IPPR NORTH

POVERTY AND DEVOLUTION

THE ROLE OF DEVOLVED GOVERNMENTS IN A STRONG NATIONAL SOCIAL SECURITY SYSTEM

REPORT

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Institute for Public Policy Research

ABOUT IPPR NORTH

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CONTENTS

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SUMMARY

Background

The devolved administrations exercise considerable autonomy when it comes to tackling poverty: for instance, major areas of economic development, education, health and housing policy are the responsibility of the devolved institutions. Moreover, the devolved bodies have complete autonomy over how they allocate their budgets. For these reasons devolution has resulted in some notable policy differences across the nations of the UK and the degree of policy innovation in respect of anti-poverty measures has continued since the Joseph Rowntree Foundation (JRF) published its review in 2010 (McCormick and Harrop 2010).

However, in other respects the devolved administrations remain significantly constrained: most obviously social security is not devolved – other than to a limited extent in Northern Ireland – and since welfare policy[1] has a significant role in tackling poverty, it is clear that anti-poverty measures in the nations of the UK depend on a mix of UK and devolved policy interventions.

The current division of powers between the devolved institutions and the UK government is in a state of flux. Following the Scottish independence referendum and the subsequent Smith Commission, the powers of the Scottish parliament will be increased considerably. In particular, the parliament's revenue powers are likely to be strengthened (above and beyond those set out in the Scotland Act 2012) and it will also acquire powers over the 'redistributive' aspects of policy with control over certain benefits devolved.

Devolution in Wales is also particularly fluid: the Welsh assembly gained primary legislative powers[2] following the 2011 referendum and is set to gain new devolved areas and stronger fiscal powers on the back of the Silk Commission. The devolution debate in Northern Ireland is less prominent and has focussed on the ability to cut certain taxes to aid the province's competitiveness but opposition to welfare reform is growing across the assembly divide.

In this context, this report has two broad aims: first, to assess the impact of recent and current anti-poverty strategies pursued by the devolved administrations, including taking account of the interaction between devolved and reserved powers that affect poverty reduction; and second, to highlight whether there is the potential for further empowering the devolved institutions in their efforts to reduce poverty. In particular the report will:

- assess variations in levels of poverty across the UK, focussing particularly on the period since 2010 and the impact of the economic downturn, and on child poverty, pensioner poverty and important cost of living issues
- consider how different approaches to tackling poverty have varied across the UK in recent years and assess the appetite in the various devolved institutions for further devolution to enhance their efforts to reduce poverty
- address the case for the further devolution of a limited number of benefits with a view to strengthening the capacity of the devolved nations to tackle poverty.

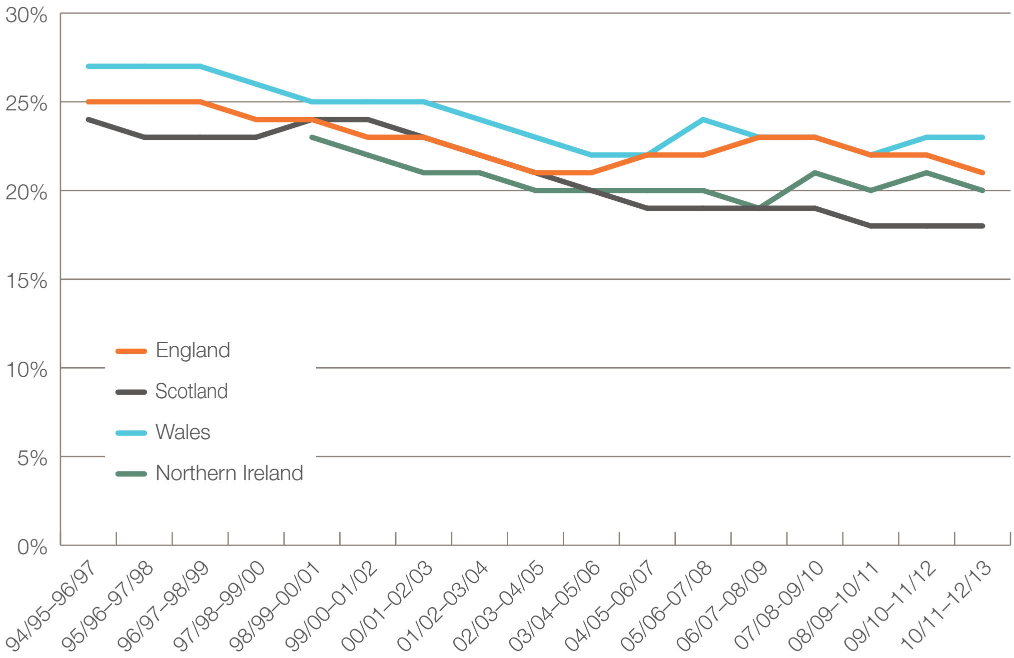
1 Both social security payments and wider social assistance provision.

2 This means that the Welsh assembly can now pass laws on all devolved matters without first needing the agreement of the UK parliament.

Patterns of poverty in the nations and regions of the UK

The nations of the UK have seen significant decreases in headline levels of poverty over the past two decades, particularly in the years before the economic downturn. Since 2007, the path of poverty in the nations of the UK has shifted: from a general picture of falling poverty levels, to a more nuanced one. Poverty levels in England have resumed their gradual downward path, while the lowest levels of poverty in the UK, found in Scotland, have stabilised in the last three years. In Wales and Northern Ireland, increases in poverty have been more marked, but in the former they appear to have stabilised, while in the latter they appear to be falling again.

Figure 1
Share of households living below 60 per cent median income (relative poverty), after housing costs



Source: DWP 2014a

Furthermore, the most recent data shows a return to a degree of convergence between England and Northern Ireland (with 21 per cent and 20 per cent, respectively, of individuals living in households of 60 per cent or below median incomes after housing costs). Meanwhile, the data shows the gap between the highest (Wales at 23 per cent) and lowest rates (Scotland at 18 per cent) had grown to five percentage points – the widest difference since 2006.

These headline figures mask a series of other important characteristics about the nature of poverty in the nations and regions.

There are significant differences between the UK nations before and after housing costs are taken into account. The highest levels of poverty are found in Northern Ireland *before* housing costs and in Wales *after* housing costs. Yet, the extent of housing cost-induced poverty is most evident in England, where the share of the population living in poverty increases most once housing costs are taken into account. According to Tunstall et al (2013), the English housing market has typically higher rents and house prices than the other parts of the UK, with England affected the most by housing cost-induced poverty: that is, a six percentage point difference in poverty levels before and after housing costs are included. The most marked jumps in poverty are evident in the most expensive parts of the housing market, such as in London, while the lowest rises in housing cost-induced poverty are found in the more affordable housing markets of Wales and the North East of England. This is in large part due to a failure of policy in coping with housing demand pressures in England, particularly in London and the South East (Bailey 2014).

Child poverty before housing costs has continued to fall across all nations even in the years since the economic downturn, with England and Scotland experiencing the most significant falls. However, after housing costs are taken into account, rates of child poverty have increased in Wales and Northern Ireland since the recession. In Wales, child poverty after housing costs is now at 31 per cent, the same position as it was a decade earlier. Recent research by the Institute of Fiscal Studies (IFS 2014) suggests, however, that child poverty is set to rise across all the nations by 2020 as a result of reductions to social security support.

There have been some dramatic reductions in pensioner poverty both before and after the recession. Unlike other measures of poverty, the poverty levels among pensioners are lower after housing costs than before. This is because people of pensionable age often have very low housing costs: many will own their homes outright, and for those that do not, pensioners represent a significant share of social housing tenants, where rents are much lower than in the private market (which is more likely to be inhabited by younger age-groups). Falls in pensioner poverty have also been more uniform across the nations due in large part to the fact that the state pension remains within the remit of the UK government.

It is also possible to compare changes in the devolved nations with data for the English regions. Table 1 shows those areas that appear to have improved most and least since the recession. It also shows the changing gap between the best and the worst areas.

Table 1
Poverty and exclusion indicators: most/least improved parts of UK and changing gap between best/worst (2008–2013)

Indicator	Best		Worst		Change in gap between best and worst, 2008–2013
Poverty					
Total living in poverty, before housing costs	North East, North West, East Midlands	-4	Northern Ireland	0	-1
Total living in poverty, after housing costs	North East	-4	Northern Ireland	1	0
Children in poverty, before housing costs	East Midlands	-10	South East	-2	-4
Children in poverty, after housing costs	North East and West Midlands	-7	South East, Wales, and Northern Ireland	-1	+1
Pensioners in poverty, before housing costs	North East	-10	South East	-2	1
Pensioners in poverty, after housing costs	North East	-8	West Midlands and South East	-1	0
Working-age people in poverty, before housing costs	East Midlands and West Midlands	-2	Northern Ireland	+3	-1
Working-age people in poverty, after housing costs	East of England	-2	Northern Ireland	+3	+1

Labour market					
In employment	London	+0.4	Scotland	-3.3	+0.1
Unemployed (on ILO measure)	North West, East Midlands and West Midlands	+2.6	Yorkshire and the Humber	+4.1	+1.1
Lacking but wanting paid work	London	+2	Yorkshire and the Humber	+4.8	+0.6
Not in paid work	London	+0.1	Scotland	+4.1	+1
Working-age people with no educational qualifications	Northern Ireland	-5.9	South East	-3.2	-2.7

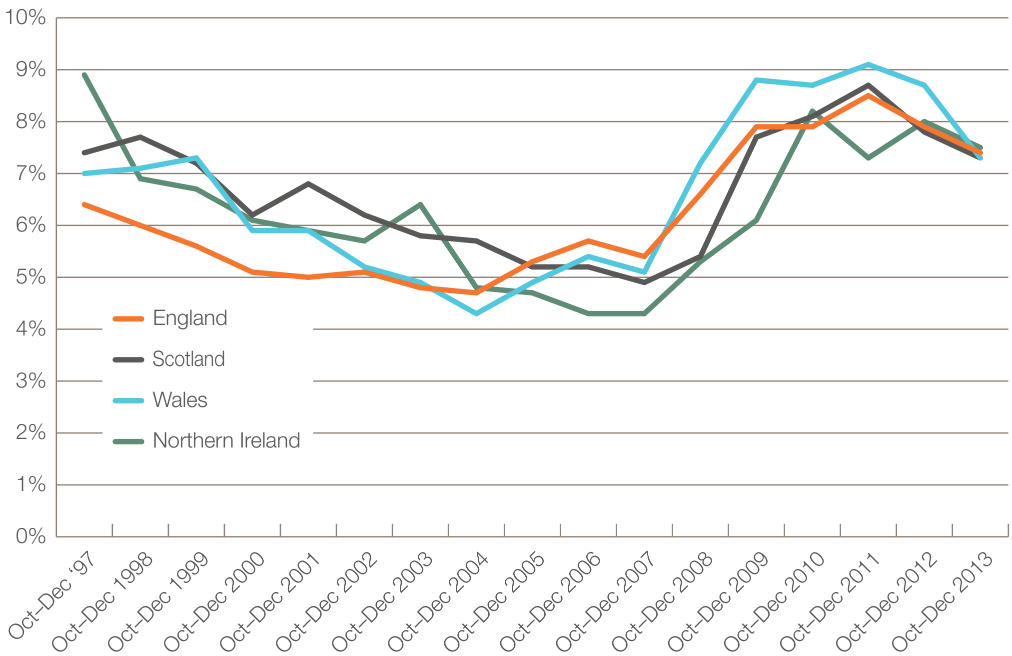
Source: DWP 2014a; Nomis 2014a, 2014b

Drivers of poverty and the costs of living

This report examines the differences between UK nations across a range of drivers of poverty as well as the costs of living.

Workless households have a particularly high risk of poverty. As such, levels of unemployment and economic inactivity are important. Looking first at unemployment, levels have all increased but have been remarkably similar between nations and track each other quite closely over time.

Figure 2
Unemployment by country



Source: Nomis 2014b
Note: Unemployment is by the ILO measure

That the levels of unemployment in each nation appear so closely synchronised is profoundly important for the devolved nations' poverty strategies. This similarity suggests that there is a high level of linkage between national and regional economies within the UK and so the ability of devolved nations to control overall levels of poverty is contingent on the wider macroeconomic context in the UK, as well as the wider international economic context.

The higher median earnings in England compared to Wales and Northern Ireland have remained in place over the past decade. Scotland, by contrast, has improved its relative position and closed the gap with England.

Median household income – which includes benefit entitlements and income from multiple family members in a household – shows a similar divergence between the two pairs of nations of Scotland and England enjoying similar, higher income, and Wales and Northern Ireland following similar, lower paths. However, unlike earnings, it shows a significant downturn for all four nations, particularly since cuts to benefit entitlements and stagnant earnings in the past two to three years. Real household incomes in Northern Ireland are now lower than they have been in a decade.

Both earnings and income need to be understood alongside the cost of living in each of the devolved nations, as lower income in an area where the cost of living is lower may be considered less of a challenge. Work by the ONS in Autumn 2010 illustrated the different cost of living pressures in each of the nations, identifying generally higher prices across essential household items where earnings were higher (England and Scotland) and lower prices where earnings were lower (Wales and Northern Ireland) (ONS 2010). The differences between the nations were small, with Northern Ireland costs around 3 per cent less than the UK average, but the regional differences in the basket of goods varied more widely by region, with (not including housing costs) London prices around 10 percentage points higher than in Yorkshire. Further breakdowns across the four nations of the UK illustrate some small, but significant differences across core items of expenditure.

Within this general picture, we considered the constituent parts of household expenditure across a range of different goods and services. Patterns of household expenditure are relatively similar between nations, again reflecting a high degree of homogeneity across the union. There are, however, some important differences: for example, expenditure on transport and food are both highest in Scotland; expenditure on recreation and culture is highest in Wales; and while housing represents a much smaller proportion of outgoings in Northern Ireland than elsewhere, spending on fuel, clothing and shoes is higher, which could be seen to have a greater impact on poorer households.

Housing cost pressures are clearly very important when considering household poverty, although some of their effects can be highly localised and dependent upon tenure. Much of the pressure on the poorest households is currently absorbed through rent subsidies in the form of housing benefit which, more recently, is being squeezed significantly. While the devolved nations have quite distinct housing markets, and substantial policy powers to affect their housing markets, the revenue aspect of government spending on housing, perhaps most able to affect poverty, remains held at Westminster.

Poverty reduction strategies in the devolved nations

Each of the devolved nations has taken different approaches to tackling poverty. These have very often been influenced by political and institutional arrangements. Our analysis has also considered the appetite in each nation for further devolution to enhance efforts to reduce poverty. We discuss the key themes that emerged from this analysis below.

Prevention: Each of the devolved nations is moving towards an increased emphasis on early years action and early intervention within public services. Early years interventions are a particular cornerstone of the Welsh anti-poverty strategy including through its Flying Start programme. By contrast, despite steps in the right direction through its Delivering Social Change framework, much more remains to be done on this issue in Northern Ireland, especially to better integrate early years and childcare provision.

Economic development: The Scottish government has played a role in driving economic development through successful inward investment initiatives, supporting threatened jobs and building the skills base. Wales' flagship programme in this area is Jobs Growth Wales. While relatively small, it does appear to be having some success. In Northern Ireland, however, economic and social policy strategies have been less linked, and economic policy prioritised over social policy.

Cost reduction and universalism: Each of the devolved nations has brought in measures to assist with the costs of living. For instance, free prescriptions, some free care for the elderly in Scotland and Northern Ireland, and reduced tuition fees. These policies have the potential to assist the poorest but they are neither well targeted, nor necessarily the most effective use of limited resources. Free prescriptions may be politically popular, but their costs are not a substantial element of the outgoings of many low-income people.

In recognition of high levels of fuel poverty, the Northern Ireland administration gave more than 250,000 people a one-off fuel allowance payment at the start of 2012 following one of the severest winters in recent years. Neither Wales nor Scotland would have been able to introduce a similar measure.

Mitigation: The Northern Irish and Scottish governments have made significant attempts to mitigate the welfare reforms enacted by Westminster. In Scotland this included establishing a £20 million emergency fund to mitigate the problems associated with the so-called bedroom tax. The Northern Ireland government, meanwhile, has secured agreement from the Treasury allowing it to deviate from the rest of the UK by waiving the benefit reductions for existing tenants imposed by the bedroom tax – though it still applies to new tenants. One of the main drivers behind the deal was that Northern Ireland does not have enough smaller dwellings to meet demand. Scotland has been envious of Northern Ireland's ability to negotiate over the bedroom tax. Both Scotland and Wales have also maintained a full council tax rebate for low-income families, meeting the costs from their block grant.

Institutional approaches to tackling poverty: Compared to the other devolved nations of the UK, and the Westminster government, Wales arguably has the strongest and most explicit institutional commitment to tackling poverty, including leadership at the highest level and a coordinated, cross-government action plan. The Welsh and Scottish administrations and Whitehall have also each appointed a set of external experts to support and critique their anti-poverty strategies.

Disconnect between reserved and devolved powers

There was evidence of a number of disconnects, and even clashes, between devolved and reserved powers. For instance, Scotland's decision to spend some of its block grant on mitigating the impacts of the bedroom tax because it was powerless to not implement it. This means less funding for other priorities. A more fundamental clash has arisen due to a legal interpretation of European social funding rules, with Work Programme participants being unable to participate in certain devolved employment support programmes due to double-funding issues. Another example is that while the devolved nations have quite distinct housing markets, and substantial policy powers to affect their housing markets, the revenue aspect of government spending on housing, perhaps most able to affect poverty, remains held at Westminster.

Devolving welfare

There is, however, one key dimension of poverty alleviation where, at present, powers are largely held in Westminster, but where there might be more scope for greater devolution: the social security system. Exceptionally, Northern Ireland has power over social security although it has to meet additional costs resulting from deviation from the rest of the UK and there has been little variation to date.

While there is a strong case for devolving control of *distributive* public services because the devolved institutions are best placed to ensure these services most effectively reflect local preferences and meet local conditions, it is normally held that *redistributive* functions – which entail the transfer of resources from one section of the people to another – are best exercised at the UK level.

The UK government can draw on a wider tax base than can the individual nations to fund redistribution, and social security in this sense is a form of risk pooling. There is a clear economic logic for the nations of the UK coming together to pool risks and share financial resources across the largest possible area as possible. Economic shocks tend to be asymmetric, affecting individuals and places in different ways and at different times, and sharing resources reduces exposure to such risks. Equally, different parts of the country vary demographically, which creates different pressures over time on welfare benefits – Scotland, for instance, is ageing more quickly than other parts of the UK. For these reasons social security is seen as one of the major automatic stabilisers used to manage macroeconomic risk and federal and decentralised systems around the world have similar arrangements.

However, this is not to suggest that there is no role for the devolved governments in social security. In Canada, for example, employment insurance is a Canada-wide scheme, though its rules vary regionally (allowing for seasonal patterns of employment in Atlantic Canada). Examples from overseas also illustrate how policy innovations which emerge in one unit of government are then taken up more widely. This has been the case in Canada, particularly, where childcare, healthcare and pension policies all started as initiatives in one province (Saskatchewan (health) and Quebec (childcare and pensions)) before becoming much more widely adopted and supported by the federal government. As Béland and Lecours (2007) point out, the positive example of a policy innovation by one government can affect others, and so can create a different sort of policy competition; in effect, it can drive a race to the top rather than to the bottom. For this reason, it can be argued that some aspects of welfare devolution would strengthen the ability of different policies adopted by devolved governments to act as examples for the UK as a whole.

In order to assess which benefits might be best transferred to devolved governments, a number of criteria were developed, against which different benefits could be considered. Criteria included whether a benefit was cyclical in nature; how it might relate to, or overlap with, existing devolved functions; how far it might be 'place-related'; and whether it is particularly redistributive or contributory in nature.

These criteria ruled out a large number of benefits, including old-age pensions and national insurance due to their contributory nature, and jobseeker's allowance and working tax credits which are largely cyclical in nature. However, there is a more compelling case for devolving the following three dimensions of the welfare system.

1. **Attendance allowance:** A benefit paid to those over-65s with a disability in order to help them at home and in their community. This overlaps with devolved health and social care functions and attempts to ensure older people with a disability are not living in poverty.

2. **Housing benefit:** Poverty data shows that housing costs are a key component of household expenditure and could have a significant bearing on tackling household poverty. Housing benefit is self-evidently a place-related benefit and already varies by place to take account of local market conditions as well as being locally administered. And yet devolved governments cannot control how these rent subsidies are prioritised or applied to address local housing conditions. If housing benefit was devolved, it is argued that devolved administrations could better plan and target investment in affordable housing. Over the long run this could increase the supply of affordable housing and reduce government expenditure on subsidising private rented accommodation. It would, however, require housing benefit to be removed from universal credit.
3. **Employment support:** Although not a 'benefit' as such, active labour market programmes form a key part of the social security system and call for the joining up of a range of areas of government action. In recent times, the Work Programme has been a key plank of government policy to move people from reliance on welfare payments and into paid employment, but this has been administered from the centre through private sector 'black-box' contracts, which has led to the devolved administrations substituting it with their own more bespoke approaches. The Work Programme has had some significant problems in most places but the fact that getting people back to work – especially those furthest from the labour market – requires a joined-up approach across agencies necessitates that it should now be devolved.

An alternative approach to devolving individual benefits would be to enable devolved governments to supplement UK benefits in those instances where they see a case for doing so (for instance, where local circumstances make it beneficial to do so). Any top-up would have to be funded exclusively from devolved budgets. In this approach the level of benefits set by the UK government would serve as a floor, but not a ceiling, for devolved welfare. The UK government's tax bases would serve to cover the financial heavy lifting of providing the bulk of welfare benefits in a way that remained common to all parts of the UK. The upshot would be that devolved governments would be able, within the overall framework of UK policy, to choose their own distinct approach to social policy, using cash benefits as well as other policy levers, provided they bore the burden of paying for their decisions.

Conclusion

Headline levels of poverty across all four UK nations fell significantly until the economic downturn, but since then a more mixed picture has emerged, particularly in Wales and Northern Ireland. In addition, households have seen their costs of living rising while incomes have been hit hard by low wages, suppressed wage increases and reductions in social security benefits. Different costs affect different nations in different ways with higher prices generally in England and Scotland than in Wales and Northern Ireland, but higher incomes as well.

These overall trends have much to do with prevailing national and international economic conditions and insofar as they can be influenced at all, the devolved nations have many powers over economic development within their immediate control. But each of the devolved nations has also taken its own steps to target particular dimensions of poverty and develop anti-poverty strategies that address their own needs. While it is clear that policies in recent years have gone some way to mitigating certain impacts of welfare reform – and benefit reductions in particular – it is not clear how far these plans can be seen to have mitigated poverty in general. In part, this is because some of the key factors in poverty alleviation still sit at the centre, not least social security matters.

There is a clear case for retaining a strong welfare state. The redistributive functions of government require pooling risk across the largest possible area to insure against the asymmetrical impact of economic shocks. And so for many aspects of the social security system – particularly for cyclical and contributory benefits – the role of central government will remain paramount. But this is not to say that there is no role for the devolved governments in social security. On the contrary, for the place-related housing benefit, for active labour market programmes, and for certain social care payments, there is a strong case for further devolution as a means of giving devolved nations more tools to tackle the tide of poverty which is slowly rising again.

1. INTRODUCTION

The devolved administrations exercise considerable autonomy when it comes to tackling poverty: for instance, major areas of economic development, education, health and housing policy are the responsibility of the devolved institutions. Moreover, the devolved bodies have complete autonomy over how they allocate their budgets. For these reasons devolution has resulted in some notable policy differences across the nations of the UK. The degree of policy innovation in respect of anti-poverty measures has continued since the Joseph Rowntree Foundation (JRF) published its review in 2010, the year in which for the first time since devolution different political parties have been in power in London, Edinburgh, Cardiff and Belfast.

However, in certain respects the devolved administrations remain significantly constrained: most obviously social security is not devolved (other than to a limited extent in Northern Ireland). Since welfare policy has a significant role in tackling poverty, it is clear that anti-poverty measures in the nations of the UK depend on a mix of UK and devolved policy interventions. For instance, the devolved governments are responsible for most aspects of policy relating to children and elderly people, but the cash benefits that cover these groups are determined and set by the UK government. Housing policy is devolved but control over housing benefit – a major policy lever – is reserved.

The current division of powers between the devolved institutions and the UK government is in a state of flux. Following the Scottish independence referendum and the subsequent Smith Commission, the Scottish parliament's revenue powers are likely to be strengthened (above and beyond those set out in the Scotland Act 2012) and it will also acquire powers over the 'redistributive' aspects of policy with control over certain benefits devolved.

Devolution in Wales is also particularly fluid: the Welsh assembly gained primary legislative powers[3] following the 2011 referendum. It has also gained new devolved areas and stronger fiscal powers on the back of the Silk Commission whose proposals have recently been incorporated in the Wales Act 2014. The devolution debate in Northern Ireland is less prominent and has focussed on the ability to cut certain taxes to aid the province's competitiveness.

In this context, this report has two broad aims: first, to assess the impact of recent and current anti-poverty strategies pursued by the devolved administrations, including taking account of the interaction between devolved and reserved powers that affect poverty reduction; and second, to highlight whether there is the potential for further empowering the devolved institutions in their efforts to reduce poverty.

Chapter 2 assesses variations in levels of poverty across the UK, focussing on the period since 2010 and the impact of the economic downturn, and on child poverty, pensioner poverty and important cost of living issues.

Chapter 3 considers how different approaches to tackling poverty have varied across the UK in recent years and assesses the appetite in the various devolved institutions for further devolution to enhance their efforts to reduce poverty. This is based on desk-based research and a dozen semi-structured interviews in each of

3 This means that the Welsh assembly can now pass laws on all devolved matters without first needing the agreement of the UK parliament.

the devolved nations with senior civil servants, academics and other local experts including within the voluntary and community sector.

Chapter 4 places particular focus on welfare benefits and presents the case for the further devolution of a limited number of benefits with a view to strengthening the capacity of the devolved nations to tackle poverty, summarised in chapter 5.

2.
CHANGING PATTERNS OF POVERTY IN THE NATIONS AND REGIONS OF THE UK

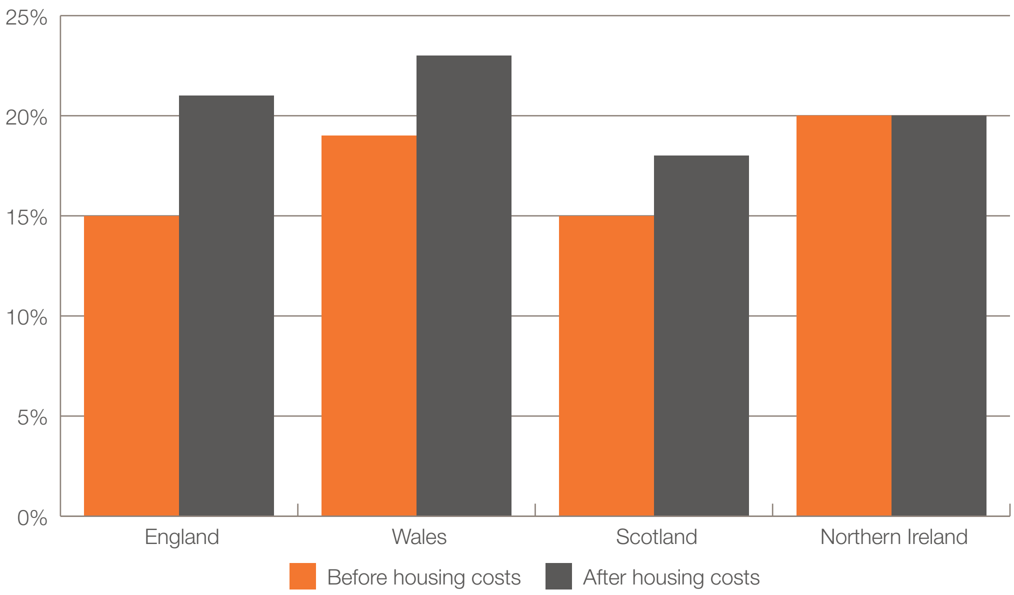
This chapter considers some of the most recently available data concerning indicators of poverty in the UK and the changing patterns of poverty between the four nations, particularly since the economic recession in 2007/8. It goes on to look at some of the main drivers of these patterns, including employment and unemployment rates, earnings and incomes, and housing and other costs of living.

2.1 Overall poverty

Levels of poverty in the nations of the UK are most commonly measured using the households below average income (HBAI) data within the Family Resources Survey. These are illustrated in regular accounts of poverty and devolution by the Joseph Rowntree Foundation, and are used to monitor progress against UK child poverty objectives.

The HBAI data depicts a range of variables, including household types, age and location. The most common measure of poverty used in the UK is the proportion of whole population in households where the income is at 60 per cent or below the median income. Figure 2.1 shows the breakdown, by nation, of the whole population living in households with an income below 60 per cent of the median.

Figure 2.1
Percentage of individuals living in households with less than 60 per cent of median household income by country, before and after housing costs



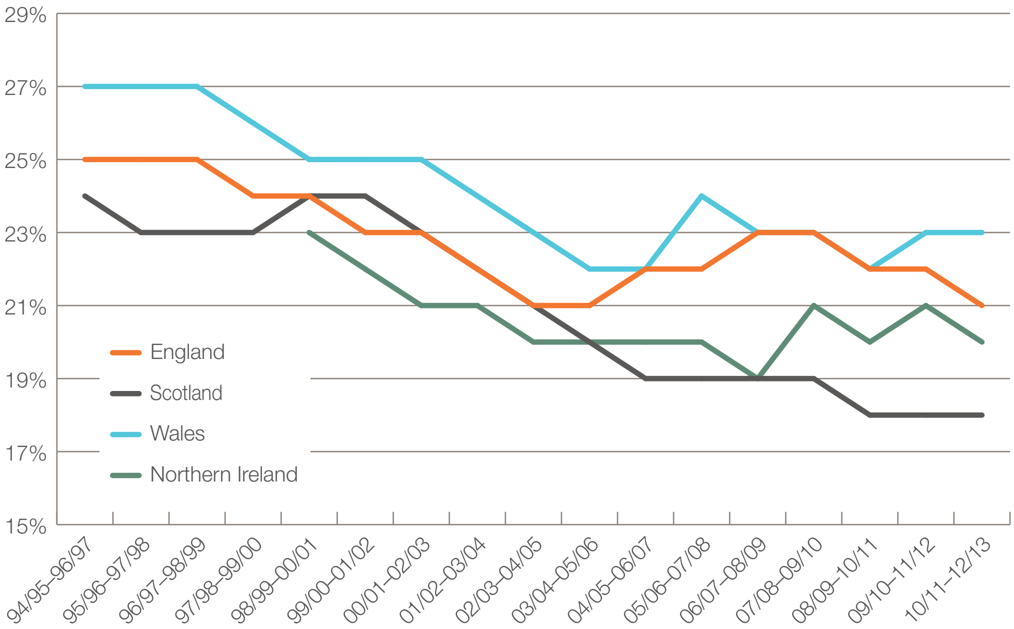
Source: DWP 2014a

Before housing costs are taken into account, the data reveals substantial variance between the individual nations. Perhaps predictably given the longstanding difficulties with the Northern Irish economy, the highest levels of poverty are found in Northern Ireland, where 20 per cent of the population are classified as living in poverty. The lowest rates of poverty are to be found in England and Scotland, where before housing is taken into account 15 per cent of the population live in poverty.

Given that housing is a core part of household expenditure, the bars on the right of figure 2.1 show poverty levels once housing costs are taken into account. The impact is to shift poverty levels significantly upwards.[4] The addition of housing costs changes the depiction of poverty in the nations of the UK, where the higher housing costs of England and Wales push poverty levels in both cases higher than in Northern Ireland. Rents are a substantial push factor, where households in England and Wales pay more in rent than their Northern Irish and Scottish compatriots (ONS 2013). The relative scale of the costs of housing to English households, through both higher rents and higher mortgage interest payments helps to explain the larger impact of the after housing costs (AHC) calculation on them than on the other nations of the UK.

Looking at change over time, figure 2.2 shows that overall poverty levels (measured as below 60 per cent median income, after housing costs) fell significantly in the years before the economic downturn. Since 2007, the path of poverty in the nations of the UK has shifted. Poverty levels in England have resumed their gradual downward path, while the lowest levels of poverty in the UK, found in Scotland, have stabilised in the last three years. In Wales and Northern Ireland, increases in poverty have been more marked. In the former they appear to have stabilised, and in the latter they appear to be falling again.

Figure 2.2
Share of households living below 60 per cent median income (relative poverty), after housing costs



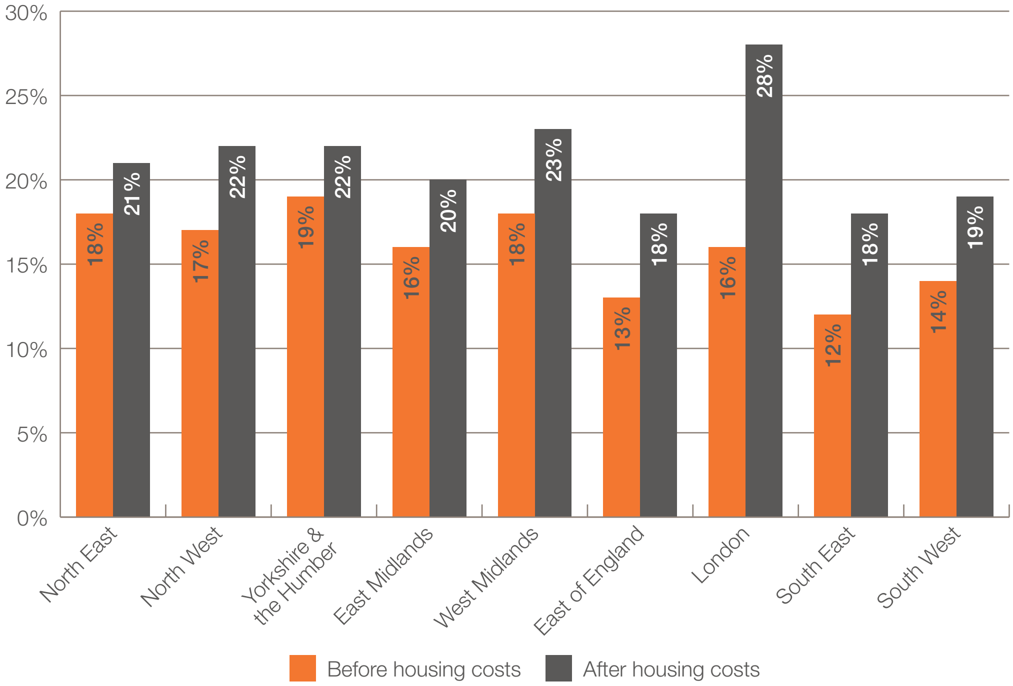
Source: DWP 2014a

4 The additional impoverishment caused by housing costs is referred to as housing cost-induced poverty (Tunstall et al 2012).

Furthermore, the most recent data shows a return to a degree of convergence between England and Northern Ireland (with 21 per cent and 20 per cent, respectively, of individuals living in households of 60 per cent or below median comes after housing costs), while the gap between the highest (Wales at 23 per cent) and lowest rates (Scotland at 18 per cent) has grown to five percentage points – the widest difference since 2006.

Variations also exist within each of the nations. Looking at the regions of England, predictable patterns emerge.

Figure 2.3
Percentage of population in poverty, by English region (2013)



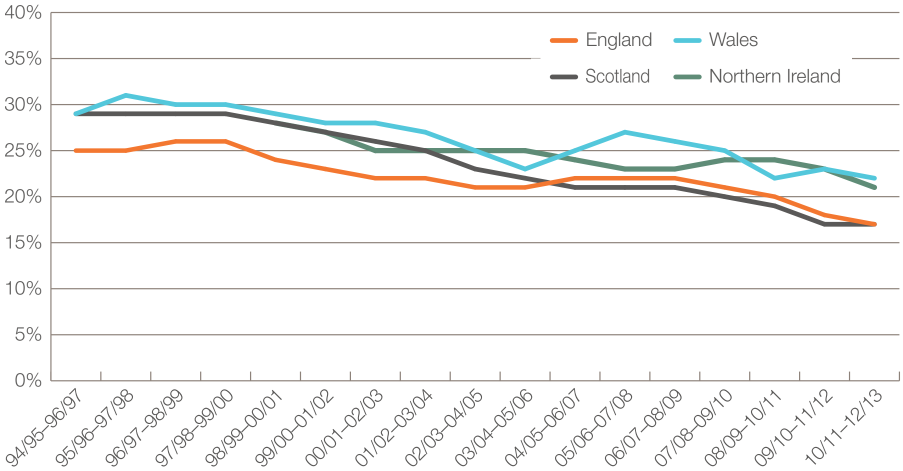
Source: DWP 2014a

The figures show some of the highest levels of poverty (before housing costs (BHC)) are evident in the post-industrial regions of the north and the West Midlands. After housing costs, the pressures of the London housing market are particularly pronounced, in large part due to a failure of policy in coping with housing demand pressures (Bailey 2014). While poverty in London is equivalent to the national average when housing is not taken into account, once housing costs are included, London has the highest levels of poverty – not only of the regions, but of the devolved nations too. Such forces are also evident to a lesser extent in the high-value housing markets of southern England.

2.2 Child poverty

Addressing child poverty was, and to a certain extent remains, one of the central social policy objectives of the Westminster government. The most commonly used calculation of child poverty takes the proportion of children living in households falling into the main definition of poverty. Using time series data, we can not only observe the differences in scale of child poverty, but also how patterns of poverty have changed over time. The data depicts the proportion of children living in families where the income is 60 per cent or less of the median (not including housing costs).

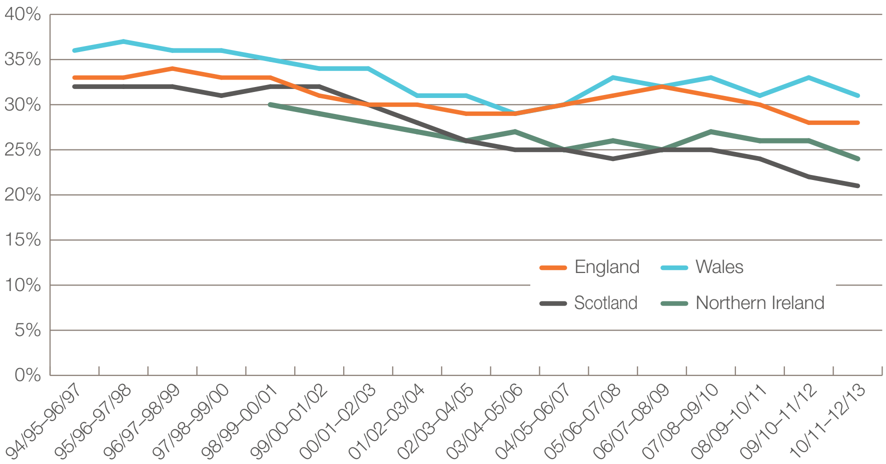
Figure 2.4
Child poverty, before housing costs



Source: DWP 2014a

The general picture of the UK is of a significant fall in child poverty (around five percentage points) between the middle of the 1990s and the middle of the 2000s (DWP 2014a). This occurred during a lengthy period of economic growth and a range of social policies designed to tackle child poverty, many of which remain in place today. Underneath the headline figures are differing performances for the nations of the UK. Notably in Scotland, child poverty fell from 29 per cent between 1994 and 1997 to 17 per cent by 2013.[5] Looking at the figures for individual nations since the recession, shifts have been more volatile in Wales and Northern Ireland, but both appear to be returning to downward trajectories. However, this masks the impact of rising housing costs on levels of child deprivation, as shown in figure 2.5.

Figure 2.5
Child poverty, after housing costs



Source: DWP 2014a

5 The HBAI data is expressed in three-year rolling averages to mitigate margins of error in the data; however, it will not eliminate this entirely. There is also the issue that when wages fall, as does the 60th percentile used to calculate poverty. Falls in poverty do not therefore necessarily mean that families have higher incomes.

Taking housing costs into account adjusts the picture. Figure 2.5 shows that the progress in recent years on child poverty is largely continuing in Wales and Northern Ireland, but with housing costs accounted for, the patterns appear more volatile in England and Scotland.

Table 2.1 shows that since the recession child poverty has fallen in all regions of the UK before and after housing costs are accounted for. The post-recession figures should be treated with a degree of caution given the recent deterioration in median incomes, which reduces the nominal threshold households fall below in order to be classified as in poverty. Indeed, UK data on absolute poverty both before and after housing costs supports this, showing that the share of the population living in absolute poverty is up two percentage points (after housing costs) since 2008/09. The section below on earnings provides further detail on this point.

Table 2.1
Percentage point change of children living in poverty (2008–2013)

	BHC	AHC
England	**-5**	**-4**
North East	-7	-7
North West	-5	-3
Yorkshire and the Humber	-4	-3
East Midlands	-10	-5
West Midlands	-8	-7
East of England	-3	-3
London	-5	-3
South East	-2	-4
South West	-3	-1
Wales	**-4**	**-1**
Scotland	**-4**	**-4**
Northern Ireland	**-2**	**-1**

Source: DWP 2014a

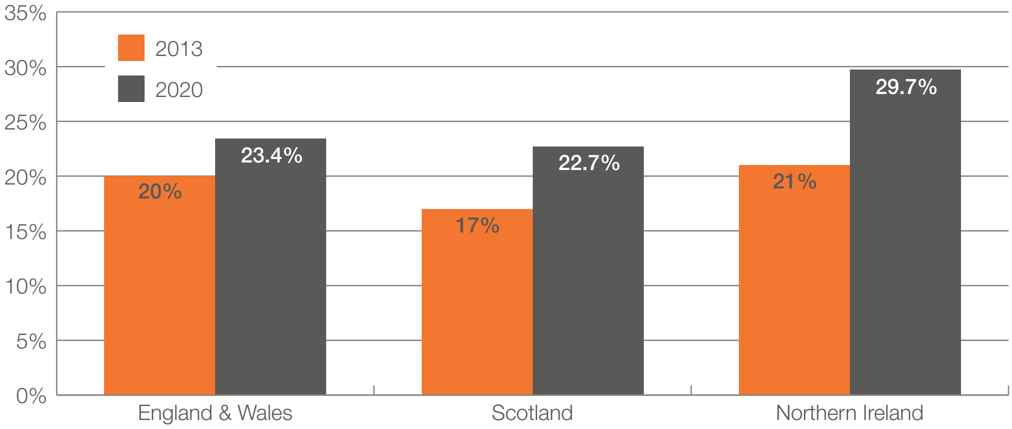
Table 2.1 also shows that England and Scotland are making the strongest progress, while the Welsh and Northern Irish positions appear to be following a slower path.

In contrast to previous research by McCormick and Harrop (2010), according to which the East Midlands had been the least improved of the English regions, the new post-recession evidence appears to show the East Midlands experiencing the steepest falls in the child poverty rate before housing costs are taken into account.

Despite progress in most regions, the data shows that housing is having a large impact on levels of poverty. Figure 2.5 shows child poverty in Wales was at its lowest level since 1994. However, on the post-housing cost measure, child deprivation is returning to levels seen in 2004. The reforms to housing benefit, including freezing of entitlements at 1 per cent and the spare-room subsidy/bedroom tax make higher levels of housing cost-induced poverty across all of the nations a risk. In future, therefore, the data may show higher levels of after housing cost poverty levels than the current indicators illustrate, in particular as a consequence of freezing housing benefit entitlements and the capping of local housing allowance (LHA). However, the effects of recent rounds of welfare reform on AHC poverty levels are likely to be partially offset in Scotland and Wales, which both have partial measures to mitigate the impact of the spare-room subsidy or ‘bedroom tax’.

Looking to the future, the Institute for Fiscal Studies (IFS) has recently reported a series of projections on levels of poverty in the constituent parts of the UK up to 2020. Unfortunately, the IFS study combines the figures for England and Wales, but there are separate figures for Scotland and Northern Ireland. Figure 2.6 shows the most current child poverty data, and for 2020.

Figure 2.6
Child poverty (before housing costs)



Source: IFS 2013a

The IFS model projects that child poverty will rise significantly in both Scotland and Wales. At 29 per cent of children in poverty before housing is accounted for, Northern Ireland is predicted to return to the position it was in in 1998; and at 23 per cent (BHC) Scotland would be back to its position a decade earlier in 2003. The IFS suggests that the main reason behind these rises in child poverty is that future earnings are expected to grow faster than benefit entitlements, meaning there will be a widening gap between those on low incomes needing social security support, and those who don't receive such benefits (IFS 2013a).

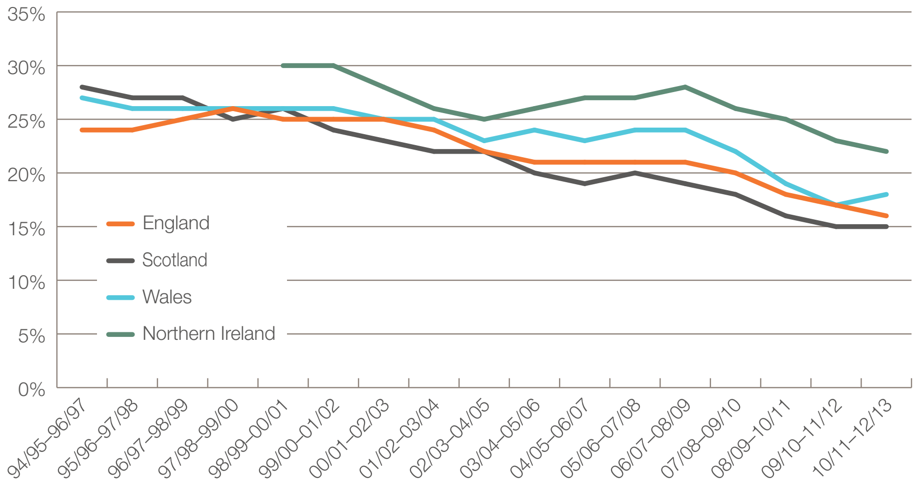
2.3 Pensioners

Pensioner poverty has been considered to be of particular importance because, as most pensioners have exited the labour market, they are unable to dramatically change their income and economic circumstances, while at the same time the value of their income is closely tied to the performance of their pensions.

Figures 2.7 and 2.8 show the proportion of pensioners living at or below 60 per cent of median incomes, before and after housing costs respectively.

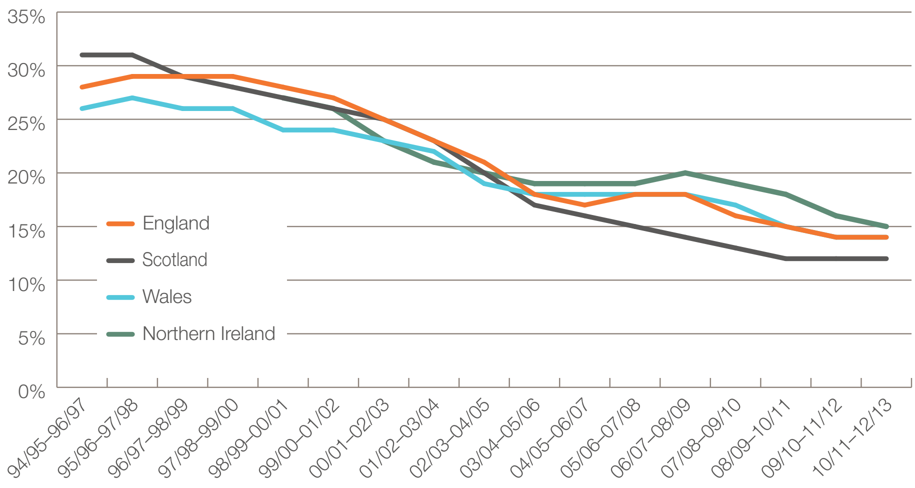
The before housing costs data shows a large fall in levels of pensioner poverty across all of the four nations of the UK. The most substantial falls are evident in Scotland, while Northern Ireland continues to have the worst levels of pensioner poverty in the UK. The latest NPI review into poverty in Northern Ireland nonetheless concluded that while other groups, such as 16–29-year-olds, had seen marked rises in post-recession poverty, the decline in pensioner poverty levels continued through 2012, largely uninterrupted by the recession, and certainly consistent with the Great Britain average (NPI 2014). There also appears to be less uniformity to falls in pensioner poverty in the run-up to and after the recession, with Northern Ireland seeing generally slower progress in recent years.

Figure 2.7
Pensioner poverty, before housing costs



Source: DWP 2014a

Figure 2.8
Pensioner poverty after housing costs



Source: DWP 2014

After housing costs are accounted for, the fall in pensioner poverty is even greater and differences between nations even less pronounced than the BHC measure. At the start of the devolution process, as much as 42 per cent of Scottish pensioners were living in poverty, whereas by 2013 this had fallen to 12 per cent. The other nations in the UK made equally impressive progress. Figure 1.8 also illustrates that progress in Scotland, Wales and England may be weakening, though from a three-year average this could be too early to illustrate any trends.

The impact of housing cost-induced poverty on pensioners is more constrained than on other groups. This is because people of pensionable age often have very low housing costs, as many will own their homes outright, while for those that do not, pensioners represent a significant share of social housing tenants where rents are much lower than in the private market (which are more likely to be inhabited by younger age-groups).

Table 2.2
Changes in pensioner poverty (2007/8–2011/3)

	BHC	AHC
England	**-5**	**-4**
North East	-10	-8
North West	-7	-5
Yorkshire and the Humber	-8	-5
East Midlands	-9	-6
West Midlands	-4	-1
East of England	-5	-4
London	-5	-4
South East	-2	-1
South West	-6	-5
Wales	**-6**	**-4**
Scotland	**-4**	**-2**
Northern Ireland	**-6**	**-5**

Source: DWP 2014a

The data shows that since the recession, pensioner poverty appears to have declined at a faster rate than child poverty over the period 2008–13; however, once housing costs are taken into account, the post-recession decline of pensioner poverty was marginally weaker. The post-recession data partly reflects the pre-recession findings of McCormick and Harrop (2010), showing that the North East is still ahead of the national trend in falling BHC pensioner poverty. The East Midlands, which had been one of the least improved areas of the UK, has since the recession seen some of the most substantial declines in pensioner poverty at -9 per cent BHC and -6 per cent AHC, compared to the England average of -5 and -4 per cent respectively.

The dramatic and more uniform falls in pensioner poverty can be explained by the direct efforts of central government to reduce pensioner poverty (through pension credit and specific benefits such as free TV licences, bus passes and winter fuel payments, and so on). More importantly, the uniformity is more likely accounted for by the fact that pensions remain a UK government remit, and therefore in order to deliver substantial reductions in pensioner poverty, governments can use instruments, such as the 'triple lock', to ensure that the state pension not only helps people move above the 60 per cent poverty threshold, but through linking to earnings, inflation or 2.5 per cent, can ensure that pensioners do not temporarily fall back into poverty. In addition, as most pensioners receiving the state pension are retired, they are less subject to the fluctuations in real wages.

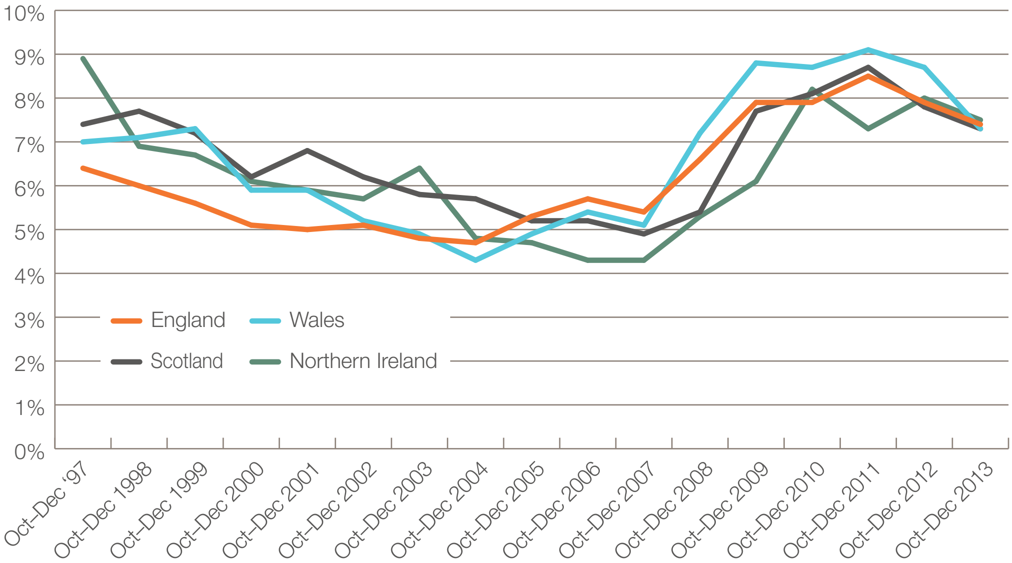
It is worthwhile pointing out that the state pension is a much clearer guarantor of minimum incomes than the other welfare benefits and tax credits that have been targeted at child poverty, hence the different paths the two groups have taken. The uniformity of state pension provision therefore helps to explain the very limited divergence between the devolved nations, with the housing market accounting for the minor divergences evident in the post-housing cost calculations.

2.4 Key drivers of poverty

Unemployment and economic activity

Levels of unemployment are a strong signal of poverty, and workless households face a particularly high risk of poverty. Unemployment figures show that as the recession bit in 2008, levels of unemployment rose quickly in each nation. Levels of unemployment are remarkably similar between nations and track each other quite closely over time: in 2005 all nations had unemployment around 5 per cent, and in 2013 all had unemployment levels of around 8 per cent. Wales would appear to have fared worse through the recession and Northern Ireland best, albeit from a stronger starting point, but in recent times there appears to have been a remarkable convergence in unemployment rates at just over 7 per cent in all UK nations.

Figure 2.9
Unemployment by country



Source: Nomis 2014b
Note: Unemployment is by the ILO measure.

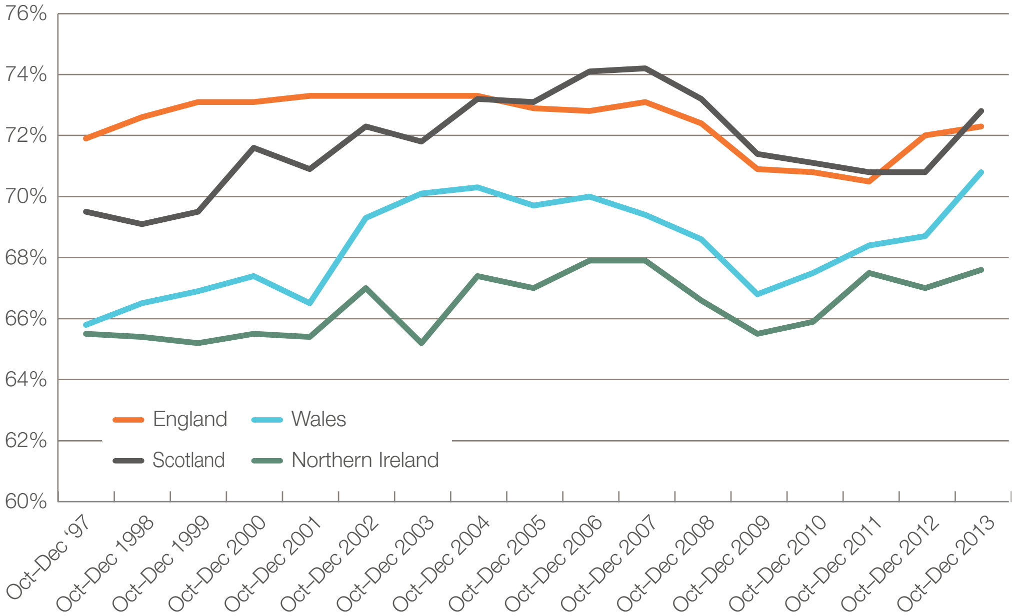
That the levels of unemployment in each nation appear so closely synchronised is profoundly important for the devolved nations' poverty strategies. This similarity suggests that there is a high level of linkage between national and regional economies within the UK and so the ability of devolved nations to control overall levels of poverty is contingent on the wider macroeconomic context in the UK, as well as the wider international economic context.

The fact that the Welsh have both the highest levels of child poverty and the highest levels of unemployment could also suggest a link between the two; however, the position of Northern Ireland is the reverse, which had both high BHC and AHC poverty, and child poverty levels, and yet has lower levels of unemployment. This is likely explained by the fact that there is a higher proportion of economically inactive people in Northern Ireland. Economic inactivity is particularly high among over-45s in Northern Ireland which is in part due to disability and mental health issues resulting from the Troubles.

Figure 2.10 illustrates employment rates in the different nations of the UK.

Employment rates would appear to be closely related to overall poverty levels. The employment rates of both Wales and Northern Ireland for example align with their respective positions on the whole population poverty measure. Scotland, by contrast, had higher levels of employment in 2012 and correspondingly lower levels of poverty. Considering the most recent data which shows that in 2012 England's employment rate increased while Scotland's fell, one might expect that this will feed into future national poverty trends.

Figure 2.10
Working-age employment rate by country

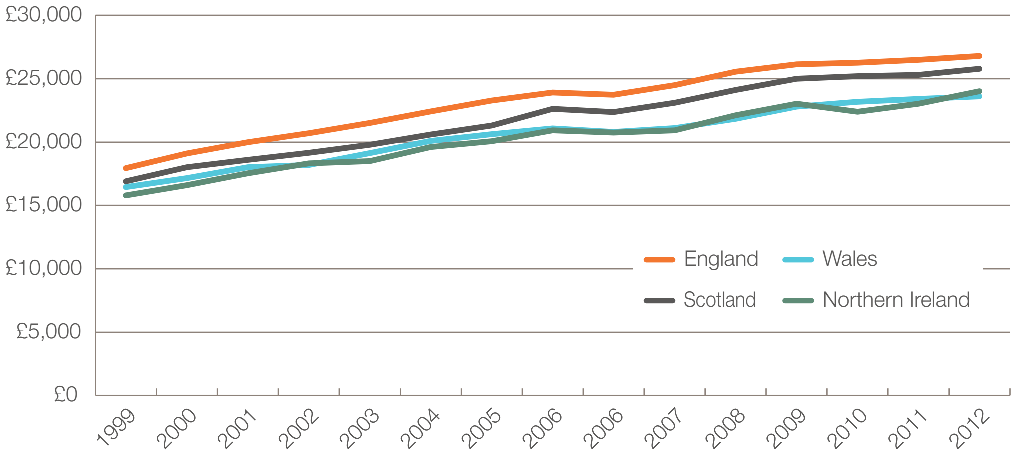


Source: Nomis 2014a

Earnings and incomes

The central determinant of poverty levels is household income, used both to measure absolute and relative poverty in the UK. Household income, for the purposes of measuring poverty is calculated using both household earnings from employment (or self-employment) and their income from other sources, most obviously pensions, investments and social security payments. Understanding the dynamics of these elements is essential to understanding the changing patterns of poverty in the devolved nations.

Figure 2.11
Median full-time earnings



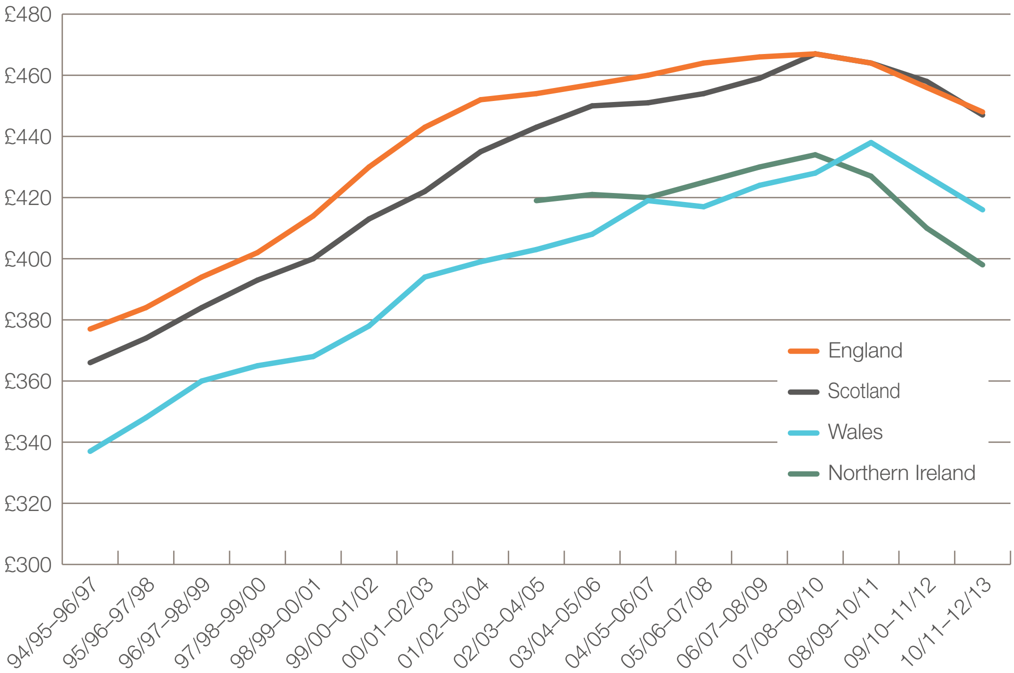
Source: Nomis 2014c

Figure 2.11 shows that the lowest median earnings are evident in Northern Ireland and Wales. The HBAI data shows that poverty calculated before housing costs are highest in these nations (DWP 2014a). The earnings data also shows that despite a fairly tight relationship between earnings at the turn of the century, over the past decade earnings in Scotland appear to have shifted paths, moving apart from Wales and Northern Ireland, and more closely tracking English earnings patterns. It is difficult to read any clear impact on earnings that resulted from the recession that began in 2008.

However, it is troubling to observe the apparent slippage of earnings in Wales, falling marginally behind Northern Ireland, which may in part explain the more marked weakening in the Welsh position in spite of recent improvements in the other labour market measures. As the New Policy Institute (NPI) highlights, the deteriorating position of Welsh earnings relative to other parts of the UK is reflected in the fact that working age, and working people, constitute an increasing share of Welsh people in poverty (NPI 2013), while the position of pensioners, mostly outside the labour market, continues to improve. It is too early to tell whether the improving labour market outcomes of each of the nations will deliver improved levels of earnings growth, which could have more marked impacts on poverty levels than improvements in employment per se.

In any case, perhaps a better measure of household resilience is median income, which takes into account sources of income beyond that derived from employment such as social security support and income from multiple family members.

Figure 2.12
Median household income, before housing costs (2011/12 prices)



Source: DWP 2014a

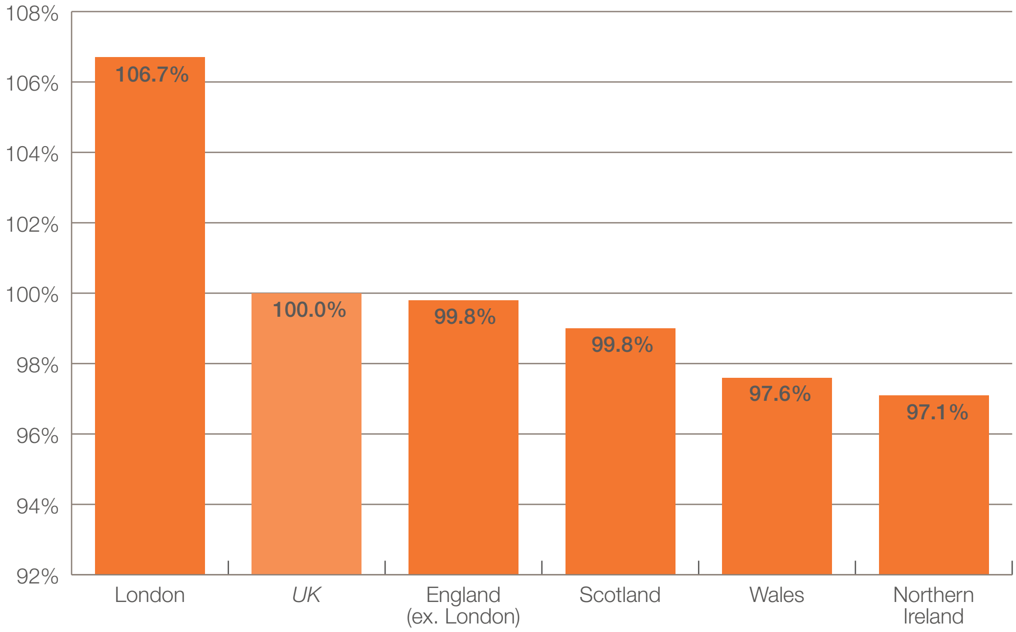
Figure 2.12 shows that real incomes in three of the four nations of the UK rose substantially during a long period of labour market expansion and this lasted even into the recession. However, the real household incomes across all four devolved nations have deteriorated in the past two to three years, and in Northern Ireland they are lowest on this set of records. With benefit entitlements currently being subjected to substantial fiscal tightening, those living in poverty, and out of the labour market, are likely to see their positions deteriorate further. For instance, the freezing of a range of benefit entitlements will ensure that benefits do not keep pace with the cost of living, pushing more families – both in work and particularly those out of work – into deeper poverty.

Cost of living

It is increasingly apparent that both earnings and incomes need to be understood alongside the cost of living in each of the devolved nations. The current measurement of median disposable incomes adopted by the statistical calculations of poverty do not take most regional variations of living costs into account. The exception is housing costs, where rents, mortgage payments, buildings insurance, ground rent, water rates and other core associated housing expenditure are combined to generate the after housing cost measures of poverty as illustrated above. Housing takes up a significant proportion of income, but there are other substantial elements of family spending where the cost of the household goods differ by nation, and the demand for them more necessary in some areas than others. These differences create different cost pressures for UK residents, stretching disposable incomes more in some areas than others. Although they won't show up in official poverty measures, which focus on income only, they are important to consider as it is important for people's lived experience of low income.

The data on the regional cost of living is of mixed quality. The cost of living, and changes thereof, measured by inflation is calculated on a state-wide basis for each quarter by the Office for National Statistics (ONS). As part of their duties as members of the European Union, UK statisticians every six years are expected to develop an index on the regional cost of living, known as the Relative Regional Consumer Price Levels (RRCLPs) of goods and services. The latest edition was produced by the ONS in 2010, and is based on 12,000 observations across regions of the UK from 168 items of expenditure.

Figure 2.13
Regional price level relative to national price level (index UK = 100)



Source: ONS 2010

Figure 2.13, which excludes core housing costs, is valuable as it indicates that, while earnings in the more deprived nations of the UK are lower, prices in the poorer devolved nations seem to reflect this. The IFS has previously shown that taking into account regional price differences dramatically alters the picture of living standards and poverty across different parts of the UK (IFS 2010).

Table 2.3
Regional Price Index factors, 2010

Division	London	England (excl London)	Scotland	Wales	Northern Ireland
Food and non-alcoholic beverages	105.7	99.4	99.5	98.5	97.0
Alcohol and tobacco	101.3	100.5	100.9	98.3	99.0
Clothing and footwear	105.7	100.3	97.8	99.0	97.5
Household and housing services	107.4	101.4	94.1	99.9	97.6
Furniture and household goods	109.1	101.5	101.3	91.3	97.6
Transport	102.8	99.7	98.8	98.0	100.6
Communication*	100.0	100.0	100.0	100.0	100.0
Recreation and culture	111.0	101.3	103.3	95.4	90.3
Restaurants and hotels	112.8	96.3	96.5	99.9	95.5
Miscellaneous goods and services	111.2	102.5	103.8	90.2	93.7
All	**106.7**	**99.8**	**99.0**	**97.6**	**97.1**

Source ONS 2010
* According to the ONS, 'there is no observed regional variation in price levels' for communications costs.

Table 2.3 illustrates a range of factors determining the relative costs of goods purchased in the UK (where UK = 100). Unsurprisingly, it shows that in autumn of 2010, London was the most expensive part of the UK, while prices in Northern Ireland were generally lowest, particularly among essentials such as food, clothing and footwear. The price data generally reflects the ranks of each country relative to their earnings positions explored earlier, with England earning and costing the most, and Northern Ireland earning and costing the least.

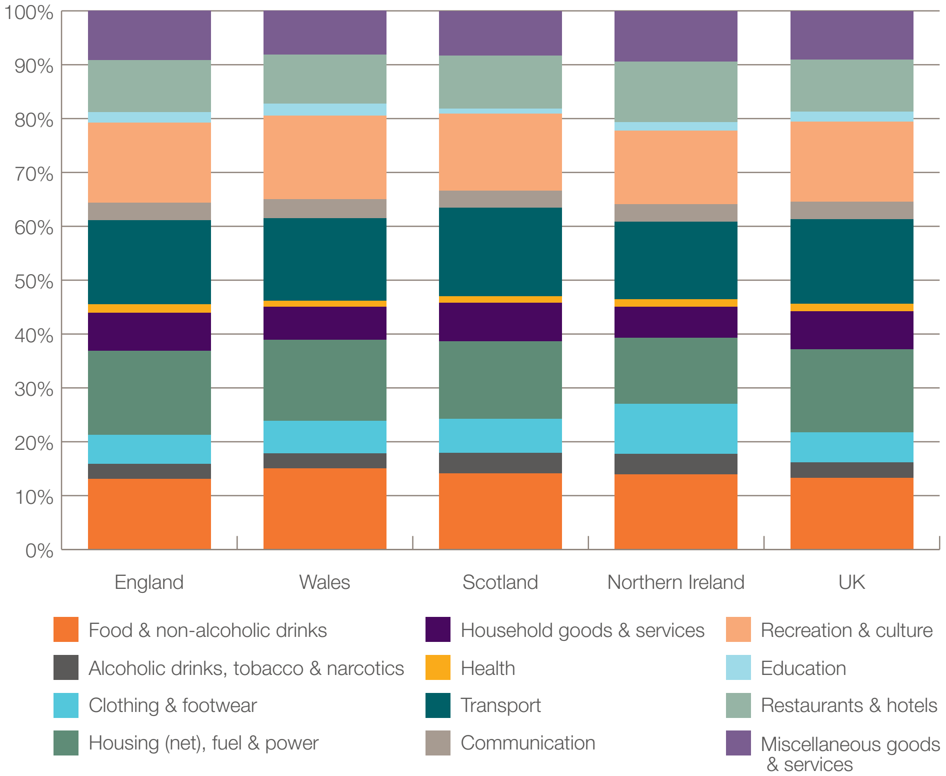
On specific areas of household items, the report notes small differences in areas such as alcohol and tobacco, where major retailers would typically apply regionally blind pricing policies. However, the report also finds:

> *'Greater price dispersion exists in the divisions that include services, including restaurants and hotels, recreation and culture, and miscellaneous goods and services. This reflects the variance in labour expenses in the regions which make up a large proportion of the total costs in the service industry and also the variability in the cost of renting/leasing outlets across the regions. Durable goods such as furniture and household goods are also demonstrating high price dispersion with clothing and footwear and food and non-alcoholic beverages showing moderate price dispersion from the UK average.'*
> ONS 2010

Beyond this irregular exercise by the ONS, regional cost of living assessments are not available. We can only glean insight from household expenditure data, which for all of its merits also inevitably includes consumer tastes as well as spending pressures, and some other data sources that are regionally accessible.

The following information sourced from the ONS highlights the nations where spending on individual elements of expenditure is highest and lowest.

Figure 2.14
Household expenditure by type (%)



Source: ONS 2013

The average household expenditure on different groups of items across the regions is fairly similar, and the differences small, reflecting broad homogeneity in household spending patterns across the regions. It also highlights the major expenditure items for the UK, with food, recreation, housing (including fuel costs) and transport dominating household spending. Some differences are wide enough for note – for instance, housing expenditure appears higher in England than other parts of the UK, and lowest in Northern Ireland. Some of the most interesting differences are between Northern Ireland and the rest of the UK: housing represents a much smaller proportion of outgoings in Northern Ireland, reflecting lower house prices and the distinct system for taxing housing. In Northern Ireland the costs of water are 50 pence per week compared to the UK average of £8.20 per week. This reflects the fact that water costs are traditionally absorbed in the Northern Irish equivalent of council tax, known as rates. However, expenditure on petrol is some 50 per cent higher than the UK average, and fuel to heat Northern Irish homes is also equally more expensive than the UK average.[6] Also, spending on clothes and footwear is highest in Northern Ireland, most likely as a result of larger family sizes.

6 This is significant because poverty mitigation strategies need to understand the cost pressures experienced every day by families on low incomes; a logical element of any Northern Irish poverty strategy would look at the costs of fuel and heating the home.

Within the English regional data, presented in table 2.4, the most apparent differences in costs are rent and mortgages. The table shows the largest itemised elements of household expenditure by English region, where the darker shades indicate proportionally high-expenditure items.

Table 2.4
Items of family expenditure as percentage of total household spending, by region

	NE	NW	Y&H	EM	WM	EE	LDN	SE	SW	Eng
Income tax, payments less refunds	14.5	17.0	15.7	17.1	16.0	19.2	24.0	21.1	17.8	**18.9**
Food	10.6	10.5	10.6	10.8	10.8	10.5	9.4	9.8	10.6	**10.3**
Mortgage interest payments and council tax	8.8	9.5	8.8	9.5	8.9	10.2	10.0	10.3	10.2	**9.7**
Purchase or alteration of dwellings, mortgages	7.8	9.0	7.2	10.1	7.8	9.5	9.0	9.8	10.9	**9.2**
Gross rent	10.3	8.7	8.9	7.0	8.1	7.1	15.6	7.4	6.7	**9.1**
Restaurants and hotels	8.1	8.1	8.7	7.4	8.4	7.9	9.3	7.6	8.1	**8.2**
Operation of personal transport	7.3	6.9	7.4	8.0	7.9	8.2	4.9	7.7	8.3	**7.3**
National insurance contributions	5.3	5.9	5.7	5.7	5.8	6.1	6.1	5.5	4.9	**5.7**
Clothing and footwear	5.6	4.8	4.8	4.2	4.4	4.1	4.8	4.3	4.5	**4.5**
Electricity, gas and other fuels	4.9	4.6	4.9	4.9	5.0	4.5	3.7	4.1	4.4	**4.4**

Source: ONS 2013

Again, many of the differences in expenditure are limited, for instance across spending on food, on mortgage payments, or on restaurants and hotels, but there remain some notable features. Average household expenditure on rent, for instance, is highest in London and lowest in the East Midlands. The use of personal transport in London is also noticeably lower in London than elsewhere, reflecting lower levels of car ownership.

However, we cannot assume that the spending patterns of the average family within the different countries and regions of the UK are uniform across the income spectrum. For instance, the poorest households often spend more money on essential items due to consumer habits and tariff structures: the poorest families will often be on the more expensive 'pay as you go' energy meters, for example. To account for this, table 2.5 breaks down expenditure by income decile to reveal the distinctive spending patterns of low-income households in comparison to the average.

The revealing feature of this data is that the poorest households spend substantially more of their total outgoings on such essentials as housing, heating and food than the average household across the UK. Correspondingly, expenditure among the poorest households is lower for categories such as recreation and culture than higher-income groups.

Unfortunately, the data does not break down by both income group and country simultaneously, and therefore makes analysis of the cost of living challenges among low-income households in different countries problematic. In simple terms though, the higher cost pressures in different parts of the country will affect those on low incomes in different ways. As we have already highlighted, however, a critical aspect of cost of living is housing costs.

Table 2.5
Items of family expenditure as percentage of total household spending, by income decile

	Bottom 10%	All
Food and non-alcoholic drinks	15	12
Alcoholic drinks, tobacco and narcotics	4	3
Clothing and footwear	4	5
Housing (net), fuel and power	25	14
Household goods and services	7	6
Health	1	1
Transport	8	13
Communication	3	3
Recreation and culture	9	13
Education	2	1
Restaurants and hotels	7	8
Miscellaneous goods and services	7	8
All expenditure groups	91	86
Other expenditure items	9	14

Source: ONS 2013, Table A5

Housing costs

As we have shown in the analysis above, housing costs are a key determinant of the cost of living for many parts of the UK. Figure 2.15 shows household expenditure on housing costs.

Figure 2.15
Weekly expenditure on housing costs

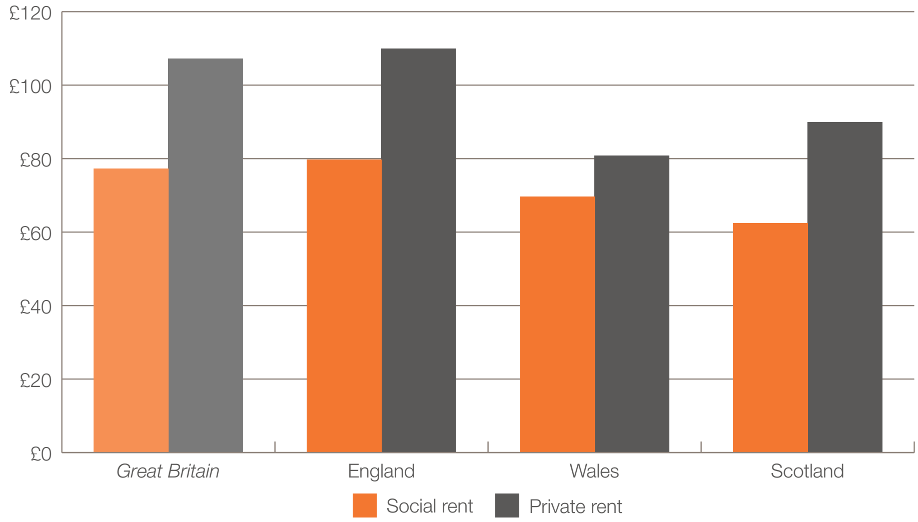
Source: ONS 2013

The data does not show whether it is cheaper to buy a house or rent in each nation. Rather, it shows the average expenditure on housing costs by either mortgage holders or renters. What the data does clearly illustrate is that more is spent per week in absolute terms on housing in England, irrespective of tenure, than anywhere else. This is true by some margin, especially the difference between

English rent expenditure and the other nations of the UK. The average expenditure per week on rent in Northern Ireland is the lowest for the UK, while mortgage-holders in Wales spend the least per week on servicing the debt on their assets relative to other UK nations.

While illustrative perhaps of relative cost pressures for all households, in order to understand the costs of housing for those in poverty it is also helpful to look at housing benefit data, given that people on low incomes are likely to need rent subsidy to support the costs of renting. Figure 2.16 illustrates the average weekly award of housing benefit in each nation of Great Britain (comparable data for Northern Ireland is not available).

Figure 2.16
Average weekly housing benefit award by tenure



Source: DWP 2014c

Housing benefit data is illustrative of the relative costs of providing accommodation for those on low incomes and, by proxy, the rents of those on low incomes. That housing cost-induced poverty is higher in Wales than in Scotland (though the average weekly award for private rented sector (PRS) benefit claimants is lower) appears to be explained by the fact that there is a relatively smaller share of the Scottish caseload living in PRS property. DWP (2014a) data shows that while 34 per cent of Welsh claimants live in the private rented sector, only 20 per cent of claimants do in Scotland. More households living in more expensive private rented sector property (relative to social rented sector property) applies more cost pressures to families. Although the exact housing cost pressures are highly localised, figure 2.16 offers an illustration of the costs of renting within each tenure, and shows that those living in private housing will face higher rents and, all other variables held constant, the most challenging work incentives. The cost gap between renting in the private or social sector are at their widest in England, but the figures are distorted by the costs of the London housing market. Private renting is generally most costly in England, and least in Wales, while for social tenants England is the most costly country, while Scotland is the least.

Linking this back to poverty, it is important to note that housing benefit is not available to everyone – for instance, it is not available to mortgage holders, who may find themselves with little financial support until a time threshold is reached to become eligible for government mortgage support.

In addition, housing benefit may not in all cases meet the full costs of housing; caps on eligible amounts of support, penalties for spare bedrooms and a freezing of entitlements at 1 per cent will increase the risk of poverty as claimants are expected to meet the shortfall.

Set in Westminster, rent subsidy policies apply across Great Britain. The devolved nations have little power over housing benefit expenditure, despite having widely different housing markets and the fact that each of the devolved nations has substantial devolved powers over housing policy. That said, contrary to the main means-tested benefits in Great Britain which are paid at a flat rate irrespective of the nation of residence, when households are ineligible for rent subsidy support, or when administrative failures occur, households living in England appear to be at the highest risk of immediate poverty.

Ultimately, housing is a significant cost pressure on UK households, but the extent of the pressure varies by nation; while support for housing costs through housing benefit will vary accordingly. In a discussion of poverty, is it pertinent to consider that as housing benefit is being reformed, people living in the costliest housing markets are likely to find it increasingly hard to meet their rent, even with housing subsidy (Fenton 2010), and may therefore be forced into lower-quality, inappropriate property as a result. While the devolved nations have quite distinct housing markets, and substantial policy powers to affect their housing markets, the revenue aspect of government spending, which is perhaps most able to affect poverty, remains held at Westminster.

Social policies and the cost of living

Aside from housing, each devolved administration has used different approaches to mitigate other costs of living. Jim McCormick in his review of devolved approaches to child poverty provided a useful summary of the choices made by each administration which serve to raise incomes or reduce costs, and which we replicate in table 2.6.

Table 2.6
Devolved approaches to reduce living costs

Policy approach	Scotland	Wales	Northern Ireland
Abolish costs	Prescriptions	Prescriptions	Prescriptions
	Bus fares for older/ disabled people	Bus fares for older/ disabled people	Bus fares for older/ disabled people and rail fares for older people
	Personal/nursing care for older people		Personal/nursing care in respect of most home care services for older people
	Graduate endowment abolished (no tuition fees)		
Freeze costs	Council tax freeze		
Reduce or cap costs		Weekly cap on non-residential social care costs	
Limit increases	Some rail fares (RPI + 1%) below rest of UK		Domestic rates pegged to inflation
			University tuition fees
Targeted financial support	Education maintenance allowance	Education maintenance allowance	Education maintenance allowance
			Winter fuel payment to low-income working age households

Source: McCormick 2013

Looking at expenditure at a more disaggregated level (from both income and geographic perspectives) is arguably more pertinent to determining spatial policies for tackling poverty.[7] This suggests that measures to mitigate key cost of living pressures could be spatially targeted for each devolved nation. For instance, support to reduce or mitigate housing costs might be better targeted at those living in London, where 10.3 per cent of expenditure goes towards meeting the costs of renting, compared to 5.7 per cent for England as a whole. By comparison, housing in the North East is relatively cheap, but the data shows a larger proportion of spending in the North East goes on meeting rent than in other regions. Approaches to boost earnings, rather than control rents, might be more suitable under these circumstances. Concerning transport, the South West, with its weaker transport systems and more dispersed population, would clearly benefit much more from a freeze in the rise of fuel duty than a London household would.

2.5 Summary: a picture of poverty across the UK

The data illustrates that the countries of the UK have overseen substantial decreases in headline poverty levels over the past two decades. However, falling poverty levels have not changed the fortunes of all groups. The evident fall, and convergence, of pensioner poverty levels are the most remarkable, and perhaps the easiest to solidify. The child poverty reductions, despite substantial political and financial support behind them, appear to be diverging in the nations of the UK, with continued progress in England and Scotland, while the picture in Wales and Northern Ireland has been more mixed. The latter two countries' economies still suffer from weaker labour market conditions, and lower wages than in Scotland and England. Nevertheless, the strong labour market recovery occurring in Wales is a reason to be positive, with falling unemployment and economic inactivity levels, these improving economic conditions may yet feed through into improved poverty outcomes. The situation in the Northern Irish labour market, however, gives fewer grounds for optimism.

More broadly, the impact of devolution in the data is not clear – economic conditions and decisions by Westminster about tax and benefit changes would appear to be more important to headline levels of poverty than small-scale devolved interventions. However, the problems with labour markets are a long-term challenge for the devolved administrations to address, and in the short term the cost of living data shows areas where poverty mitigation strategies might make the lives of those in poverty easier, without lifting them out of the technical poverty measure. We will return to these issues in the chapters below.

7 For a brief guide, see http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2012-chapter-5/art-chapter-5--weekly-household-expenditure--an-analysis-of-the-regions-of-england-and-countries-of-the-united-kingdom.html

3.
POVERTY REDUCTION STRATEGIES IN THE DEVOLVED NATIONS

This chapter explores some of the approaches to tackling poverty that have been adopted by the devolved nations of the UK and considers institutional and political factors as well as the appetite for further devolution to enhance efforts to reduce poverty. This is based on desk-based research and a dozen semi-structured interviews in each of the devolved nations with senior civil servants, academics and other local experts including within the voluntary and community sector. The commentary below therefore reflects the views of stakeholders in each country about what constitutes the anti-poverty approach in their area and the most pressing current challenges.

3.1 Wales

Institutional commitment

Wales has long held a strong institutional commitment to tackling poverty with clear policies and institutions for doing so. At the present time, this institutional commitment is embodied in two government ministers who, since 2013, have had an explicit responsibility for poverty in the Welsh decision-making process: the minister for communities and tackling poverty, and the deputy minister for tackling poverty who has specific responsibility for ensuring that the Welsh anti-poverty strategy is being effectively implemented and is on target to meet its myriad of objectives. Compared to the other devolved nations of the UK, and the Westminster government, this institutional emphasis on tackling poverty is unique and shows how the Welsh government is beginning to establish its own distinctive approach to tackling poverty.

In part, the approach in Wales is to attach higher political emphasis to tackling poverty, but it is also designed to ensure that all departments of the Welsh government are committed to the tackling of poverty through their own programmes and responsibilities.

To support and critique the Welsh anti-poverty strategy, the Welsh administration has appointed a set of external experts drawn from academia and the third sector. This is not unique in the UK – comparable groups exist in Whitehall, and the Scottish government has appointed a ministerial advisory group on child poverty.

The Welsh government has also imposed a legal duty on local authorities to demonstrate how they are contributing to reducing child poverty, and like with central government, each local authority is expected to have an individual championing the anti-poverty plan (McCormick 2013).

Anti-poverty programmes

Wales has adopted a series of programmes with a view to tackling poverty. Historically, three programmes were given particular emphasis in our interviews with stakeholders.

Communities First

The Communities First programme is the oldest and perhaps most important Welsh approach to poverty. Initially established in 2001, Communities First was a strongly place-based, community empowerment programme. It was intended to be a bottom-up, community-led initiative targeted at deprived areas identified in the Welsh Index of Multiple Deprivation. The approaches to deliver Communities First utilised local authority infrastructure to coordinate a host of agencies with a stake in the local communities, including the police, health service, housing providers and other elements of local authority services. The interventions adopted differed according to local priorities and preferences, but generally the interventions were focussed on empowering individuals within communities, rather than economic and physical regeneration interventions.

The final evaluation by the Welsh government noted progress in these areas, finding improved levels of community engagement, environmental improvements and falls in antisocial behaviour (Jones 2011).

The final evaluation also found positive evidence that the economic performance gap between Communities First and non-Communities First areas had narrowed noticeably. This included falling levels of worklessness, unemployment (as defined by the ILO) and employment. However, the report also illustrated that the economies of Communities First areas appeared less resilient to the recession, and that much of the steady ground made by the programme had been lost in the recession, with the gaps between the poorest and most affluent Welsh areas widening again (ibid). Ultimately, the review concluded that the measurable effects of the programme on economic factors had been positive, but marginal. Several other reviews were less positive – for example:

> *'The analysis suggests that between 2001 and 2008 some conditions have improved in first generation Communities First areas. On average, population and house prices have increased while economic inactivity has declined. However, in comparison to similar neighbourhoods, the gains that have been made in the first generation Communities First areas have been relatively marginal.'*
> Hincks and Robson 2010

In light of these criticisms, and the recommendations from the final evaluation, reforms have been made to deliver a more focussed Communities First programme. This has involved a consolidation of the programme, shifting from small areas to 52 'clusters' of deprived areas across Wales, which will have to have formal plans and stronger strategic direction than before. The person-focussed (as opposed to asset-focussed) intervention regime remains, but will be more sharply concentrated on measurable outcomes. The ability for the programme to be transformative, however, may be hampered by its resources: Communities First has a limited budget of £75 million to 2015 (Welsh Government 2012). The programme, however, does help to coordinate public and voluntary services drawing on deeper in-kind resource pools.

Flying Start

Beyond the place-based approach are a range of people-based interventions. Early years interventions were highlighted by a number of stakeholders as a cornerstone of the Welsh anti-poverty strategy largely focussed on improving education. Perhaps the most prominent of these is the Flying Start programme. Launched in 2006, its aims have been to reduce the proportion of the population without qualifications, and to address income inequality. Targeted towards supporting parents in the most deprived areas of Wales, the programme combines a range of wraparound interventions. These include regular health visits to parents, parenting advice and support, early educational development with a particular emphasis on improving language development, and free part-time childcare services for children aged two and three years old.

A recent evaluation of Flying Start found that the programme improved levels of interaction with family support services and early intervention policies. The IPSOS evaluation found that the perceptions of parents were that the support services offered by Flying Start initiatives were positive, but the review also pointed out that there were no statistically significant differences between intervention and control areas on measures of parenting or child development (Knibbs et al 2013). Though it may be too early to judge the impact, the authors note that:

> *'The chosen design of the impact study for this evaluation was influenced by the fact that the evaluation was commissioned after the roll-out of the programme had begun and that Flying Start was rolled out nationally across the most disadvantaged areas in Wales. This highlights the importance of ensuring that evaluation is central to the development of a policy.'*
> ibid

The above ties in with a common assertion among many of the people interviewed as part of this project that, historically, evaluation has been given too little weight and must therefore often be retrofitted to programmes.

Families First
The last of the three main programmes, Families First, is the latest substantial social policy initiative of the Welsh government and is targeted at low-income families. The programme has the objective of improving the design and delivery of family-related services operated by local authorities. The programme has a range of interlocking elements, including a whole-family diagnostic framework, and a series of policy instruments that are designed to work with the whole family unit rather than specific individuals within them.

As a new initiative, it is too early for impact assessments. The main evaluation focusses on the processes and implementation of Families First. Nevertheless, the implementation of some of the key elements, including the diagnostics framework and realignment of services (at least theoretically) appears to have occurred in most of the 22 Welsh local authorities. To what effect these changes have had will be the subject of future Families First evaluations (Ginnis and Pye 2013).

The Tackling Poverty Action Plan
The Tackling Poverty Action Plan (TPAP) is the core document that outlines the Welsh anti-poverty strategy. Prior to its release in 2012, the plan had gone through a number of iterations; many stakeholders interviewed for this research argued that previous versions had merely been a list of measures that may or may not address poverty, and several declared their disappointment at the plan. Under new political leadership, the TPAP has begun to take greater shape, with three core themes:

1. poverty prevention
2. lifting people out of poverty
3. mitigating the impact of poverty.

The plan has a large selection of indicators that are being used to monitor the government's progress against their objectives that rely, largely, on making use of existing datasets. However, the creation of a departmental anti-poverty brief is intended to increase the pressure on implementation and delivery of these objectives, and enhance political accountability.

The Welsh government has more power to affect certain objectives than others – taking people immediately out of poverty (against the technical definition of below 60 per cent of median income) without control over levers such as taxation, and benefit expenditure, may in many cases be beyond their direct reach. Officials in the department were therefore keen to stress that where the Welsh government could have a greater effect was in resolving some of the deeper-engrained challenges with a long-term approach.

For this reason, at the heart of the TPAP is the commitment to poverty prevention by increasing the attainment of young people through early years interventions such as childcare and education provision. It was clear from interviewing officials that within a range of priorities, education (an area of Welsh government competency) was seen as the strongest tool in its arsenal to tackle deep-rooted poverty through delivering an improvement in the skills base and narrowing the educational attainment gap between the poorest and the median households.[8] In the long run this is hoped to lead to an improvement in employment and pay levels. It was felt by some of those interviewed that while the TPAP was a substantial improvement on what came before, too little attention was given to particular societal groups (such as the elderly or disabled).

There is also emphasis on poverty mitigation, whereby measures are put in place to help those suffering poverty to reduce their costs of living. This was manifested through a range of initiatives, including increasing benefit take-up to ensure that their income reflects welfare entitlements, reducing energy costs through insulating properties, and supporting credit unions and debt advice facilities.

Jobs Growth Wales

A further initiative of note refers to employment support. As the New Policy Institute outlined in its recent appraisal of Welsh progress against poverty measures, 'the main problem in Wales is lack of jobs' (NPI 2013). The NPI stressed that creating employment opportunities is a long-term challenge for the Welsh government, and will affect its ability to meet the TPAP objectives. The Welsh government has been both active and vocal in meeting this challenge through its flagship employment programme Jobs Growth Wales.

Jobs Growth Wales is relatively small, aiming to achieve around 4,000 additional employment opportunities for young people in Wales (Welsh Government 2012). The programme appears to be having some success at getting young people attached to employment positions, but the deadweight costs of a programme targeting wage subsidies at the private sector (worth around £75 million over the next three years) are potentially high – that is, the Welsh government could be subsidising jobs that could potentially have been created anyway. In addition, the effects of the programme are likely to be drowned out by the wider momentum in the Welsh labour market, which appears to have delivered an additional 25,000 jobs in the past six months alone, with economic inactivity falling at corresponding levels (Nomis 2014a).

Future aspirations

The wider ambitions of the Welsh government are apparent in its response to the Silk Commission, and to the UK government's response to the Silk Commission. The Silk Commission included a large number of recommendations which the Welsh government has endorsed in full, but that the UK government has not. Of those specifically related to poverty, the Welsh government's ambitions go further than those of the UK government in its aspiration for control over specific adjustments to income taxes (for example see Hutt 2013).

Beyond the positions already advocated in Silk, our discussions with stakeholders yielded few specific or widespread demands for devolution related to the other key element of the poverty debate: the social security system. In part, this appeared to be the result of two factors: the first that certain competencies were appreciably held at the UK wide level – for instance, key social security areas such as pensions policy; the second, and more important, issue was a political and financial concern

8 While the Welsh government has been keen to emphasise its educational powers as a means of delivering a progressive and distinct education system, there may also be the added political influence of a recent bout of poor PESA results showing that the educational outcomes of the Welsh system were not only below the UK average, but were also falling down the international league tables.

regarding the current financial settlement being undermined by the prospect of additional competencies unmatched by devolved funding. Indeed, officials and external stakeholders alike recognised that tackling short-run measurements of poverty were inhibited by Westminster holding the levers of power over welfare expenditure and taxation, but the recognition of this was not matched by a widespread aspiration for direct control over these levers themselves until there had been a revision of the Barnett position, or specific devolved delivery and administrative budgets had been outlined.

There was also concern that – as with council tax benefit – responsibility assumed for new powers might also come with a budget cut, providing effectively an unfunded mandate. Related to this, officials reflected that power, in terms of the ability to achieve objectives, appeared to be inhibited less by the constitutional settlement, as by the level of resources at the administration's disposal.

Even in poverty-related policy areas where powers were felt to be insufficient, among officials there was significant optimism that much could be achieved with the competencies already at their disposal. They pointed for instance to the childcare elements of their strategy as examples of potentially high-impact policies conducted within the current envelope of government powers.

There was, however, frustration where programmes delivered by the Welsh government conflicted with those run from Whitehall. For instance, while the commissioning of employment programmes is conducted principally by Whitehall (through the Work Programme), the Welsh administration can and does operate its own welfare to work schemes, such as Jobs Growth Wales. Due to a legal interpretation of European social funding rules, Work Programme participants are unable to participate in Jobs Growth Wales due to double-funding issues. This illustrates programmes working at loggerheads, where the situation might more easily be solved if Wales had competency over delivering back-to-work support alone. In this case, several of the participants suggested that rather than simply clarifying the funding rules, funding for the Work Programme might instead be devolved, but even here caution was apparent.

Summary: Wales

In summary, in spite of the significant challenges concerning poverty in Wales, the administration has made significant attempts to use the powers at its disposal to prevent and mitigate poverty. Some of the most important measures include:

- programmes aimed at addressing poverty in the early years with a view to addressing the long-term causes and consequences of deprivation and holistic services targeted on low-income families
- a bespoke programme of employment support – Jobs Growth Wales – aimed at tackling youth unemployment through a job guarantee
- a strong and explicit institutional commitment to tackling poverty, including leadership at the highest level and a coordinated, cross-government action plan.

There is some wariness though as regards taking on additional devolved powers for tackling poverty. In part this is because there is a genuine concern that new powers would be accompanied by further budget reductions but also because there was recognition that many tax and benefit issues were best dealt with by the UK government. The greatest desire for further devolution concerns the ability to better coordinate the Work Programme.

3.2 Northern Ireland

Government functions and strategies

The overall remit of tackling poverty falls within the Office of the First Minister and Deputy First Minister. It has a coordinating role in respect of the work of other government departments and has the lead on specific targets for reducing child poverty (OFMDFM 2013). However, there is less emphasis on poverty reduction at a political level than in either of Wales or Scotland.

In part this is due to residual issues following on from the peace process continuing to dominate the Northern Ireland executive's time and energies and with too many issues ending in deadlock. Very little legislation has been enacted in recent years: excluding the budget, 27 Acts were passed in 2011 but only three in 2012 and eight in 2013. In recent times, for example, Northern Ireland failed to agree about its inclusion in the work of the Social Mobility and Child Poverty Commission which monitors the progress of government and others in improving social mobility and reducing child poverty in the UK. The power-sharing arrangements also mean that cabinet ministers have almost complete autonomy over their individual departments.

It is also due to the executive prioritising economic policy over social policy. This can be seen from the focus of its two Programmes of Government (2008–2011 and 2011–2015). For instance, there is cross-party support for the devolution of corporation tax with a view to reducing its level, despite the impact it would have on the block grant.

Interviews with officials brought out significant frustrations with the present system with the strong sense that local policy often just mirrors policy in England without considering whether different options might better suit the specific needs and circumstances of Northern Ireland. Several representatives from the voluntary sector community conveyed frustration that it was not clear how to access or influence anti-poverty policy, in particular the child poverty strategy. And it was felt that replicating the external group of experts drawn from academia and the third sector used in Wales to support and critique their anti-poverty strategy would be desirable. Some social groups, such as ethnic minorities, feel that Northern Ireland's current anti-poverty strategy overlooks their particular issues.

Northern Ireland's key anti-poverty strategy document remains *Lifetime Opportunities*, launched in 2006 by the then-secretary of state Peter Hain. The Northern Ireland executive formally adopted the broad framework of this anti-poverty strategy in 2008, its two primary aims being to end child poverty by 2020 and to work towards eliminating poverty and social exclusion in Northern Ireland by the same year. The strategy is structured around four key stages of the life cycle – early years (0–4), children and young people (5–19), working age adults, and older citizens (beyond working age). The Northern Ireland strategy places more focus on intergenerational cycles of poverty than the strategies of the other parts of the UK.

The child poverty strategy is moving to a more targeted poverty outcomes model which focusses on those interventions which have the most significant effect in tackling child poverty. Crucially, it includes a detailed measurement framework to assess progress towards reducing not just child poverty but also its underlying factors (Fauth et al 2012). OFMDFM currently has the draft *Delivering Social Change for Children and Young People Strategy* out for consultation. The draft strategy integrates the executive's *Child Poverty Strategy*, the *Ten Year Strategy for Children and Young people: Our Children, Our Pledge* and the executive's work to deliver our commitments under the United Nations Convention on the Rights of the Child. Parts of the voluntary and community sector have expressed considerable concern that this will reduce the focus on child poverty, that it does not talk about eradicating child poverty and does not have separate outcomes for child poverty. Moreover, the strategy is not linked to wider strategies and as a result encapsulates the continuing disconnect between policies.

A widely held criticism of Northern Ireland's anti-poverty strategy previously has been that it has not been subject to a great deal of coordination. In fact, it comprised some 90-odd programmes across the province's government departments addressing both social and economic issues with little sense of linkages between the two.

More recently, a *Delivering Social Change* framework has been developed to coordinate key actions across government departments and provide a focus on several 'signature programmes' on priority social policy areas. Six of these key programmes were announced in October 2012:

1. improving literacy and numeracy attainment levels in primary and post-primary schools through additional teaching support (£12 million)
2. supporting the existing 16 family support hubs and the establishment of 10 new family support hubs (£3 million)
3. additional high-quality support to new and existing parents living in areas of deprivation through positive parenting programmes (£2 million)
4. an additional 20 nurture units to be rolled out across Northern Ireland in addition to the seven nurture units already being rolled out by the Department for Social Development (DSD) (£3 million)
5. establishing 11 social enterprise incubation hubs servicing areas of multiple deprivation (£4 milion)
6. a pilot intervention to support young people not in education, employment or training (NEET) in developing skills and linking them to the employment market through structured programmes and projects (£2 million).

In October 2013, investment of £1.6 million to enhance play and leisure opportunities for children and young people was announced as a seventh programme. A limitation of these programmes is that they only have short-term funding, and often also only short-term outcomes.

Coordination is bolstered by meetings every eight weeks of the Delivering Social Change Programme Board. This is co-chaired by the two OFMDFM junior ministers, includes senior officials from all government departments and is tasked with ensuring that key milestones and targets are achieved. Through the *Children & Young People's Early Action Document* (December 2012) there is also a key emphasis placed on early years and early intervention.

Many of the other key policy areas impacting on poverty fall under the remit of the Department for Social Development including social security, urban regeneration, housing, and poverty and deprivation. DSD produces Northern Ireland-specific poverty bulletins containing headline poverty figures and these bulletins have been subject to changes following assessment by the UK Statistics Authority in May 2013 to attain national statistics status.

Many DSD policy areas are currently in a considerable state of flux with the welfare reform changes and reforms to the social housing institutional framework following on from the Northern Ireland Audit Office's report, *Tackling Social Housing Tenancy Fraud in Northern Ireland*, published in September 2013. The latter plan is likely to include replacing the Housing Executive, which has 90,000 social houses under its control, with a number of housing associations, and with its policy functions reverting to DSD. In addition, proposals are being looked at to devolve to local authorities in 2015 delivery of certain services to deprived communities including urban regeneration and community development.

One area in particular where it appears that Northern Ireland trails the rest of the UK is in childcare policy. Childcare in the province is, outside London, the most expensive in the UK (Horgan and Monteith 2009). Dennison (2013), reporting on the *Employers for Childcare Annual Survey*, found that families in Northern Ireland are paying 44 per cent of average net weekly earnings on childcare for one child. Moreover, a report for the Equality Commission for Northern Ireland concluded that childcare lacked centralised strategic direction and integration (McQuaid et al 2013). The Programme for Government 2011–15, however, commits the executive to publish and implement a childcare strategy with key actions to provide integrated and affordable childcare. The detailed childcare strategy is set to be published this year. The executive recognises that the availability of quality, affordable childcare is important to enable parents to secure employment, and to give children a sound start in life and can be the basis for subsequent achievement at school and beyond. Much more, however, remains to be done on this issue in Northern Ireland, particularly in respect of childcare for 0–3-year-olds and to better integrate early years and childcare provision.

Tackling fuel poverty and the costs of living

Fuel poverty has a particularly high prevalence in Northern Ireland and is much higher than other areas of the UK. The most recently available estimates indicate that 42 per cent of households are experiencing fuel poverty compared to 15 per cent in England (Liddell and Lagdon 2013).[9] The main reason for this is the province's reliance on oil due to an underdeveloped natural gas network. Over three-quarters of households use oil as the most common method to heat their homes (NIHE 2014). There is a concern in the policy community that this issue is not being taken seriously enough by the executive, though a new strategy on fuel poverty is set to be published later this year.

One of the largest deviations in welfare payments was the administration's decision to give more than 250,000 people in Northern Ireland a one-off fuel allowance payment at the start of 2012 following one of the severest winters in recent years. The measure cost approximately £23 million and had the specific aim of helping alleviate fuel poverty. Neither Wales nor Scotland would have been able to introduce a similar measure. Many of the other cost of living measures which have been brought in by the devolved administration have tended to be badly targeted but politically popular, for instance, free prescriptions and free travel for the elderly.

Other issues which are particularly acute in Northern Ireland include high prices for food and travel for those with low incomes; poor public transport inhibiting access to employment; and high rates of disability and limiting long-term illness (Horgan and Monteith 2009, McLaughlin and Monteith 2006). According to Oxford Economics, the combination of these issues means that relative living standards are expected to decrease to just above 75 per cent of the UK average by 2030 (Northern Ireland Executive 2011).

Welfare issues

The changes to welfare and the tax credit system at a UK level will, if implemented without amendment in Northern Ireland, have a particularly large effect on the province. The Institute of Fiscal Studies has produced research which suggests that Northern Ireland will be the worst hit after London by the introduction of universal credit (IFS 2013b). Approximately 9 per cent of families will lose out from the switch to universal credit, which is above the UK average. This is in part a consequence of Northern Ireland being a relatively low-income part of the UK, with more people entitled to means-tested support and thereby affected by reforms to means-tested benefits (ibid). In particular, the proportion of people on disability living allowance is

9 Note that this is based on the previous UK-wide measure of fuel poverty – namely that any household that spends more than 10 per cent of its income on fuel was classed as fuel poor.

higher in Northern Ireland than other parts of the UK and those claiming the severe disability premium in means-tested benefits will see it abolished as part of the move to universal credit (ibid).

At the time of writing this report, the Northern Ireland assembly had yet to pass its welfare reform bill – as such it had missed the deadline set by Westminster and so from the beginning of 2014 has been subject to a penalty of approximately £5 million for each month the bill is not enacted.

While the Northern Ireland assembly has the power to vary welfare policy, any additional costs –through paying higher benefits, for instance – would mean a corresponding reduction in the block grant. The Democratic Unionist party (DUP), Northern Ireland's largest political party, opposes any attempts to breach parity that would place at risk the annual £3 billion social security budget which the province receives and might be seen to weaken the union. Moreover, with the limited fiscal powers available to raise more tax revenue, it would be hard for the Northern Ireland government to fund major increases in welfare spending.

However, in recent years the centrally imposed welfare reforms have persuaded local politicians to consider being a little more flexible in respect of the 'parity principle' and to make changes at the margins of the welfare system.

Northern Ireland has already deviated from the rest of the UK in respect of the bedroom tax with the Treasury agreeing to let the Northern Ireland government waive the benefit reductions for existing tenants, though it still applies to new ones. This is at a cost to the devolved administration of £17 million in the first year, but the cost will go down in subsequent years as fewer tenants become eligible. One of the main drivers behind the deal was that Northern Ireland does not have enough smaller dwellings to meet demand. Implementing the policy without this change would have had a substantial negative impact on poverty levels. Scotland has been envious of Northern Ireland's ability to negotiate over the bedroom tax. Northern Ireland has also chosen to keep the discretionary social fund as centrally administered rather than devolving it down to councils as England has done.

At the time of writing this report, Northern Irish politicians were considering making three changes to the way universal credit is implemented compared to the rest of the UK: first, a presumption that housing benefit will be paid directly to landlords; second, not paying benefits exclusively to one member in each household; and third, paying benefits fortnightly rather than monthly. The desire to place more emphasis on personal responsibility is not as strong in Northern Ireland as it is in England.

This ability through devolved social security to amend policy at the margins to reflect the different needs and priorities of Northern Ireland is considered by both policymakers and the wider policy community to be very useful and capable of having substantial impact on the ground. In addition, it sets up a useful natural experiment allowing devolution to live up to its potential to offer a policy laboratory.

There has been little appetite though among Northern Irish politicians for more taxation powers other than for air passenger duty and corporation tax with a view to reducing their rates.

Summary: Northern Ireland

Anti-poverty policy in Northern Ireland is perhaps less explicit and coordinated than in Scotland or Wales. Calls for Northern Ireland to have more devolved powers have focussed on the ability for it to vary rates of tax, specifically corporation tax and air passenger duty. This debate, therefore, has centred on economic competitiveness rather than social outcomes as the key to tackling poverty.

In part, this has been caused by the nature of the administration that has come about as part of the peace process, with unionist politicians opposing significant policy deviation from Westminster and cabinet ministers exercising almost complete autonomy over their individual departments.

Where Northern Ireland has taken steps to tackle poverty, these have been in three key areas:

1. through a recent shake-up in the approach to social housing and the devolution of urban regeneration and community development functions to local authorities
2. through direct payments to tackle fuel poverty and other costs of living
3. through a number of small changes to the process of welfare reform to protect Northern Irish residents from benefit reductions enacted in Westminster.

It remains to be seen how effective many of these more recent measures will be, but Northern Ireland will prove a fascinating comparator for the welfare reforms that are taking place elsewhere in the UK.

3.3 Scotland

Success in Scotland

Chapter 2 of this report provided a snapshot of the major poverty trends in Scotland, showing that there have been substantial and sustained declines in levels of child poverty and pensioner poverty. This analysis chimes with research from the New Policy Institute which analysed the key changes in poverty over the last decade. The NPI found for example:

- child poverty rates after housing costs fell from 31 per cent to 21 per cent in the decade to 2010/11 and are now lower in Scotland than in England and Wales (reflecting differential housing market costs)
- the number of working age adults with dependent children living in poverty fell, while the number in poverty without dependent children increased
- the most significant impact of the recession concerns youth unemployment: since 2008 the number of under-25s who are unemployed has almost doubled (to 90,000)
- a growing number of people are being forced to work part-time due to the lack of full-time jobs (NPI 2013).

The more current figures since this monitoring report show child poverty at 21 per cent (DWP 2014a), having dropped eight percentage points in 10 years. It is difficult to credit, or blame, devolved policy for these figures. The economy of Scotland, linked as it is to the wider UK and global economic conditions, appears to have done much of the work to support falling poverty levels, where employment and unemployment levels seem more closely aligned to England than either Wales or Northern Ireland (Nomis 2014a, 2014b). In addition, the policies of Westminster, particularly those focussed on improving the income of pensioners, appear to have been highly successful in reducing pensioner poverty in Scotland as elsewhere.

However, the Scottish government has played a role in driving economic development through successful inward investment initiatives, supporting threatened jobs and building the skills base. The Scottish government can also take credit for subsidising families with the cost of living, but many of these initiatives result from the politics of the recent independence debate rather than any explicit anti-poverty strategy.

Politics and poverty

In the past five years there has been a profound change in the political environment in Scotland that has not occurred in the other nations of the UK. Most obviously the political dynamic in Scotland has been transformed since 2011 with the election of the Scottish Nationalist party (SNP) as a majority administration (from 2007 the SNP governed Scotland as a minority) and the subsequent independence referendum. Much of the debate around tackling poverty has to be seen in this political context.

Nevertheless, while dated, the Scottish government does have a formal anti-poverty strategy, set out in 2008 in the *Achieving our Potential* policy framework.

This document sets out the Scottish government's anti-poverty strategy, which is strongly focussed on a 'preventative' approach to tackling poverty and addressing the root causes of poverty. A national target to increase the proportion of income received by the poorest 30 per cent of households by 2017 is highlighted as the key aim. The framework specifies further priorities for action and investment to deliver improvement across four main areas:

1. reducing income inequalities
2. introducing longer-term measures to tackle poverty and the drivers of low income
3. supporting those experiencing poverty or at risk of falling into poverty
4. making the tax credits and benefits system work better for Scotland.

Progress is tracked through a number of national outcomes and indicators. These outcomes include decreasing the proportion of individuals living in poverty and increasing healthy life expectancy at birth in the most deprived areas. Alongside this main document, the *Equally Well* report of the Ministerial Task Force on Health Inequalities and the *Early Years Framework* have sought to set out a new approach of collaborative working alongside investment in the prevention of social ills, including through early intervention.

Neither of these strategies have been reviewed or revised and in many respects they have been overtaken by events: first, the recession; and second, the independence debate and the Scottish government's often reactive response to the reforms made in Westminster. Indeed, if there is one word that best captures the current strategy of the Scottish government it is 'mitigation' – the present policy agenda has been almost entirely dominated by reacting to and trying to offset the impact of the Westminster government. More so than in Northern Ireland, for example, opposition to UK government policy also attracts support from across the parliamentary divide.

Mitigation measures

The Scottish government has therefore adopted a series of policies aimed at tackling the cost of living. These sometimes function under the umbrella term of the Scottish social wage and include longstanding policies such as universal social care, free prescriptions, no up-front student fees and a pledge to continue with a council tax freeze for all households until the end of the parliament.

These are substantial measures that come at a heavy cost: the Scottish government estimates that the costs of free personal care have risen from £133 million in 2002/03 to £351 million in 2012/13 (Scottish Government 2014). Pensioner poverty in Scotland has persistently been the lowest in the UK since devolution, before and after housing costs. Elderly people particularly benefit from both measures, in their reliance on social care and medical costs. However, while it is apparent that these measures will support those on low incomes generally, it is also clear that such policies are poorly targeted and will support wealthy people with their costs of living too. Likewise, these measures may not always be targeted at factors that have the most impact on poverty – free prescriptions, for example, may be politically popular, but their costs are not a substantial element of the outgoings of the poor.

Beneath these headline policy areas are measures that have a stronger anti-poverty flavour, including extra funding for the welfare/money advice sector to help people manage their financial pressures. As with Wales, the Scottish government as part of its housing remit operates an energy efficiency strategy (the Energy Assistance Package) designed to support deprived families with investment in insulation to reduce the costs of heating. At £16 million of public funding to 2015, however, its impact is likely to be relatively limited.

More recently, the Scottish government has also introduced a series of measures to mitigate the impacts of welfare reform conducted from Westminster. These include:

- the Scottish government has offset the UK government's cut to council tax benefit
- a £20 million emergency fund has been established to help mitigate (but not offset) the impact of the 'bedroom tax'
- the creation of the Scottish welfare fund to replace the defunct social fund previously administered by the Department for Work and Pensions (DWP).

Again, the Scottish government may not be using resources to maximum effect. The emphasis on lower taxes (council tax) and universal benefits makes for a regressive fiscal framework. These policies may be popular but they are incredibly expensive. For instance, targeting the freezes to council tax (which as the analysis earlier highlights is a substantial element of family expenditure) towards low-income groups not eligible for council tax benefit might serve as a more distinct anti-poverty measure to address the cost of living.

Future objectives

Despite an array of substantive policies emerging from Holyrood, interviewees for this report acknowledged further measures could support anti-poverty objectives, in particular measures to support the employment of disadvantaged groups. For instance, while Scotland has control over education and skills policy, and runs its own series of active labour market policies including Training for Work and Community Jobs Scotland, it remains subject to commissioned active labour market policies from Westminster (via the Work Programme and Work Choice) (House of Commons Welsh Affairs Committee 2013).

In addition, a wider debate has been raging in Scotland over childcare, with the SNP arguing that only independence can provide a Nordic model of universal childcare. In response, other political parties have argued that the Scottish government already has the powers it needs to introduce the policy. Certainly, progress under the existing arrangements has been limited: a review in 2012 by the Daycare Trust reported very patchy provision, and highlighted that the costs of childcare in Scotland are among the highest in the UK (Daycare Trust 2012).

However, with childcare and nursery places funded in part through tax reliefs and tax credits, it is clear that should the Scottish government choose to prioritise childcare it would have greater flexibility to do so under a more permissive fiscal framework under which it might itself juggle both the costs and the benefits of increasing childcare provision.

Summary: Scotland

Since the advent of devolution, the Scottish government has persistently demonstrated the most progress through falling levels of poverty among the whole population, among children and particularly among pensioners. Policies adopted have not been strictly anti-poverty so much as universal and populist, and often reactive to the Westminster regime. This, however, does not mean that they cannot support the aim of tackling poverty.

The Scottish government has been effective in driving economic development through its devolved powers in relation to skills, innovation, inward investment, housing and transport, for example. It has also been able to protect jobs through a more traditional 'industrial policy' than that pursued south of the border.

The Scottish government has also supported measures to assist people with the cost of living: free care for the elderly, free prescriptions and reduced tuition fees have the potential to assist the poorest, but they are not well-targeted policies, nor indeed the most effective use of limited resources.

The Scottish government has also made significant attempts to mitigate the welfare reforms enacted by Westminster: offsetting the cut to council tax benefit; establishing a £20 million emergency fund to mitigate the problems associated with the bedroom tax; and creating a new Scottish welfare fund to replace DWP's social fund.

Ultimately, an explicit commitment to tackling poverty at present does not appear a high priority for Scottish politics, distracted as it has been by the independence debate and the subsequent discussions on devolution. Nevertheless, with existing powers and a more effective use of resources, let alone with greater devolution, the Scottish government could make further progress still in areas such as childcare and employment support.

4. DEVOLVING WELFARE

Chapters 2 and 3 have shown that where there are variations in levels of poverty between the different nations these are relatively small – albeit significant for those groups who are directly affected. Long-term, macroeconomic factors and global economic trends are a key determinant of poverty levels in the different nations and regions and insofar as the devolved nations can affect such factors through investment in skills, infrastructure and innovation they hold many of the tools for action already. Cost of living realities also add pressure to the household budgets of those experiencing poverty. Once again, devolved institutions have used a range of devolved powers to mitigate their worst effects.

There is, however, one key dimension of poverty alleviation where powers are currently largely held in Westminster (other than to a limited extent in respect of Northern Ireland), but where there might be greater scope for further devolution: the welfare system. This final chapter places particular focus on welfare benefits and presents the case for the further devolution of a limited number of benefits with a view to strengthening the capacity of the devolved nations to tackle poverty.

The move towards universal credit on the face of it perhaps makes it more difficult to devolve particular benefits. Universal credit is aimed at streamlining the benefits system, with the introduction of a single combined benefit to replace income-based jobseeker's allowance (JSA), income-related employment and support allowance, income support (IS), working tax credit, child tax credit and housing benefit. While the ambitions of universal credit are largely laudable, there are concerns about the risks around its operational arrangements, in particular the move to a single monthly payment and the risks of increasing arrears from direct payment of housing benefit to claimants in the social sector (SMCPC 2013). Removing particular benefits from universal credit and devolving them would not be without its challenges at a practical level, but these are far from insurmountable.

4.1 The case for greater welfare devolution

While there is a strong case for devolving control of *distributed* public services because the devolved institutions are best placed to ensure these services most effectively reflect local preferences and meet local conditions, it is commonly held that *redistributive* functions – which entail the transfer of resources from one section of the population to another – are best exercised at the UK level.

The UK government can draw on a wider tax base than can the individual nations to fund redistribution. This is important given that social security is the largest area of domestic spending in the UK and in the devolved nations. Redistribution can take place between individuals, regions and classes, but also across lifetimes, helping to balance risks that are greater at some points in one's life than in others.

Social security in this sense is a form of risk pooling. There is a clear economic logic for the nations of the UK coming together to pool risks and share financial resources across the largest possible area. Economic shocks tend to be asymmetric, affecting individuals and places in different ways and at different times, and sharing resources reduces exposure to such risks. Equally, different parts of the country vary demographically, which creates different pressures over time on welfare benefits –

Scotland, for instance, is today ageing more quickly than other parts of the UK. For these reasons, social security is seen as one of the major automatic stabilisers used to manage macroeconomic risk.

So, in a state comprising several territories, if one part endures a period of economic hardship it can be supported if it can call on the resources of the other regions in addition to those at its own disposal. This can be seen operating in both directions when we look at the history of Scotland in the union. Although Scotland makes substantial contributions to UK revenues, it has also in recent decades benefited from relatively high levels of welfare spending from the UK pool; spending per head on welfare in Scotland is nearly 2 per cent higher than the UK average.

Federal and decentralised systems around the world have similar arrangements. As table 4.1 illustrates, social security is typically the responsibility of the central government even in highly decentralised countries. Distributive welfare functions tend to be allocated to regional or state-level governments and redistributive ones to the federal or central government.[10]

Table 4.1
Legislative responsibility for aspects of welfare in various federal countries and devolved administrations in the UK

	Australia	Austria	Canada	Germany	Switzerland	US	UK devolved government
Old age, survivors and disability	Federal	Federal	Shared	Federal	Federal	Federal	Reserved
Unemployment	Federal	Federal	Federal	Federal	Federal	Shared	Reserved
Work injury	State	Federal	Provincial	Federal	Federal	State	Reserved
Family allowances	Federal	Federal	Shared	Federal	Federal	Shared	Reserved
Social assistance	Federal	Shared	Provincial	Federal	Cantonal	Shared	Reserved
Health	Federal	Federal	Shared	Federal	Federal	Shared	Devolved

Source: Obinger et al 2005, table 1.6 (extended)
Note: This table relates to legislative responsibility for the functions specified. Implementation and administration may be shared with state or provincial authorities, or with other bodies such as social insurance funds.

However, this is not to suggest that there is no role for the devolved governments in social security. In Canada, employment insurance is a Canada-wide scheme, though its rules vary regionally (allowing for seasonal patterns of employment in Atlantic Canada). The Canada Pension Plan operates only in English-speaking parts of Canada, with a similar but separate scheme functioning in Quebec. Provinces have, in each case, a broad spending power allowing them to spend on a range of functions including welfare, even where these are federal functions. Indeed, the outright exclusion of regional-level governments from welfare responsibilities is unusual, and generally to be found only in the more centralised federal systems such as Australia or Germany.

Examples from overseas also illustrate how policy innovations which emerge in one unit of government, are then taken up more widely. This has been particularly the case in Canada, where healthcare, pensions policy and childcare policies all started as initiatives in one province (Saskatchewan in the case of health and Quebec in the case of pensions and childcare) before becoming much more widely adopted, and supported by the federal government. As Béland and Lecours (2007) point out, the positive example of a policy innovation by one government can affect others, and create a different sort of policy competition; in effect, it can drive a race to the

10 For a comprehensive survey, see Obinger et al 2005.

top rather than to the bottom. Welfare devolution would strengthen the ability of different policies adopted by devolved governments to act as examples for the UK as a whole.

In the UK, there is already a level of welfare devolution to Northern Ireland which is part of the UK tax system, and tax credits and child benefit are paid from UK institutions in the same way and at the same rates as elsewhere in the UK. Its national insurance system is distinct but operates in exactly the same way as that in Great Britain (and is an excepted matter under the Northern Ireland Act 1998, meaning only Westminster can legislate to change it). However, other social security benefits are separately administered by the Northern Ireland Social Security Agency, part of the Department for Social Development. Such benefits are subject to convention of parity with those provided in Great Britain, but are set by the Northern Ireland assembly and funded by a grant corresponding to the welfare bill from HM Treasury. The upshot is a system where much of social security is devolved formally but not in substance.

Furthermore, since 2010 we have started to see some limited examples of the UK government devolving other welfare functions.

- The abolition of crisis loans and community care grants, previously available from the social fund, has led to responsibility for these to be transferred to local authorities in England, and devolved governments in Scotland and Wales. The funds administering the former responsibilities of the social fund are the Scottish welfare fund and the discretionary assistance fund for Wales, both responsible for this for two years from April 2013 (so arrangements may change thereafter).
- Council tax benefit has been replaced by an equivalent benefit at a local government level in England and by devolved governments in Scotland and Wales. The reduction in the amounts paid for this (with the budget having been cut by 10 per cent) have, of course, caused problems in both countries, with the Welsh government belatedly making up the shortfall from its own resources, after a protracted political row.

Beyond this, more significant welfare devolution is now being considered in respect of Scotland.[11] For instance, the Scottish Labour Devolution Commission is looking at options for welfare devolution including housing benefit and the attendance allowance (Scottish Labour Party 2013), while the cross-party Devo Plus group has recommended limited welfare devolution too (Devo Plus 2012).

In short, although there is a strong case for a national social security system, it would seem that certain aspects of welfare can still be effectively devolved or shared.

4.2 Devolving specific benefits

Since outright welfare devolution would arguably not promote the cause of poverty reduction, an alternative option would be to devolve specific welfare benefits while leaving others in the hands of the UK government. Some benefits (and resources currently used to pay them) would be transferred to devolved governments. The result would be to enable devolved governments to tailor welfare provision to local preferences while other major benefits would remain UK-wide.

In policy terms this presents a number of options as there are a wide range of benefits: old-age pensions, jobseeker's allowance (unemployment benefit), disability benefits, attendance allowance, supplementary benefit and many others. Some benefit payments are linked to national insurance contributions, others are paid on the basis of need from general taxation.

11 The Welsh and Northern Ireland governments have shown little interest in the debate, despite ambivalence about, or opposition to, the UK government's welfare reform proposals.

Any decision about whether it is sensible to devolve a particular benefit (or welfare programme) must be based on clear evidence that doing so would help the devolved institutions to meet the policy challenges they face and strengthen rather than undermine anti-poverty strategies at both a UK-wide and a devolved-nation level. Where devolving benefits and/or related welfare programmes could help boost growth and economic performance, in line with the social investment approach,[12] the case is particularly strong. To help inform this debate we have developed the following criteria for consideration.

- **Whether the benefit is cyclical in nature or not –** those which are cyclical are less suitable for devolution, given the financial strains they can impose on devolved resources. In particular, benefits which function as countercyclical stabilisers are unsuitable for devolution. From a risk pooling and UK social union perspective it is also important that such benefits (for example jobseeker's allowance) remain UK-wide. Conversely, benefits which relate to predictable indicators (such as demographic ones) may be more suitable for devolution as the costs of these can be foreseen and budgeted for, though that depends on other factors.
- **Whether the benefit relates to, or overlaps with, devolved functions –** those which have a connection with devolved functions are more suitable for devolution, as this will enable devolved governments to deal with their responsibilities better.
- **Whether the factors that affect the benefit are place-related or not –** those which show strong connections to particular locations such as housing markets are more suitable for devolution than those which are not.
- **Whether major benefits are redistributive in nature or contributory in character –** those which are funded through the national insurance fund are largely unsuitable for devolution.

We consider a wide range of benefits against each of these criteria in table 4.2.

Table 4.2
Benefits and their relationship to devolved functions

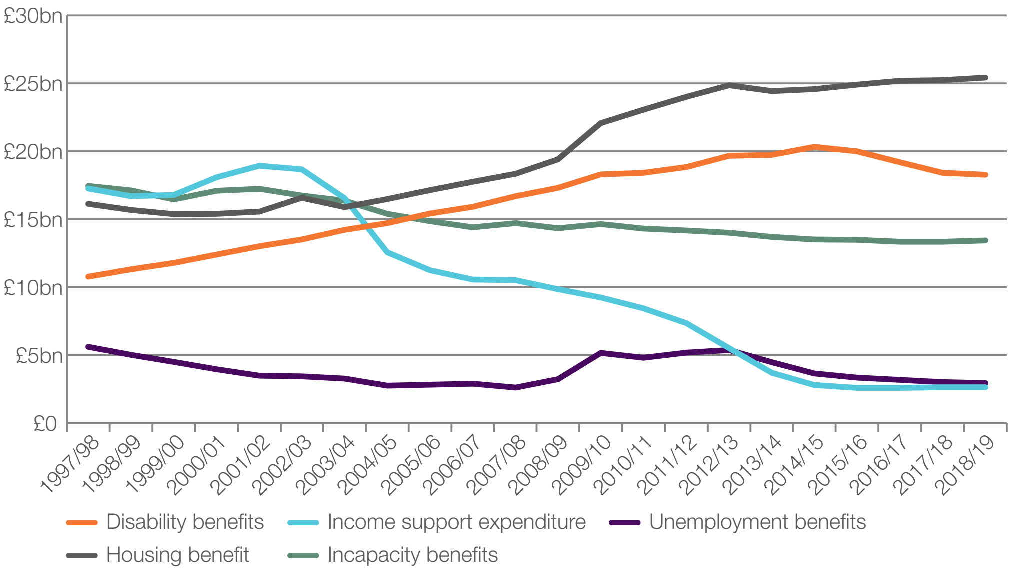
Benefit	Approximate value, 2010/11 (£bn)	Cyclical?	Relation to devolved functions?	Place-related factors?	Contributory benefits (NI funded)?
DWP benefits					
Severe disablement allowance	0.9	N	(civil liability devolved in Scotland & N Ireland)	N	N
Industrial injuries disablement allowance	0.9	N	(civil liability devolved in Scotland & N Ireland)	N	N
Jobseeker's allowance	5.3	Y	No	N	N
Employment and support allowance	2.2	Somewhat	No	N	N
Income support	7.9	Y	No	N	N
Pension credit and minimum income guarantee	8.3	No	No	N	N
TV licences for over-75s	0.6	N	Some limited devolved role in broadcasting	N	N
Attendance allowance	5.2	N	Close overlap – adult social services		N
Carer's allowance	1.6	N	Close overlap – adult social services		N
Housing benefit	21.4	Somewhat	Close overlap – housing functions	Y	N

12 The core elements of a social investment approach include such things as: publicly funded childcare to boost employment; investment in human capital, skills and lifetime learning; and tackling unemployment, particularly youth unemployment, through active labour market policies.

Benefit	Approximate value, 2010/11 (£bn)	Cyclical?	Relation to devolved functions?	Place-related factors?	Contributory benefits (NI funded)?
DWP benefits					
Council tax benefit	4.9	Somewhat	Close overlap – local government functions	Y	N
Statutory sick pay and statutory maternity pay	2.6	N	NHS devolved (if GP's certificate needed; eligibility is self-certified initially)	N	N
HMRC benefits					
Child benefit	12.0	N	Education and childcare devolved	N	N
Tax credits	28.1	Y	Income tax being partially devolved under Scotland Act 2012; various proposals envisage devolution to Scotland	N	N
(Contributory benefits – non-voted)					
Incapacity benefit	5.5	Somewhat	–	N	Y
Jobseeker's allowance	0.8	Y	–	N	Y
Employment & support allowance	0.9	Y	–	N	Y
Maternity allowance	0.3	N	–	N	Y
State pension	66.8	N	–	N	Y
Bereavement benefits	0.6	N	–	N	Y
Social fund expenditure	3.8	N	Close overlap with personal social services	N	Y

Establishing which benefits are cyclical is difficult. Figure 4.1 presents the changes in real terms (using GDP deflators) of some of the key welfare benefits, indicating how cyclical or not they are. Unsurprisingly, jobseeker's allowance and council tax benefit have been cyclical.[13] This carries the caveat that changes in expenditure reflect changes in eligibility for the benefits as well as the economic cycle.

Figure 4.1
Changes in selected welfare benefits (2014/15 prices)



Source: DWP 2014b

13 Spending on income support has fallen because of a transfer of lone parents from IS to JSA.

Employment and poverty-related benefits – under present arrangements, jobseeker's allowance, and working tax credits – are cyclical in nature, and so not suitable for devolution. Devolving them would require devolved governments to increase their spending on these benefits during economic downturns, creating considerable fiscal challenges.[14] In any case, these have little or no connection to existing devolved functions. While the costs of old-age pensions are relatively predictable, the financial burden of devolving them would be very considerable indeed given the amounts involved (they account for over a third of the total welfare budget). They also have no direct connection to currently devolved functions. These are therefore also unsuitable for devolution.

Disability benefits include disability living allowance, quite a large benefit, being replaced by the personal independence payment (PIP); incapacity benefit (IB) and employment support allowance (ESA); and some small benefits such as industrial injuries benefits and severe displacement allowance. Devolving these would present two issues. First, whether their devolution would be consistent with the sort of social union that the UK should be if the UK government were to withdraw from a prominent role in providing help to people with disabilities. Second, whether these benefits are suitable for devolution in a practical sense. Some – notably IB and ESA – have served as ways of dealing with the long-term unemployed in the past. They are, to an extent, therefore cyclical benefits and that creates economic and financial considerations. Those that are not cyclical are disproportionately paid in both Scotland and Wales, with the effect that devolution might well transfer a significant burden there. These benefits would therefore also be unsuitable for devolution.

The strongest candidate of these is attendance allowance, given its close overlaps with devolved policy in the health and social services. Attendance allowance is paid to those aged over 65 with a disability to help them at home and in their community. It is a non-contributory, non-cyclical benefit.

Contributory benefits, paid for from the national insurance fund (NI fund), are easy to identify. The NI fund covers a wide range of expenses, not all of which are welfare benefits (in many years it contributes some funding to the national health service), and often runs at a deficit which needs to be made up from general taxation. At present, the major contributory benefits are the basic and additional (or second) state pension, contribution-based elements of jobseeker's allowance, employment and support allowance and incapacity benefit, all of which are time-limited, and maternity allowance (MA) and some small bereavement benefits (bereavement allowance, bereavement payment and widowed parent's allowance). Old-age pensions and contributory elements of JSA, ESA and IB are clearly redistributive in nature, and so there are strong arguments not to devolve those.

In summary, table 4.2 makes clear the options for devolving specific benefits are limited. In headline terms we suggest that there is a strong case against devolving benefits which are core to the UK's social union, including jobseeker's allowance, employment support allowance and the state old-age pension. Some small benefits which have a direct interface with devolved policy should also be devolved. This particularly applies to attendance allowance given the overlaps with social care provision.

There is, however, a more compelling case for devolving two key dimensions of the welfare system: first, housing benefit; and second, employment support. Each of these will be addressed in the subsequent sections of this report.

14 Questions about tax credits might arise if all personal income tax were to be devolved, as that would mean that the tax credit would be a credit against no liability. There would be solutions to this, for example by making it a credit against employee's national insurance contributions rather than income tax, for those of working age.

4.3 Devolving housing benefit

The poverty data has clearly shown that housing costs are significant burdens on household expenditure, and that this is especially true of lower-income deciles. It has also evidenced that different housing markets create very different cost pressures, and the extent to which those on low incomes are expected to meet the costs of their own rent will depend on the cost dynamics of the local housing market, and the level of local housing allowance available within the Broad Rental Market Area to compensate it.

It is perhaps unusual that the largest part of UK public money invested in housing is not controlled by devolved governments. As a locally administered (and locally valued) payment, housing benefit has long been an unusual feature of the UK welfare state, which has typically compensated households at flat rates irrespective of their geography. Despite this, housing benefit is set to be abolished and wrapped up into universal credit. Housing benefit, however, is self-evidently a place-related benefit: the level paid already varies by place to take account of local market conditions.

That said, the devolved institutions are responsible for key aspects of the housing and property market. They control not just housing policy and investment, but also planning policy. As a result of the Scotland Act 2012 the Scottish government will also have responsibility for all property taxes. Devolved governments can encourage the construction of new houses in both private and public sectors, and in particular facilitate increases in the social housing stock through investment they make, direct or permit, if they wish.

And yet in spite of a stronger understanding of their respective national and local housing market conditions, their unique housing problems, and the housing competencies needed to influence the supply and type of housing, they do not have control over rent subsidy. Control over such a key investment stream is the missing piece of the puzzle for better housing policy and a clearer, more local focus on tackling the cost of housing.

First, rent subsidy control would allow the administrations to determine problems and priorities that accord to their local circumstances, rather than policies set in Whitehall (such as the spare room subsidy) which appear to be of little relevance to housing markets in the devolved nations – as evidenced by the deal that was struck with Northern Ireland – but nevertheless force rent subsidy recipients into destitution. For instance, rather than the Scottish government having to invest resources in reversing the effects of the spare room subsidy, Scotland should instead be making rent subsidy budgeting decisions themselves, in a manner that would target Scottish allocation problems, not ones in London.

Second, devolving rent subsidy budgeting could over the long run increase the supply of affordable housing and reduce the costs of rent subsidy. By calculating the long-term trade-offs, devolved governments could target their investment in social housing to reduce the costs of housing benefit. Allowing the devolved governments to use a proportion of housing benefit money to build new social housing, and in turn reduce expenditure on the more expensive private rented sector, would result in socially useful assets (which potentially could be sold when no longer needed) and is arguably a better long-term use of public money. Cutting reliance on the private rented sector by offering cheaper rents offers social tenants a quicker route out of poverty.

Third, control over rent subsidy would also bring much more stability and certainty to their substantial housing investment budgets. With the ability to control how rent subsidy policy is made, the devolved institutions can provide revenue certainty to their own public housing investments, and provide a more stable platform for affordable housing supply from the registered social landlord sector. As IPPR has argued elsewhere, the devolving of housing benefit would, over time, potentially contribute to reversing the 30-year drift in public spending from building homes to subsidising rents. In the long run it would be far better to invest more in bricks and mortar than in paying private landlords. The devolved administrations have proven much better at investing in new supply of social housing, and are as a result more active in helping families to reduce the housing cost pressures that have such an impact on policy discussions.

Ultimately, any national strategy to increase the supply of affordable housing will be limited without stronger influence over how the core aspect of the revenue stream (housing benefit) is distributed. Leaving control at Westminster leaves the devolved nations reactive to Westminster changes, and inhibits long-term investment and planning in affordable housing supply. Housing cost-induced poverty will only be tackled with the provision of more affordable housing options for families in the devolved nations; the control over the structural element of rent subsidy expenditure can be a key instrument to reducing expenditure on private landlords and increasing investment in affordable housing supply, and should therefore be carefully and strategically devolved.

4.4 Devolving employment support and the Work Programme

Alongside housing benefit, employment support is another part of the welfare system which we believe requires greater devolution to help improve the capacity of the devolved institutions to tackle poverty.

Active labour market policies call for joining up a range of areas of government action. Some interventions have been managed by government directly, through Jobcentre Plus; others have called for outside help, now in the form of the Work Programme. In both cases, these often need to be complemented by other agencies, whether parts of the NHS or the education system, to help the unemployed with health problems or educational needs. All of these areas now cross the boundary between devolved and non-devolved functions, raising practical difficulties that get in the way of improving people's lives and incomes.

The Work Programme is a key plank of the UK government's policies for moving people from reliance on welfare in to work. It replaces a number of separate smaller programmes that were formerly targeted at more specific groups, as well as work previously done by Jobcentre Plus. It targets those for whom it is hardest to find employment: the long-term unemployed (over-25s who have been receiving jobseeker's allowance for longer than a year; under-25s for more than nine months; and claimants of employment support allowance. It operates through a range of commercial providers, who are set targets for the proportion of 'clients' who should enter and stay in work, and who in turn enter into subcontracts in many cases with businesses that deal directly with those clients. Payments are staged and relate to success in finding work for clients – the longer the client stays in work, the greater the payment. Initial payments vary but are modest (£300–£600); 'job outcome fees' (for a client being in employment after six months) are typically £1,200 and thereafter the monthly 'sustainment fee' ranges from £2,200 to £9,620 (House of Commons Welsh Affairs Committee 2013).

This approach has many flaws. First, it is clear that the greatest determinant of success, or not, in getting clients into work is the state of the wider economy. Successes have therefore been greatest in relatively buoyant south-east England, and least in areas with low GVA and growth rates, like Wales and the north-east of England. The present structure, as a result, creates a risk of rewarding some contractors for changes in the wider economy that are not under their control, and equally of penalising others for the same reason with little regard for their actual performance. Second, it has led to accusations that prime providers have passed difficult or impossible cases to under-resourced subcontractors, and also to claims that difficult cases have been given a low priority for help or even 'parked'. And third, the structure of payment by results has meant that only large, well-capitalised companies are able to undertake prime provider roles – even though they are likely to lack the local staff, knowledge and other resources to provide services effectively, and so they are intermediaries between the government and the companies or bodies that actually deal directly with clients.

A further set of problems emerge from the different sorts of clients referred for the Work Programme, and the wider services they need to help support movement into work. The needs of people who have been unemployed for a long time, and are moving off JSA, are different to those of people who have health problems and are moving from incapacity benefit or ESA. When it comes to integrating services, the main interface for JSA claimants (other than services provided by subcontractors) is with further education providers, many of whom will be part of the devolved education sector. With ESA/IB claimants, the interfaces are often with a complex range of bodies. These will include the health service, especially for general practitioners and mental health services, local authorities, particularly for personal social services, and social housing providers. Managing these relationships can be complicated – and of course these are devolved public services. In this area, the success of the Work Programme has been particularly poor. At present, the boundary between devolved and non-devolved services, and the respective priorities of each government, can obstruct efficient provision of services (see Muir and Parker 2014: 48–51).[15]

Getting people back into work, especially those who have been out of work for a sustained period, requires a joined-up approach from a wide range of agencies (including educational and skills institutions, mental health services, and local authorities), which are all devolved. For the long-term unemployed and those on the IB/ESA claimants, devolving responsibility for the commissioning of the Work Programme would significantly improve management of the relationship between all the various agencies involved in helping the people concerned, and create a set of incentives to do so effectively. Greater local discretion would also allow for tailoring the Work Programme with local knowledge of the labour market devolving Work Programme services – to devolved governments, and perhaps from them to local authorities – would address such difficulties.

Devolution would allow for greater policy innovation and experimentation to potentially enable a wider choice of providers, and models of provision, to provide Work Programme services, rather than restrict it to the present limited range of large suppliers whose main qualification is their balance sheet. It would also create the possibility of these services being provided by public sector organisations rather than by commercial or voluntary sector providers, and so test the proposition that the private sector is necessarily more efficient and effective than the public sector. These are powerful reasons to devolve the Work Programme.

4.5 Welfare 'top-up'

An alternative approach to devolving individual benefits would be to enable devolved governments to supplement UK benefits in those instances where they see a case for doing so (for instance, where local circumstances make it beneficial to do so). Any top-up would have to be funded exclusively from devolved budgets. In this approach the level of benefits set by the UK government would serve as a floor, but not a ceiling, for devolved welfare. The UK government's tax bases would serve to cover the financial heavy lifting of providing the bulk of welfare benefits,

15 For an illustration of the problems in Wales, see House of Commons Welsh Affairs Committee 2013.

in a way that remained common to all parts of the UK. Such a model is therefore compatible with continuing to pool and share risk and resources across the UK.

Such a model avoids the serious financial challenges that might arise from outright devolution. It would also avoid the political backlash that can arise from more generous welfare in some devolved jurisdictions, as it would be clear that either spending in other policy areas had been reduced or taxes had been increased to pay for that. This would therefore minimise concerns in England, an important consideration in the debate on enhanced devolution. However, that would imply a significant measure of fiscal devolution, certainly going beyond the model of the Scotland Act 2012 or Silk Commission recommendations.

A supplementary model would open up a number of important policy options for the devolved governments. From a social investment perspective they might choose to supplement child benefit in order to support childcare costs, or boost in-work benefits for particular groups to try and incentivise their return to work. Or they might offer additional allowances for unemployed jobseekers to cover, for instance, the cost of job interviews. These may be small additions to existing benefits, involving small ameliorations to the UK system and involving only modest amounts of money, but equally such a model could be used more ambitiously. If England were to pursue a more low-tax, low-spending system, it would be open to a devolved government to raise tax levels and increase welfare spending by providing further assistance to, for example, the elderly or families with small children. The upshot would be that devolved governments would be able, within the overall framework of UK policy, to choose their own distinct approach to social policy, using cash benefits as well as other policy levers, provided they bore the burden of paying for their decisions.

5. CONCLUSIONS: DEVOLVING WELFARE FUNCTIONS WITHIN A STRONG NATIONAL SOCIAL SECURITY SYSTEM

Headline levels of poverty across all four nations of the UK fell significantly until the economic downturn, but since then there has been a more mixed picture, with rising levels in Northern Ireland and Wales threatening to derail much of the recent progress. The latest set of figures, however, appears to show that among all UK nations, poverty has either stopped rising, or is again beginning to fall. In addition, households have seen their costs of living rising while incomes have been hit hard by low wages and reductions in social security benefits. Different costs affect different nations in different ways, with higher prices generally in England and Scotland than in Wales and Northern Ireland, but higher incomes as well.

These overall trends have much to do with prevailing national and international economic conditions, and insofar as they can be influenced at all, the devolved nations have many powers over economic development within their immediate control. But each of the devolved nations has also taken its own steps to target particular dimensions of poverty and develop anti-poverty strategies that address their own needs. While it is clear that policies in recent years have gone some way to mitigating certain impacts of welfare reform – and benefit reductions in particular – it is not clear how far these plans can be seen to have mitigated poverty in general. In part, this is because some of the key factors in poverty alleviation still sit at the centre, not least social security matters.

There is a clear case for retaining a strong welfare state. The redistributive functions of government require pooling risk across the largest possible area to insure against the asymmetrical impact of economic shocks. And so for many aspects of the social security system – particularly for cyclical and contributory benefits – the role of central government will remain key. But this is not to say that there is no role for the devolved governments in social security. On the contrary, for the place-related housing benefit, for active labour market programmes, and for certain social care payments, there is a strong case for further devolution as a means of giving devolved nations more tools to tackle the tide of poverty which is slowly rising again.

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