per person spending difference would essentially be 'locked in' after devolution. Under this method, the Welsh Government would not face the risk of convergence in relative funding, but would still bear the risk and rewards of differential growth in needs.

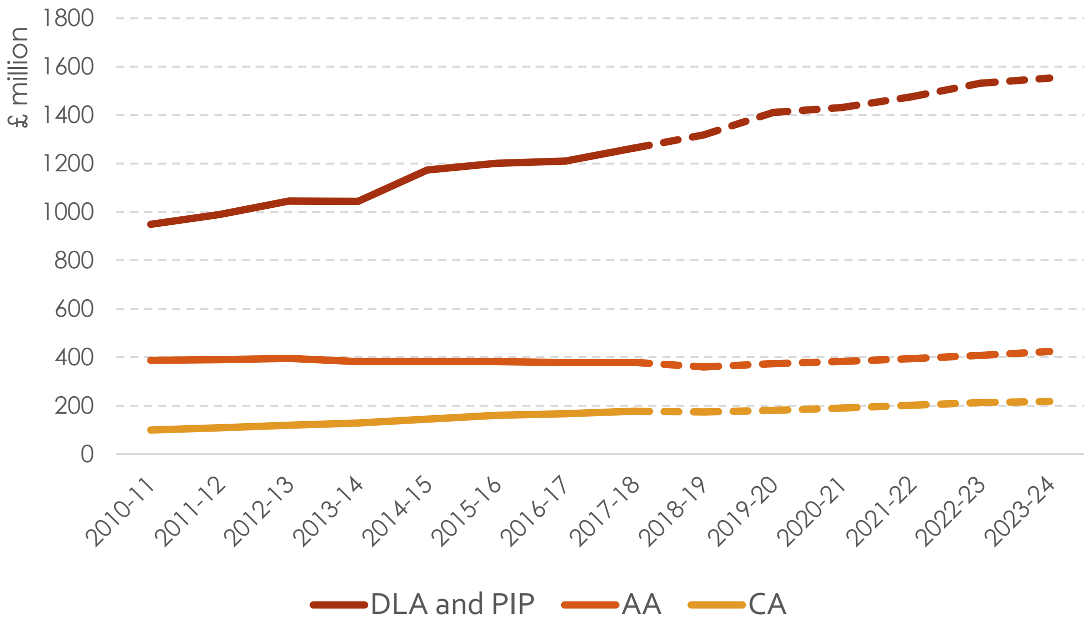
4.6 Another method of determining changes to the Welsh block grant would be the **Comparable Model (CM)**. This method would mirror the arrangements for adjusting the Welsh block grant to account for tax devolution. Under the CM method, this comparability factor would be adjusted to reflect relative spending per person in Wales compared with England at the point of devolution (e.g. 146% in the case of the Attendance Allowance), in the same way that the comparability factor used in the tax devolution calculations are set to reflect relative tax revenues per person in Wales.

4.7 Assuming that S-benefits had been devolved in 2011-12, we can use outturn data to calculate the hypothetical net effect of devolving these benefits. Using the simple Barnett Formula with the Needs-Based Factor of 105% in place, these net 'losses' would have amounted to £8 million a year on average from 2011-12 to 2017-18, or around 0.4% of what was actually spent on S-benefits in Wales over this time period. However, had the method agreed for Scotland been in place - the IPC method - the Welsh Government would have been substantially better off. The surplus to the Welsh Government would have amounted to £132 million a year in 2017-18. The CM would have yielded similar results.

4.8 Using our caseload projections for England and Wales and applying these to the OBR forecasts of projected UK expenditure on DLA/PIP, CA and AA, we can forecast spending on these benefits in Wales up to 2023-24 (Figure 4.1). Between 2017-18 and 2023-24, spending on DLA and PIP is projected to increase by £288.6 million (22.8%). Over the same period, spending on AA is projected to increase by £45.1 million (11.9%) and CA spending is projected to increase by £40.3 million (22.8%).

Figure 4.1

Projected expenditure on DLA/PIP, AA and CA in Wales, 2018-19 to 2023-24



Source: See Appendix 1 of full report for forecast methodology

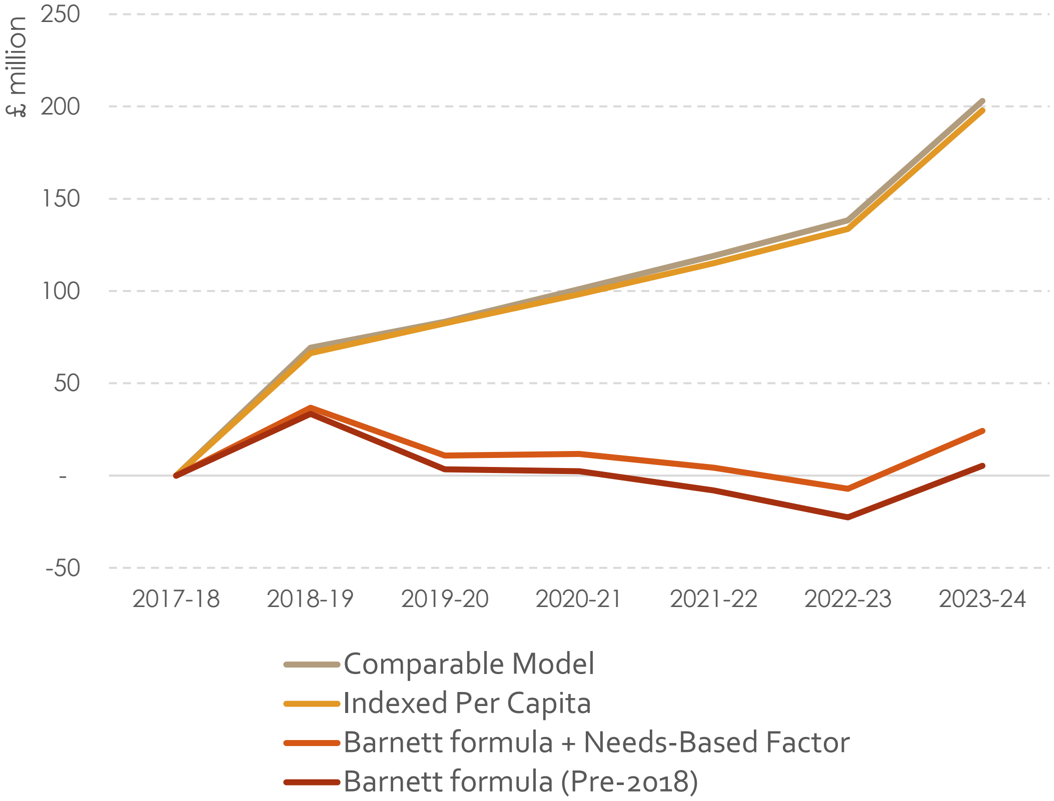
4.9 Using 2017-18 as a baseline year (the latest year for which outturn data is available) and assuming that DLA/PIP, CA and AA were devolved to Wales in 2018-19, we can calculate the projected net effect of devolving these benefits, by calculating the funding the Welsh Government would receive based on projected spending in England.

4.10 Determining block grant changes using the IPC method (as was agreed in Scotland) or CM would result in a large projected surplus from the devolution of these benefits. By the end of the forecast period, this surplus would amount to around £200 million a year (Figure 4.2).

4.11 Even using the Barnett formula with the additional Needs-Based Factor of 105%, we project that the Welsh Treasury would be better-off by an average of £13.8 million a year over the forecast period as a result of S-benefit devolution.

Figure 4.2

Projected net effect of devolving PIP/DLA, CA and AA, using 2017-18 as a baseline year, 2018-19 – 2023-24



Source: See Appendix 1 of full report for forecast methodology

4.12 The devolution of S-benefits to Wales would also involve administration and implementation costs. As part of the Scottish Fiscal Framework, it was agreed that the UK government would provide £200 million to support the implementation of new powers in Scotland and a baseline transfer of £66 million to cover ongoing administration costs (Scottish Government & HM Government 2016: 5). It has since been estimated that the implementation costs for the new social security powers to Scotland will amount to £308 million over four years (Audit Scotland 2018: 13).

5. Welfare devolution: risks and opportunities

5.1 The demand-led nature of benefits would make it appropriate to increase the Welsh Government's resource borrowing powers to use as a budget management tool. Some additional borrowing powers were conferred to the Scottish Government as part of the fiscal framework agreement (HM Government and Scottish Government 2016: 9-10).

5.2 Since the net effect of devolution is likely to differ between benefits, this strengthens the case to devolve a package of benefits to manage the risk.

5.3 It would also make sense for the Welsh Government to lead a campaign to increase uptake of benefits to be devolved in the year immediately preceding their devolution to ensure that number of claimants during the baseline year closely reflects the number of eligible claimants in that year. In particular, the *Bevan Foundation* has previously expressed concern that Attendance Allowance is under-claimed in Wales (Bevan Foundation 2016: 26).

5.4 If a similar fiscal framework agreement to the one negotiated by the Scottish Government had been agreed by the Welsh and UK government, and powers over S-benefits were devolved to Wales in 2018-19, we project that the Welsh Treasury would have been cumulatively better off by £700 million by the end of 2023-24.

5.5 If the Welsh Government were to commit to devolving elements of the welfare system, it would be prudent to adopt a strong negotiating position that favours the Indexed Per Capita mechanism or Comparability Model for allocating funds via the block grant. The fact that one of these arrangements is currently in place in Scotland means that there is precedent for such an agreement.

5.6 We find no evidence to suggest that devolving these powers to the Welsh Government would be fiscally unsustainable. Moreover, depending on the precise Barnett mechanism used and the outcome of negotiations with the UK government, the Welsh Treasury could stand to benefit considerably from the devolution of welfare powers. This is in addition to any benefits associated with having control over new policy levers.

Cian Siôn & Guto Ifan
10 April 2019

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About Wales Fiscal Analysis

Wales Fiscal Analysis (WFA) is a new research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation and public expenditures of Wales.

The WFA programme adds public value by commenting on the implications of fiscal events such as UK and Welsh budgets, monitoring and reporting on government expenditure and tax revenues in Wales, and publishing academic research and policy papers that investigate matters of importance to Welsh public finance, including the impact of Brexit on the Welsh budget and local services, options for tax policy, and the economics and future sustainability of health and social care services in Wales.

Working with partners in Scotland, Northern Ireland, the UK and other European countries, we also contribute to the wider UK and international debate on the fiscal dimension of devolution and decentralisation of government.

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