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Bob Doris MSP
Convener
Social Security Committee
The Scottish Parliament
Edinburgh
EH99 1SP

21 October 2019

Sent via email

Dear Convener,

I am writing to follow up the Commission's recent appearance at the Social Security Committee and to provide a short submission to the Committee's inquiry into benefit take-up. My letter follows three broad themes, our role in 'policy spillovers', the challenges estimating behavioural effects and in particular take-up rates, and the data and information we need to produce our forecasts.

Our role in policy spillovers

The fiscal framework was agreed between the UK and Scottish Governments in 2016. There are provisions in the fiscal framework for the situation where either Government makes a policy decision that affects the tax revenue or spending of the other Government. These are known as 'policy spillovers' and could fall into two categories. 'Direct effects' are those which automatically occur as a result of a policy change; 'behavioural effects' arise from people changing their behaviour as a result of a policy. The Commission's role in policy spillovers only arises if the two Governments do not agree on a policy spillover and raise a dispute. In this case, the Governments can approach both the OBR and the Scottish Fiscal Commission to provide technical input and analysis. To date there have not been any cases where technical input has been sought and the process for doing so has not been agreed.

Estimating behavioural effects

As part of our tax and social security forecasts we consider potential behavioural responses to policy change. Our experience of producing these forecasts identifies a number of challenges estimating the scale of behavioural change and any potential policy spillovers.

Policy changes can affect the incentives and decisions made by people. For example, the level at which a benefit is paid may affect how many people apply. How easy it is to apply for a benefit may affect how many people complete the application process. This change in behaviour is uncertain and challenging to quantify, even when good historic data are available.

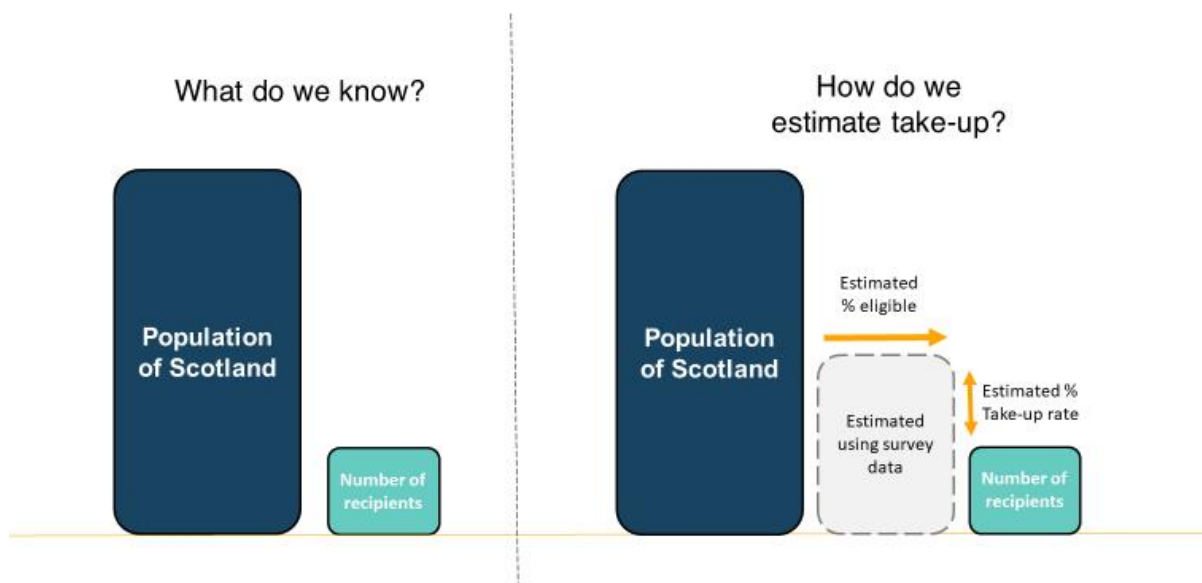
Once a policy change has been made it can still be difficult to attribute any change in spending on a benefit to a behavioural effect alone. If a benefit is made more

generous or easier to access, and there follows a significant increase in spending, we might attribute some or all of this to the change in policy. It can be more difficult to disentangle the effect of a policy change if several changes happen at once. For example, for means tested benefits, if the number of eligible people increases, say there is increased unemployment, at the same time the policy change is implemented. Although we can observe the increased amount spent on a benefit, we cannot observe what would have happened had a policy change not been implemented. This means quantifying behavioural effect policy spillovers will be very challenging and uncertain.

An area which highlights these challenges is our estimate of 'take-up rates'. As well as meeting the eligibility criteria for a benefit, in many cases the individual must also apply in order to receive payment. The proportion of the eligible population who receive the benefit is referred to as the take-up rate:

$$\text{Take-up rate} = \frac{\text{Number of people receiving support}}{\text{Estimated eligible population}}$$

Take-up rates are challenging to calculate as there is limited information available on the population who are eligible but not claiming. Any errors in estimating the size of the eligible population will lead to an error in estimating the true take-up rate. The following stylised diagram illustrates the uncertainties in estimating take-up rates.



We know the size of the total population and the total number of people receiving the benefit historically. There are two main steps involved in estimating take-up. First, we estimate the percentage of the population eligible for the benefit. Eligibility is generally estimated using survey data which may be imperfect. Based on the estimated eligible population we then compare to the number of recipients to estimate a take-up rate. Any error in the estimate of the eligible population will then directly result in an error in estimating take-up. Therefore, take-up rates reflect uncertainties in the size of the eligible population as well as the likelihood that eligible individuals claim.

We use this approach of estimating take-up rates, and considering how they may change based on the Scottish Government's policy, for benefits which are means-

tested or are linked to means-tested benefits. This includes Best Start Grant and the new Scottish Child Payment.

For benefits related to ill-health and disability our modelling does not include estimates of take-up rates. In these cases it is very difficult to estimate the eligible population as the qualifying criteria are far less easily observable in the population. Taking Personal Independence Payment as an example, there are not any surveys that assess the likelihood of someone meeting the assessment criteria for this benefit. Any estimate of take-up would have a high degree of uncertainty, and a large potential range, attached to it and therefore wouldn't be suitable for our purposes of considering a single forecast of spending on a benefit. Instead we look at historic trends in the number of people receiving disability assistance and consider how these might change in the future. Our next forecasts will be produced to accompany the Scottish Budget, and we expect to consider for the first time how the Scottish Government's reforms to disability benefits will affect spending.

Access to information

We discussed at the session on the 26 September how the budget process requires us to have access to the right information and data at the right time to produce the forecasts to support the Scottish Budget. We committed to writing to explain any aspects of the process which concern us.

As set out in our Statement of Data Needs published in September, the information and data we require comes from both the Scottish Government and Social Security Scotland as well as the OBR and the DWP. DWP are our main data provider until Social Security Scotland takes over the administration of Scottish benefits. We need information from DWP and the OBR on any changes to the benefits being delivered by DWP. There are often factors that we know may change future spend but we cannot observe in the historic data, such as legal challenges or UK Government welfare reform.

We require this data and information to inform our work on the Scottish Budget and have been working with the OBR and DWP to put in place processes to provide us access to the information. As this is the first time we will go through this process we cannot yet say whether it is a concern or not. Should any concerns arise we will notify the Committee and we have committed to publishing an annual Statement of Data Needs which will highlight further areas for data development.

My colleagues and I would be glad to answer any further queries the Committee may have on our work either by correspondence or, if the Committee wishes, at an appearance following the publication of the Scottish Budget currently scheduled for 12 December.

Yours sincerely

A handwritten signature in black ink that reads "Susan Rice". The signature is written in a cursive, flowing style.

Susan Rice DBE