Social Policies and Distributional Outcomes

in a Changing Britain

Country level devolution: Scotland

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SPDO research paper 1

November 2018

Social Policies and Distributional Outcomes research programme

The central objective of the SPDO research programme is to provide an authoritative, independent, rigorous and in-depth evidence base on social policies and distributional outcomes in 21st century Britain. The central question to be addressed is: What progress has been made in addressing social inequalities through social policies? The research programme is ambitious and comprehensive in scope, combining in-depth quantitative analysis of trends in social inequalities and social divides with detailed and systematic public expenditure and social policy analysis across ten major social policy areas over the period 2015-2020, together with broader reflection on the changing nature of social policies and distributional outcomes over the 21st century.

The programme of research adds to (and will reflect on) the previous Social Policies in a Cold Climate (SPCC) research programme covering the period 1997-2015. The SPDO programme will update, extend and broaden our analysis of public expenditure, social policies and distributional outcomes using the most recent datasets available, resulting in a unique evidence base on trends in social inequalities and social policies going back to 1997. Innovative extensions included within the SPDO research programme include: coverage of additional areas of social policy (e.g. physical safety/security and complex needs/homelessness); emphasis on the new context for social policy making (e.g. devolution and BREXIT); assessment of a broader range of multidimensional outcomes within our quantitative analysis; and the inclusion of additional breakdowns (e.g. migration status). This programme will also have a forward looking component, identifying the key challenges for social policy in the 2020s.

More information and other publications in the series are available at the project webpage: http://sticerd.lse.ac.uk/case/_new/research/spdo/default.asp

Acknowledgements

The project has been funded by the Nuffield Foundation and the authors would like to thank the Foundation. The Nuffield Foundation is an endowed charitable trust that aims to improve social well-being in the widest sense. It funds research and innovation in education and social policy and also works to build capacity in education, science and social science research. The Nuffield Foundation has funded this project, but the views expressed are those of the authors and not necessarily those of the Foundation. More information is available at www.nuffieldfoundation.org

The authors wish to thank the many people who provided comments on an earlier draft of this paper. They included Bea Cantillon, Emma Congreve, Kenneth Gibb, Howard Glennerster, John Hills, James McCormick, Tania Burchardt and Polly Vizard as well as, more informally, those who attended a LSE CASE seminar and the Social Policy Association Conference 2018 symposium on Devolution, Deals and Divergence. The authors remain responsible for the final content.

All errors and omissions are the authors’ responsibility.

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Preamble

This is one of a series of research papers that input into the research programme Social Policies and Distributional Outcomes in a Changing Britain (SPDO). The research programme combines detailed and systematic public expenditure and social policy analysis within and across ten major social policy areas over the period 2015-2020, together with in-depth quantitative analysis of trends in social inequalities and broader reflection on the changing nature of social policies and distributional outcomes over the 21st century. The programme of research adds to (and will reflect on) the previous Social Policies in a Cold Climate (SPCC) research programme covering the period 1997-2015.

As an input into the broader SPDO research programme, the current research paper addresses the context of policy under devolution. Devolution is an increasingly important element of the landscape for social policy making in Britain and is resulting in increased polarisation in social policies with potential implications for outcomes within and across the four countries of the UK. The principal focus of the paper is on Scotland, where powers have been extended the furthest, and which build on a long history of administrative devolution and the historic operation of different education and legal systems. The paper focuses on social security, tax and housing, providing details of devolved powers and financing mechanisms as well as exemplar policies in these areas. Emphasis is put on divergences in the ways in which common policies are implemented as well as divergent policies and systems. Another research paper within the SPDO series will focus on city / regional level devolution within England, and devolution in other social policy areas (for example, education, health and social care) will be addressed within individual social policy papers.

Summary

The Scottish Parliament has been in existence for nearly two decades. Its powers have been extended to cover a number of taxes and areas of social security in recent years. This paper examines the use of these powers and assesses 10 individual exemplar policies in distributional terms. These lie in the areas of taxation, social security and housing. It identifies that the values underpinning them are progressive, as are the individual policies themselves. They are also imbued with caution, with tax changes being designed to leave most people better or no worse off. Social security and housing policies are generally targeted at low income households or people who are otherwise vulnerable. Private rented tenancy reform is an exception, since it is designed to bring security to a broader range of the population. These policies do not tell the whole story, and a complete assessment would need to consider other areas notably education, as part of a wider assessment of where funding has been diverted from in order to finance priority areas. Many of the powers have been recently acquired and it is not possible to assess their outcomes. Looking to the future, there should be concern about the suitability of the funding base to finance spending ambitions. Meanwhile Scotland is developing new tax and social security institutions that may in time permit more strategic thinking about distributional policies.

Introduction

Since 1999 Scotland has elected its own parliament, and of the devolved administrations it has the most extensive powers and control over resources. These have evolved, particularly over the past five years, and now the Scottish Parliament has responsibility for parts of the social security system, and extensive control over income tax, as well as housing, health and education.

Scotland inherited some distinctive areas of policy from the pre-devolution era. Scotland's legal and education systems remained distinct after the Act of Union. Like Wales and Northern Ireland, Scotland already had a civil service associated with the administrative devolution that existed before 1999. Now new institutions associated with tax raising powers (Revenue Scotland) and social security (Social Security Scotland) have been established, but are not yet fully operational. Devolution, it is often said, is a process not an event[1], so assessments of it will require periodic updating.

Devolution and Scottish politics

Devolution in the case of Scotland and Wales is primarily democratic in motivation, and based around national identity, which goes some way to explaining why the attempts at establishing elected regional governments outside London under New Labour failed. It contrasts to the nature of devolution explored in the sister paper by Lupton, et al (2018) which is based around city-regions where the role of city deals play a central role. These have been described as being "contracts where experimentation plays an important role" (OECD, 2017, p. 474) and as "an interesting model where urban areas are governed by arrangements between national and subnational governments by allowing a degree of 'tailored' devolution of responsibility to English cities" (OECD, 2017, p. 475).

The case for devolution in the 1980s and 1990s, and for independence in the run up to the 2014 referendum, was structured around a belief that a Scottish Parliament would deliver more progressive social policies than if these were controlled from Westminster. Donald Dewar, the (Labour) Secretary of State for Scotland who oversaw the creation of the Scottish Parliament and became the inaugural First Minister spoke of "a country where equality of opportunity and social justice are central to our sense of self" (quoted by Scott and Mooney, 2009, p. 380), a sentiment that followed naturally from the 18 year period of Conservative government. Alex Salmond, SNP First Minister from 2007 until 2014 referred to "our social democratic contract with the Scottish people" (ibid., p. 387).

These aspirations are reflected in the stated objectives of the Scottish Government. Its overall objective (or "purpose"), as set out in its National Performance Framework, is "creating a more successful country with opportunities for all of Scotland to flourish through increased wellbeing, and sustainable and

[1] Although often attributed to Donald Dewar, Scotland's inaugural First Minister, the term belongs to Ron Davies, former Secretary of State for Wales https://www.publiclawtoday.co.uk/litigation-and-enforcement/426-litigation-features-news/36230-ofsted-wins-court-of-appeal-case-over-segregation-at-birmingham-school

inclusive economic growth" (Scottish Government, 2016). Further, "We are a society that treats all our people with kindness, dignity and compassion, respects the rule of law, and acts in an open and transparent way." Eleven areas of national outcomes are set out with 55 indicators, which are recorded on the Scottish Government's website. These include relative poverty after housing costs, and persistent poverty (see below).

The Scottish political system is very different from the rest of the UK by combining centre-left dominance with (more recently) a dominant national party. Different political parties emerged as the largest in each of the four UK nations in the 2015 and 2017 general elections. Scotland, like Wales, has persistently rejected parties of the right or centre right in recent decades. The Conservative and Unionist Party (as it is still officially known) last "won" an election in Scotland in 1959, a period when its vote was bolstered by anti-Catholic sectarianism particularly in the west, and the remnants of Liberal Unionism in the Highlands. Scotland became a Labour stronghold in the 1970s as sectarian voting declined and with it the Scottish Conservative and Unionist Party. Conservatism declined still further during the period of Conservative governments between 1979-97 and Scotland returned no Conservative MPs in 1997, and only one in the four successive general elections up to and including 2015.

The Scottish Parliament is elected using a mixture of single member constituencies elected using first past the post and regional lists based on the parties' share of the list vote. It is not fully proportional, but makes it difficult for any party to gain an overall majority. Labour and the Liberal Democrats formed coalition governments in Scotland from 1999 until 2007, since when the Scottish Government has been led by the Scottish National Party (SNP), which formed a minority government 2007-2011, a majority government 2011-16; and another minority government since 2016.

The rise of the SNP points to the central importance of constitutional issues in Scottish politics. The clear, but closer than expected, defeat of independence in the referendum in 2014 led to a rapid realignment on the centre-left as the SNP became the dominant Scottish party in Westminster as well as Holyrood, in 2015. The Scottish Conservatives benefited from the sharpening of this cleavage and as they were able to project themselves as the most authentic voice of unionism, emerging as the second party in the 2016 Holyrood elections and making significant gains in the UK general election the following year. The party's recovery may be attributed largely to the salience of its position on the constitution for unionists rather than to the party's social or economic policies. Brexit provides a further complication. Although Scotland voted strongly (62%) to remain in the EU, this constitutional divide cuts across the independence/union divide, to the detriment of the SNP, which lost seats in the 2017 general election. The First Minister's vocal pro-EU stance is at odds with a significant minority of independence supporters. The Scottish Greens are the fourth party in the Scottish Parliament. They have particular leverage over the SNP because their votes are needed to secure a pro-independence majority in the chamber.

Whether Scotland's consistently left-leaning party political system reflects notably more progressive views among the electorate is a moot point. Opinion polls tend to identify strong support for more autonomy (which is not surprising given that 45% of people voted for independence), but attitudes on individual policies are not very different from the rest of the UK (rUK). Three Panelbase (2015) polls (with samples in excess of 1,000) were conducted in 2015 for the pro-independence website *Wings Over Scotland*. One found similar attitudes in Scotland to rUK on issues such as whether the unemployed should have to work for benefits (60% agreed in Scotland; 66% in rUK), on whether the minimum wage should be raised to the living wage (84% in favour in Scotland; 86% in rUK), on whether the NHS should be reserved for those who cannot pay (opposed by 84% in Scotland; 86% in rUK), and on immigration (69% in Scotland and 71% in rUK thought there was a problem with too much immigration). Panelbase also found that 24% of respondents were in favour of the Scottish Parliament using its powers to increase income tax to pay for public services, whilst 29% favoured a cut, and 47% preferred the status quo. Finally, another Panelbase poll found that 22% of respondents favoured increasing taxes to compensate people whose benefits had been cut, and a further 45% favoured diverting funds from other spending areas to compensate them. Some 32% did not think compensation was merited. The same poll found a small plurality opposed to the Right to Buy (43% against; 40% in favour).

However, the Scottish Social Attitude Survey suggests that the Scottish Government enjoys high levels of trust compared to the UK (Scottish Government, 2017d). For example, some two-thirds of Scots trust the Scottish Government to work in Scotland's best interests "just about all" or "most of the time" compared to a little over one-quarter who trust the UK Government to do the same. Whilst this trust gap has fluctuated it has persisted throughout the post-devolution period. The Scottish Government also enjoys consistent leads over both the UK Government and Scottish local authorities in being trusted to make fair decisions and listening to people's views before making decisions.

Of course opinion polls provide only a superficial insight: the questions often not contextualised, and depth of feeling is not identified. Whilst it is clear that Scottish politicians are not pushing at an open door should they wish to adopt notably more progressive policies than in the rest of the UK, they are also trusted to a greater extent than their UK counterparts and this might give them more space to lead opinion. Indeed, in addition to the ability to shape policy agendas, nationalist sub-state governments may wish to position themselves in a way that is distinctive from the state government (Béland and Lecours, 2005) and this may lead to their "exacerbating [sic] the pressures for social policy expansion" (Béland and Lecours, 2010).[2]

[2] Precisely this suspicion was expressed by Lord Foulkes (a former Labour MSP) who, in a BBC Radio Scotland interview, complained *"What they* [the SNP Government] *are doing is trying to build up a situation in Scotland where the services are manifestly better than south of the Border…"* When the interviewer asked *"Is this such a bad thing?"*, Foulkes replied, *"No, but they are doing it deliberately."* (*Scotsman*, 12 March 2008)

The Scottish economy and society

Historically, Scotland was a poorer part of the UK, but there has been an improvement in its position in recent decades. Scotland has the third highest level of GVA per head of any UK economic region, after London and the South East. In 2016, it stood at 93.2% of the UK average, compared to 90.5% in 1998 (ONS, 2017). By way of comparison, Northern Ireland's GVA per head is 75.1% of the UK average and Wales' is 71.9%. However, over the period 2010-16 real GVA growth in Scotland was one percentage point below the UK average. Analysis by the IFS (using the Family Resources Survey) found that for the three year period 2013/14-2015/16 median incomes in Scotland were around the Great British average before housing costs. After housing costs, these were higher than in every economic region other than the South East (Gibb, et al., 2017).

Housing costs also play an important role in shaping the poverty profile of Scotland compared to the rest of the UK. Persistent relative poverty in Scotland was one percentage point below the UK average Before Housing Costs (BHC), but four percentage points below the UK average After Housing Costs (AHC) for the 2011-12-2015/16 period (Table 1).

Table 1. Persistent poverty 2010/11-2015/16

All	**S**	**E**	**NI**	**W**	**UK**	**Child poverty**	**S**	**E**	**NI**	**W**	**UK**
BHC	8	9	11	10	9	BHC	9	11	16	13	11
AHC	8	12	11	13	12	AHC	10	18	16	20	17
Working age poverty	S	E	NI	W	UK	Pensioner poverty	S	E	NI	W	UK
BHC	7	7	9	10	8	BHC	11	10	10	10	10
AHC	7	11	11	13	11	AHC	8	7	5	5	7

Source: Understanding Society

If the improvement of Scotland's relative economic position can be attributed in part to the bottoming out of the period of de-industrialisation, the legacy is clearly still identifiable in the Scottish Index of Multiple Deprivation (SIMD). SIMD measures multiple deprivation across seven domains (income, employment, education, health, access to services, crime and housing) in almost 7,000 data zones across the country every four years. The index is relative so identifies changes in small areas relative to others. The most recent assessment (SIMD 2016) identified 14 small areas that had been in the 5% most deprived areas since SIMD 2014. Half of these were in Glasgow and another three were in surrounding areas in Inverclyde, Renfrewshire, North Lanarkshire, and East Ayrshire. The remaining three were in Stirling, Dundee and Inverness (Scottish Government, 2016a). The index is not comparable to elsewhere in the UK.

This paper

Scotland provides a particularly interesting case study in social policy, potentially both where powers have been used differently from the UK (and where they have not), and also the constraints of policy where devolved and non-devolved powers affect the same area.

This paper examines the application of selected areas of social policy in Scotland, with objective of identifying different approaches which clearly do, or are intended to, have particular distributional outcomes.

Section 2 sets out the powers of the Scottish Parliament and how they have evolved since 1999, and also those for its counterparts in Wales and Northern Ireland. Section 3 outlines how Scottish Government spending is resourced.

It then examines a number of "exemplar" policies in the broad areas of taxation, social security and housing. These cannot be taken to be fully representative of the full range of social policies in Scotland. Indeed we openly acknowledge that we have not examined some of the highest profile policies adopted by Scottish governments, such as care for the elderly and university undergraduate tuition fees. Nonetheless, the exemplar policies are informative of general approaches as well the policies themselves.

The exemplar policies are as follows:

Table 2. Exemplar policy areas and individual policies

Policy Area	Individual Policies
Taxation	Income Tax
	Land and Buildings Transaction Tax
	Council Tax
Social Security	Social Welfare Fund
	Council Tax Reduction Scheme
	Discretionary Housing Payments
	Use of Devolved benefits
Housing	Social rented housing, including Right to Buy
	Private rented sector
	Homelessness

Section three examines taxation policies, Section 4 social security, and Section 5 housing. A discussion and conclusion follows in Section 6.

The paper draws on secondary sources, and is often limited to describing policies and, whilst outputs may be identifiable, outcomes are usually not yet known due to the lack of evaluations or the very recent introduction of some policies.

1. Evolving powers of the devolved administrations

Devolution within the UK is "asymmetric": some nations have more powers than others. England has no Parliament of its own (notwithstanding "English votes for English laws"), but by virtue of its population size its MPs dominate the House of Commons. This section outlines the way in which devolution has evolved in Scotland, Wales and Northern Ireland.

Scotland

The Scottish education, legal and religious systems remained distinct following the Act of Union of 1707. A high degree of administrative devolution also evolved with the establishment of several Scottish boards in the nineteenth century, notably the Scotch Education Department in 1885 following the introduction of compulsory elementary education in 1872 (Stephens, 1998). The Scottish Office and the post of Secretary of State for Scotland were established in 1885, with the latter gaining cabinet status in 1892, and the ministerial team grew during the twentieth century.

Although many key UK Government policies (notably the establishment of the NHS) were implemented through separate Scottish legislation, outside the areas of the justice and education systems, policy in Scotland moved in step with that in England and Wales. A notable example of pre-devolutionary divergence is found in the continued criminalisation of homosexual acts in private until 1980 (they had been decriminalised in England and Wales in 1967). In contrast, social security remained subject to Great Britain-wide legislation.

There has not always been consistency in these matters. For example, although housing was usually dealt with in separate legislation, the 1977 Homeless Persons Act applied across Great Britain, and the death penalty was suspended across Great Britain (but not Northern Ireland) in the same legislation in 1965.

The Scottish Parliament was established in 1999, following the UK Labour Party's 1997 manifesto commitment and the subsequent endorsement of the proposal in a referendum held in September of the same year. Rather than specify which areas of policy were being devolved, the Scotland Act 1998 specified which areas were "reserved" to Westminster. The main areas to be reserved were foreign affairs and defence, financial and economic matters, immigration and nationality, employment and social security. Further, the Human Rights Act 1998 incorporated the European Convention on Human Rights (ECHR) into UK law. Together with the Scotland Act, Scottish Ministers have no power to act in any way that breaches ECHR rights.

By implication health, social work, education, training, local government, housing and planning were devolved. The new Parliament was also given the power to vary the standard rate of income tax by up to three pence in the pound (upwards or downwards), a measure that was regarded as being worthy of a separate question in the 1997 referendum. However, the Scottish Government continued to rely almost entirely on a block grant from Westminster, and it had very few borrowing powers, which were limited to managing cash flow. Even if the income tax powers had been used to their full extent, they would have added £1 billion to a total budget of £30 billion (HM Government, 2009).

The devolved administration was known as the Scottish Executive until the formation of a minority SNP government in 2007, when it rebranded it as the Scottish Government. It has been known legally as the Scottish Government since 2012.

The first extension of powers followed the establishment of the Calman Commission in 2008 (in effect) by the UK Government. Its primary motivation was to improve the financial accountability of the Scottish Government and Parliament. The subsequent Scotland Act 2012 (passed under the Coalition Government) made provision for a Scottish Rate of Income Tax (SRIT), and Revenue Scotland to administer it. The legislation allowed the Scottish Parliament to vary the rate of income tax, although any change could only be applied equally across all bands (the "lock-step" principle). The thresholds for the bands remained reserved. The UK rate of income tax was reduced by 10 percentage points, giving the Scottish Government responsibility for setting a Scottish rate above that (requiring HMRC to issue Scotland-specific tax codes). This leads to a corresponding reduction in the size of the block grant, and from 2020 will mean that the revenues available to the Scottish Government will vary according to the buoyancy of the Scottish income tax base (as well as the rates it chooses to set). The Act also devolved Stamp Duty Land Tax and devolved some less significant areas of legislative competence.

Nonetheless, the UK Government (under Gordon Brown) explicitly ruled out the devolution of any aspect of social security benefits or National Insurance Contributions. The rationale for this is discussed in Section 4.

However, the Scottish Government gained de facto control over three areas of social security. As a result of the abolition of the Council Tax Rebate scheme and its devolution to local authorities in England, the Scottish Government gained control over its operation in Scotland. Similarly, when the discretionary Social Fund was abolished in 2013, the funding spent on the discretionary parts of the fund (Community Care Grants and Crisis loans) were devolved (Berry and Kidner, 2016). Further, the power to set (in practice raise) limits on local authority spending on Discretionary Housing Payments was transferred to Scottish Ministers in the autumn of 2014 to allow it to use Scottish Government funds to mitigate the "bedroom tax" (ibid.) – this having been a prominent issue during the independence referendum.

Meanwhile, the powers extended under the 2012 Act were overtaken by the aftermath of the 2014 referendum on Scottish independence in September 2014, which was held following the election of a majority SNP government in 2011. Although independence was defeated by 55/45, the result was closer than had been expected and shortly before the vote the UK leaders of the unionist parties jointly issued a "Vow" (published on the front page of the *Daily Record*) substantially to increase the powers of the Scottish Parliament in the event of a "no" vote. This led to the establishment of the cross-party Smith Commission which reached agreement remarkably quickly, and another Scotland Act was passed in 2016.

The most recent extension of powers gives the Scottish Parliament further powers over income tax, allowing it to vary the thresholds and rates independently of one another (but not the personal allowance) on non-savings and non-dividend income. It also allows the Scottish Government to borrow up to £3 billion to pay for infrastructure investment. Social security is devolved in three areas: benefits for people who are ill and/ or disabled, benefits that make up the Regulated Social Fund, and Discretionary Housing Payments. The Scottish Government now has a limited ability to vary the housing cost element of Universal Credit and aspects of its payment. These areas represent about 15 per cent of social security expenditure in Scotland, and are outlined in more detail in Section 5. Further, the 2016 Scotland Act confers powers to create new benefits in areas of devolved responsibility, and top-up reserved ones.

The evolving process of devolution has led to the establishment of a number of conventions, the most important being:

- The Sewel Convention: Established during the passage of the Scotland Bill that established the Scottish Parliament, this suggested that Westminster would not normally legislate on devolved matters without the Scottish Parliament's consent. The Scottish Parliament's consent may be delivered through Legislative Consent Motions (LCMs), also known as Sewel motions. The convention was written in to the 2016 Scotland Act.

- No detriment: "Where either the UK or the Scottish Governments makes policy decisions that affect the tax receipts or expenditure of the other, the decision-making government will either reimburse the other if there is an additional cost, or receive a transfer from the other if there is a saving. There should be a shared understanding of the evidence to support any adjustments". (Smith Commission, 2014, para 95(4a))

Wales

Wales has enjoyed fewer powers under devolution than Scotland, reflecting in part the loss of a distinctive legal system in the sixteenth century, although the country has retained a distinctive culture and the Welsh language is widely spoken. The result of the referendum in 1997 that led to the establishment of the Welsh Assembly was very close, reflecting less public support at that time for devolution in Wales compared to Scotland. When the Welsh Assembly was established in 1999, it was given powers to pass only secondary legislation in devolved areas. Before 2007, there was no separation between the executive and assembly (hence it was known as the Welsh Assembly Government). Following a referendum in 2011, the Welsh Assembly gained limited primary legislative powers known as "Assembly Measures". The measure was approved by more than 60% of those who voted, although the turnout was only 35%. In 2011, the term "Welsh Government" was adopted and formalised in 2014. In contrast to Scotland, only specified areas of policy are devolved. Housing, planning and education are among the twenty areas that are devolved.

Following the UK Government's Silk Commission on Devolution in Wales (which paralleled the Calman Commission in Scotland) the Wales Act 2014 introduced tax raising powers, which will become operational in April 2019. As in Scotland, the introduction of the Welsh Rate of Income Tax (WRIT) will mean that revenues over time will reflect the performance of the Welsh economy. The UK Government has also agreed to place a floor under the relative size of the Block grant to Wales for the remainder of the (2015-2020, presumably now 2017-2022) Parliament, but has made it clear that this is in lieu of the introduction of the WRIT.

Northern Ireland

The Northern Ireland Assembly was established as a consequence of the 1998 Belfast/ Good Friday Agreement. It was first elected in 1999, although it has been subject to periods where it has been suspended when agreement of power sharing has broken down, including 2002-07 and the current impasse which began in 2016. It has full legislative powers ("transferred matters") over a range of domestic policies, including health, education and housing.

In marked contrast to Wales and Scotland, the Northern Ireland Assembly also has formal legislative power over social security, pensions and child care. This provision dates from the practice established under the previous Northern Ireland Parliament, which was established after the formation of the Irish Free State in 1922, until its suspension in 1972 when direct rule was introduced.

As the welfare state grew the UK Government wished to maintain uniform standards across the UK. Consequently, Northern Ireland's legal control over social security became subject to the "parity principle" whereby deficits in the Northern Ireland national insurance fund, and payments for social assistance benefits, were made good by Westminster. Whilst legally the Northern Ireland Assembly could choose to diverge from the Great British system, it would have to bear the cost itself which would be implemented through cuts in its block grant from Westminster.

The Northern Ireland Assembly has limited tax raising powers: UK-wide taxes are generally "excepted" although there is provision for new taxes. However, it has powers over the retained system of domestic and non-domestic rates, and gained the power to vary Air Passenger Duty (APD) on long-haul flights in 2013. It now has power to set Corporation Tax and planned to reduce it to 12.5% in 2018 to bring it into line with the Irish Republic but the change cannot be implemented whilst the Assembly is suspended.[3] However, if the Assembly does cut the tax,

[3] "£417,000 spent on stalled bid to lower NI corporation tax", Belfast Telegraph, 6 March 2018 https://www.belfasttelegraph.co.uk/news/northern-ireland/417000-spent-on-stalled-bid-to-lower-ni-corporation-tax-36673236.html

any lost revenue will be deducted from the block grant. Capital borrowing powers are set at £200 million per year, with a cumulative maximum of £3 billion. Other borrowing is limited to £250 million for cash flow purposes only (HM Treasury, 2015).

Brexit and Scottish devolution

Brexit's interaction with the devolved administrations is proving to be highly contentious, not least because both Northern Ireland and Scotland voted to remain within the European Union. The Supreme Court has ruled that the Sewel Convention (written into both the Scotland 2016 and Wales 2017 Acts) provides the devolved administrations with no legal veto over Brexit itself: it remains a convention consequently the "policing and manner of its operation does not lie with the constitutional remit of the judiciary" (quoted by Institute for Government, 2018).

A further tension between the UK Government and the devolved administrations concerns the destination of the transfer of powers from the EU to the UK once the UK leaves the EU. Where these powers would otherwise be devolved, the UK Government wishes to see them transferred to the UK in the first instance until UK-wide agreements can be established. The Scottish and Welsh administrations argued the opposite: that there should be no transfer of powers of devolved matters to Westminster and that UK-wide agreements could be reached by negotiation.

To this end, the Scottish and Welsh Governments each drew up Continuity Bills to transfer EU laws into their own laws when the UK leaves the European Union. The Welsh Government reached agreement with the UK Government in April 2018, but there is still no agreement between the Scottish and UK Governments. The Continuity Bill was passed in the Scottish Parliament with cross-party support (other than the Conservatives). The Bill was introduced against the advice of the Scottish Parliament's Presiding Officer who believes it to be ultra vires (outside its legal competence), and the Advocate General has referred it to the Supreme Court for clarification.

The main areas of contention are agriculture and fisheries, which are areas where the UK Government "is determined to retain the seamless unity of the UK's single market and to prevent policy and legislative divergences among the nations/ regions of the country from becoming overwhelming" (Gow, 2018, p. 6).

In response to the Brexit referendum result the Scottish Government (2016b) stated its preference for the whole of the UK to remain within the European Single Market. It also argued not only for "repatriated" (from Brussels) powers in devolved areas such as fisheries and farming to be devolved to the Scottish Parliament, but for powers to be devolved in two cases that are not currently within the Scottish Parliament's competence. First, where "rights" are involved, notably employment law, and second, where Scottish "interests" are perceived to be different from those of the rUK, notably in immigration. In October 2018, the

Scottish Government's updated position as UK-EU negotiations continued reiterated the case for the UK to remain in the Single Market and Customs Union, and also argued that:

> "It is clear current constitutional arrangements cannot bear the weight of Brexit, neither to negotiate the UK's withdrawal from the EU nor in the longer term." (Scottish Government, 2018c, p. 33)

In particular, Brexit has highlighted that the devolved "parliaments and assemblies do not enjoy sovereignty or command and control. That resides at Westminster and will continue to do so up to and beyond Brexit" (Gow, 2018, p. 4). Gow argues that how the UK Government responds may determine whether the UK can hold together. The Scottish Government has authorisation from the Scottish Parliament to request an Article 30 Order from the UK Government that would allow it to hold a second legally-binding independence referendum, although the UK Government has indicated that it is not disposed to grant one. At some point this is likely to come to the surface, probably when the form of Brexit is known.

2. Resources

The Block Grant and Barnett Formula

The devolved administrations have been funded primarily by a block grant from the UK Government. Since 1979 it has been based on historic expenditure adjustment by the population-related “Barnett formula”, named after the then Chief Secretary of the Treasury in the 1970s. It is important to emphasise that the Barnett formula is responsible only for adjustments in allocations from the pre-existing base, which had no underlying rationale. By 1980 the Barnett Formula had become the means of determining annual adjustments of funding to the Scottish, Welsh and Northern Ireland Offices. It deals with so-called “DEL” (Departmental Expenditure Limits) expenditure, that is expenditure that established at the time of a spending review and has specific limits. It excludes Annually Managed Expenditure (AME) which is demand-led and hence unpredictable. The main area of AME in the UK is social security, but since this has not been devolved (with the technical exception of Northern Ireland), this has been relatively unimportant. At present Housing Support Grant for Scottish local authorities and Housing Revenue Account Subsidy in Wales fall within AME, which is negotiated periodically between the governments (Keep, 2018).

Under the Barnett Formula, the block grant is adjusted annually to reflect changes in expenditure in England. There are two parts to the formula.

The first is the extent to which an expenditure item is devolved or whether some or all of it is in effect UK-wide spending (“comparability percentages”). For example in the 2015 spending review, all of local government, education, and almost all of health expenditure is regarded as being fully devolved. More than 90 per cent of justice expenditure is regarded as being devolved to Scotland and Northern Ireland, but none to Wales. Meanwhile almost no social security expenditure is assigned to Scotland or Wales, whilst 100% is assigned to Northern Ireland (Keep, 2018).

The second part to the formula is the population share, which is based on mid-year estimates, currently: 9.85% for Scotland, 5.69% for Wales and 3.29% for Northern Ireland (Keep, 2018). These population shares are expressed as a percentage of the English population, but depending on the item of expenditure, comparability may take place against English and Welsh population (justice in Scotland and Northern Ireland); or Great Britain (social security for Northern Ireland).

The formula therefore works as:

> Change to UK Government Department’s Budget X Comparability percentage X Appropriate population share

Although the Block Grant is an aggregate of changes to expenditure in UK Departments, the devolved administrations can spend it as they see fit, so although they might have little control over total funds available, they have much choice over expenditure priorities.

As can be seen, the formula itself is not responsible for differential levels of per capita expenditure between different parts of the UK, since it applies to annual adjustments to the base. If England's population grows more quickly than the population of the devolved administrations, then the formula will contribute to convergence (a process known as the "Barnett Squeeze"). There is some dispute over what should count as being "identifiable" expenditure, but the Treasury estimates that per capita public expenditure in England is 97 per cent of the UK average, compared to 111 per cent in Wales, 116 per cent in Scotland and 125 per cent in Northern Ireland (ONS statistics cited by Stephens, 2017).

Whilst identifiable expenditure includes both AME expenditure (which is outside the Barnett Formula) and DEL expenditure whose geographical distribution is merely estimated, the Barnett formula is frequently regarded as being a source of inter-territorial injustice – usually because it is insensitive to need. Scotland has the third highest GVA per capita of any UK economic "region" (at 93.2 per cent of the UK average in 2016). In contrast Wales (71.9%) and Northern Ireland (75.1%) are less prosperous (ONS, 2017). On the other hand, Scotland is very sparsely populated and faces greater costs of maintaining infrastructure and services. Recent examples of calls for change include the Holtham Report (2011) which reviewed the funding of the Welsh administration, and a House of Lords (2015) Select Committee report, both of which called for the Barnett formula to be replaced with a "needs based" alternative. Since 2012 a needs element has been introduced in the Welsh block grant, and the 2015 spending review introduced a funding floor.[4]

Devolution of tax revenues

Of greater long-term importance is the devolution of some tax revenues first under the Scottish and Welsh Rates of Income Tax, but especially with the (almost) full devolution of income tax to Scotland, and the assignment of half of VAT raised in Scotland. (Under EU rules VAT cannot vary within a Member State.) In 2012/13 the taxes that are now in Scotland raised some £19.4 billion, whilst expenditure was £36.8 billion (Seely and Keep, 2016). Thus more than half of spending is now supported by taxes either set or assigned to the Scottish Government.

These changes have led to the block grant being reduced to Scotland and Wales to reflect the taxes now available to these administrations. This means that from now onwards the revenues available to the Scottish Government are affected by the buoyancy of its income tax and VAT base. In the case of Scotland, it also means increasing the block grant to reflect the new social security benefits that are being devolved.

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[4] A political barrier to reforming the Barnett formula arises from the "Vow" made by the leaders of the UK parties in the *Daily Record* just before the independence referendum. It referred to the "continuation of the Barnett formula". The newspaper commented, *"The joint statement also rubbishes claims from the SNP that the Barnett Formula for calculating Scotland's budget could be changed to leave us less money for public services."* https://www.dailyrecord.co.uk/news/politics/david-cameron-ed-miliband-nick-4265992

Agreement between the Scottish and UK Governments was reached after protracted negotiations. The Scottish Government favoured subsequent adjustment using an Index Per Capita (IPC) approach by which Block Grant Adjustments (BGAs) would be based on the percentage change in comparable revenues or social security spending per capita in the UK and the rate of population rate growth in the UK. The UK Government preferred a method (Levels Deduction) which would have based the BGAs by allocating Scotland a population-related share of changes in rUK spending – in the same manner as the Barnett Formula. The Scottish Government's concern arose from the country's (12%) lower per capita buoyancy of income tax compared with the UK (Bell, et al, 2016). Bell, et al (2016) observe that this would mean that the per capita revenues from income tax in Scotland would have to grow faster than in the rUK to maintain parity. A compromise option (Comparable Method) was adopted, but in effect meant an acceptance of the IPC approach. On the basis of the forecast for slower population growth in Scotland compared to rUK, Bell et al (2016) estimate that the Scottish Government would have had £1 billion less revenue available annually in real terms after just five years compared to the LD approach.

The Scottish Government has rather limited borrowing powers to deal with cyclical changes. It may exercise these only if its growth rate is below 1 per cent *and* 1 percentage point lower than in the UK (Bell, et al, 2016).

The agreement lasts for five years and will be renegotiated after the next Scottish Parliament elections in 2021.

Budget

The Scottish Government Budget amounts to £32.8 billion in 2018/19 plus a further £7.8 billion from the UK Government in the form of AME funding, giving a total of £40.6 billion (Scottish Government 2017, Table 1.05). The largest budget heads are Health and Sport (£13.6 billion), Communities, Social Security and Equalities (£11.5 billion), Education and Skills (£3.4 billion[5]) and Justice (£2.7 billion) and Rural Affairs and Connectivity (£2.8 billion). None of the other policy areas receive more than £700 million (ibid.).

Tax powers

The Smith Commission stated that:

> "The aim is to give the Scottish Government new policy levers and more control over its budget, and greater financial incentives to boost economic and revenue growth and reduce welfare spending needs." (quoted by Bell. et al, 2016, p.5)

This section examines the use of tax powers by the Scottish Parliament.

[5] This gives a misleadingly low figure for education spending as much of it occurs under other budget heads. Total current spending on education and training is estimated to be £7.5 billion in 2017/18 (Scottish Government, 2018).

Exemplar Policy 1: Income Tax

When the Scottish Parliament was established in 1999 it was given limited powers to vary the rates of income tax by +/- 3 pence in the pound. These powers were never used by any Scottish Government, and the poorer than expected performance of the SNP in the first Holyrood election in 1999 when it proposed the use of the powers ("a penny for Scotland") seems to have given politicians pause for thought.[6] Even then, the proposal was not to implement a cut in the basic rate of income tax by one penny in the pound, rather than increase the existing rate. The party dropped the policy in 2002, citing the UK Government's increase in NICs by one penny as the de facto acceptance of its policy (BBC, 2002). Indeed in 2007, the Scottish Government ability to vary income tax was in effect lost because it did not pay HMRC to update its systems to enable this to happen (BBC, 2010).

The reluctance of Scottish governments to deploy their tax raising powers occurred during a period of economic growth, buoyant tax revenues and relatively generous spending settlements. This began to change after 2010 when the Coalition Government was elected and sought to reduce the budget deficit.

Nonetheless, the first use of the (now enhanced) powers occurred in 2017/18 when the threshold for paying the higher rate of income tax was not uprated, as it was in rUK. From April 2017, the Scottish Government decided not to increase the threshold for paying the upper (40%) rate of income tax on non-savings and dividend income, leaving it at £43,000 (inclusive of personal allowance), compared to £45,000 in rUK. It therefore has similarities with the original "penny for Scotland" proposal in the sense that the decision is based on not implementing a change enacted in rUK. It is different in being aimed further up the income spectrum, and leads to a maximum of £400 a year in income tax being paid in Scotland compared to rUK. The measure was expected to raise £107 million – a sum described as being "a drop in the fiscal ocean when set against Holyrood's budget as a whole" (BBC, 2018).

In 2017/18 Scottish Income Tax raised £11.8 billion which represented 37 per cent of DEL expenditure and almost 97 per cent of revenue derived from devolved taxes (Scottish Government, 2017, Table 1.02).

From April 2018, the Scottish Government restructured the income tax thresholds by dividing the former basic rate into three bands.

The Scottish Government has tilted the income tax system in such a way as to make it slightly more progressive. Taxpayers with taxable income between the personal allowance (which is still reserved) and £13,850 pay a slightly lower rate (19%) than in the rest of the UK (20%); and those over £24,000 slightly more. An intermediate rate of 21% applies to people earning more than £24,000; higher rate taxpayers are taxed at 41%; and top rate taxpayers are taxed at 46%. Commentators have pointed to a number of anomalies arising from these changes,

[6] However, the SNP's vote share (29%) was its highest since 1974 (excluding European elections).

such as eligibility for the marriage allowance. Interaction with National Insurance also leads to a spike in the marginal rate of tax for people earning between £43,430 and £46,350. This arises from the different thresholds for the higher rate of tax. The rUK threshold for the higher rate of income tax is also used for the reduction in the marginal rate of NICs to 2 per cent.

Table 3. Income Tax and National Insurance Contributions: Scotland and the Rest of the UK (2018/19)

Name of Tax Band	Band of earnings	Tax rate	Marginal rate (income tax + NICs)
Starter rate (Scotland)	£11,850-£13,850	19	31
Basic rate (Scotland)	£13,850-£24,000	20	32
Basic rate (rUK)	£11,850-£46,350	20	32
Intermediate rate (Scotland)	£24,000-£43,430	21	33
Higher rate (Scotland)	£43,430-£46,350	41	53
Higher rate (Scotland)	£46,350-£100,000	41	43
Higher rate (rUK)	£46,350-£100,000	40	42
Top rate (Scotland)	£150,000	46	48
Additional rate (rUK)	>£150,000	45	47

Note: The personal allowance is tapered away from earnings over £100,000. This leads to a higher total marginal tax rate, which is not reflected in the table. Between £100,000 and £123,000 in Scotland this is 63.5% compared to 62% in rUK.

Source: Lewis (2018)

The Scottish Government justified these changes on the grounds that "it believes that those on the lowest incomes should not bear the burden of austerity", "a firm commitment to increasing progressivity", and "to aid investment in vital public services" (Scottish Government, 2017, p. 21). However, Scottish Ministers decided not to increase the top rate of income tax to 50 pence in the pound on the basis of "technical advice" from its Council of Economic Advisers that to introduce such a wide gap between Scotland and rUK "would carry revenue and policy risks" (ibid., p. 22). The decision to increase the top rate by 1 pence in the pound is justified as "the correct balance between making our tax system more progressive, raising revenues and ensuring that our tax changes do not damage our economic competitiveness" (ibid.).

The point at which the rate of income tax rises above the rUK rate (£24,000) appears to have been chosen as it is the estimated median earnings of Scottish taxpayers in 2018-19. The Scottish Government estimates that combined with the increase in the Personal Allowance that "70 per cent of taxpayers (those earning up to £33,000) will not pay anymore [sic] tax in 2018-19 than they do in 2017-18." (ibid.)

The estimated additional revenue from these changes is estimated at £164 million, which represents an increase in income tax revenue of 1.4 per cent (ibid., p 22-23). [7]

Exemplar Policy 2: Land and Buildings Transaction Tax

Land and Buildings Transaction Tax (known as Stamp Duty Land Tax in England and soon to be Land Transfer Tax in Wales) was devolved as part of the 2012 Scotland Act. Historically Stamp Duty was a simple single percentage tax paid by the purchasers of properties over a certain value. In the 1990s and 2000s it became increasingly elaborate, both in terms of the introduction of additional bands, and an array of exemptions, the most common of which was period exemptions aimed at helping first time buyers.

The tax always attracted criticism from economists (e.g. Mirrlees, et al., 2011), because it is likely to deter transactions and consequently in the case of housing, mobility. However, the tax also became an important (if volatile) source of revenue as house prices rose. A second criticism was its "slab" structure whereby any excess in value over a threshold triggered liability for the tax, or a higher rate of the tax on the entire value. This structure distorted the market, causing transactions to cluster just below thresholds (Stephens, 2011).

The Scottish Government was the first administration to announce its intention to introduce a "slice" structure whereby only the part of the value of a house over a threshold would incur liability or liability at a higher rate (as is the case with Income Tax). It was followed by the UK Government reforming the tax before the tax had actually been devolved, leading the Scottish Government to alter its intended bands. This meant that Scotland experienced three different systems of transaction tax within a year. The Welsh Government, which will be able to introduce its own tax in 2019, have announced that it will also follow a progressive "slice" structure.

The entry threshold in Scotland is higher than in England, but lower than in Wales. In England the threshold is at just over 50% of the average house price (in February 2018). In Scotland it is set almost exactly at the average house price (£144,377). In Wales it is set more than 15 per cent above the average house price (£152,891). Although median prices might be more useful, it is clear that the entry level kicks in much sooner than in Scotland and (especially) Wales.

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[7] The UK Government's decision in the October 2018 budget to raise the personal allowance to £12,500 and the threshold for the upper rate of income tax to £50,000 from April 2019 marks both an erosion of the Scottish tax base, and the potential for a significant gap should the Scottish Government decide not to increase the threshold in Scotland above the present £43,430 level. The Scottish Budget will be presented on 12 December 2018.

Most attention in Scotland has focussed on the relatively low threshold for the 10 per cent band: £325,000 in Scotland against £926,001 in England and £400,001 in Wales. If we examine the 10% threshold in relation to average house prices we can see that it is set at 225 per cent of average prices in Scotland, 382 per cent of average prices in England and 493 per cent in Wales. A comparison with income tax is instructive. Assuming average earnings are in the region of £25,000 per year (estimated from ONS weekly earnings), then the personal allowance is set at just under a half of this.

Table 4. Housing transaction tax rates (2018)

SDLT (England) Threshold (£)	Rate (% value)	LBTT (Scotland) Threshold (£)	Rate (% value)	LTT (Wales) Threshold (£)	Rate (% value)
<125,000	0	<145,000	0	<180,000	0
125,001-250,000	2	145,001-250,000	2	180,001-250,000	3.5
250,001-925,000	5	250,001-325,000	5	250,000-400,000	5
925,001-1.5m	10	325,001-750,000	10	400,001-750,000	7.5
>1.5m	12	>750,000	12	750,001-1.5 m	10
				>1.5 m	12

Source: LBTT/ SDLT Bands and Rates https://stamp-duty-calculator.co.uk/stamp-duty-rates

Transactions data from the Registers of Scotland provide information on the distribution of sales (see Table 5). In 2017/18 almost half of sales were below the threshold where LBTT has to be paid. A further third (32.1%) of transactions would have been liable at the 2 per cent rate, whilst one in ten (9.6%) were liable for the 5% band. The 10% band was applied to 8.6% of sales and the 12% band to just 0.5 per cent. The distributional pattern therefore has similarities with the income tax restructuring of 2018/19, where the Scottish Government was also careful not to tax the bottom half of the distribution more heavily. When revenues fell short of forecasts in the first year of LBTT's operation in 2015/16 many commentators and the house building industry attributed this to the fall in transactions in the 10% band. However, the forecasting of transactions is notoriously difficult partly due to transaction and price volatility, but also lack of and quirks in the data. The technical forecasting of transactions and LBTT has been subject to an on-going investigation by the Scottish Fiscal Commission.

Table 5. Housing Transactions by price band, Scotland 2013/14-2017/18

	2013/14	2014/15	2015/16	2016/17	2017/18
£1 - Under £20K	187	614	310	311	288
£20K-£40K	3,920	3,587	3,399	4,032	3,521
Over £40K - £145K	45,578	45,529	48,750	48,179	46,793
Over £145K - £250K	26,544	29,035	31,116	31,320	33,005
Over £250K - £325K	5,249	6,427	8,434	8,581	9,893
Over £325K - £425K	3,444	4,469	4,500	4,653	5,392
Over £425K - £525K	1,428	1,784	1,668	1,676	2,010
Over £525K - £625K	595	815	755	749	923
Over £625K - £750K	346	487	438	485	573
Over £750K- £1M	293	374	315	280	378
Over £1M	116	158	147	152	171
Scotland Total	**87,700**	**93,279**	**99,832**	**100,418**	**102,947**

Source: calculated from Registers of Scotland quarterly data

Table 5 shows that total transactions have risen every year since 2013/14 overall, but attention focussed on the dip in transactions within the 10% band (£325,001-£750,000) in 2015/16, the year that the new banding came in.

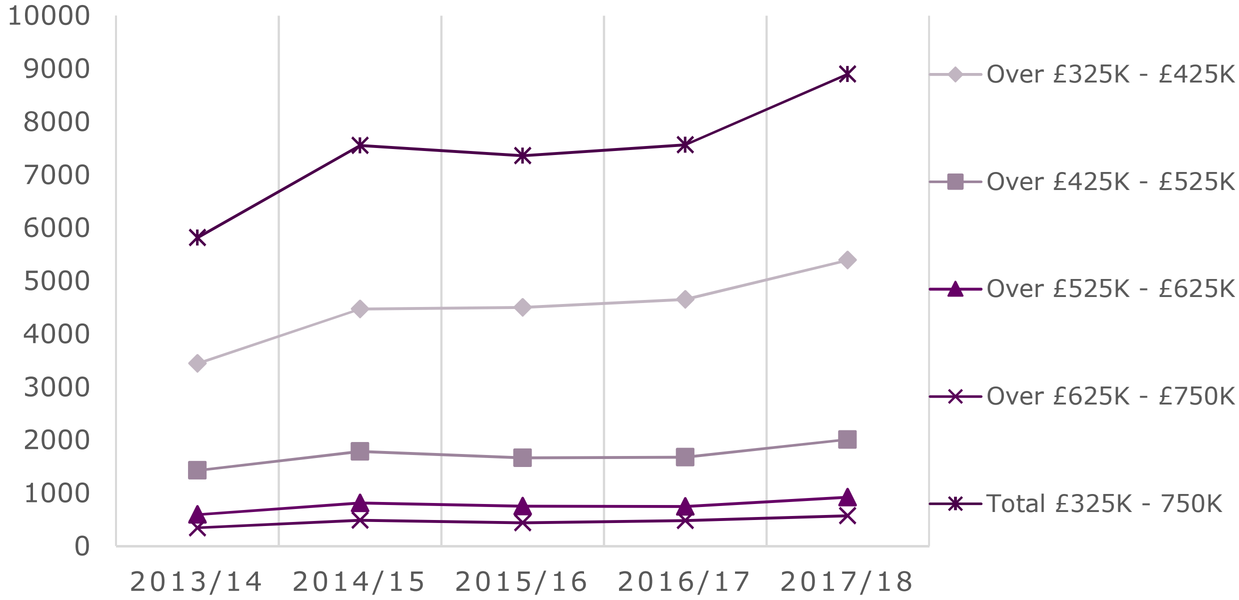
These are recorded in Figure 1. The total number of transactions in this band fell, but subsequently recovered. This might lead credence to the view that the dip reflected the bringing forward of purchases in anticipation of the new band, and has subsequently been "corrected". But, as noted, here are many complexities in the data, and there have also been other changes.

The Scottish Government followed its UK counterpart in introducing a 3% supplement to LBTT applied to non-primary residences bought for over £40,000 in 2016/17. This was introduced by the UK Government to tilt the market in favour of first time buyers against Buy-to-Let and other investors. The Scottish Government also followed the UK Government in introducing First-Time Buyer Relief (from April 2018). The ceiling is set at £175,000 and since no tax is paid on the first £145,000 in any case the maximum benefit is only £600.

It is particularly difficult to assess the impact of property-related taxes because it is not clear to what extent taxes (or tax reliefs) are capitalised[8] into house prices. This means that the party that pays the tax may not be bearing it. Thus the beneficiaries of the relatively high entry threshold may be the sellers of the properties rather than the purchasers including first time buyers. Similarly, the real losers from the higher rates of LBTT may also be the sellers, rather than the buyers. This makes the undoubtedly progressive structure of the tax (at least after the entry threshold) more difficult to interpret.

[8] Capitalisation occurs when purchasers of land or property alter the amount that they offer in response to changes in taxation.

Figure 1. Housing Transactions in the 10% LBTT band, Scotland, 2013/14-2017/18



Source: calculated from Registers of Scotland quarterly data

Scotland appears to have chosen to tax property transactions more heavily than elsewhere in the UK, at least in a segment of the market. It is also perverse to tax people who are mobile more heavily than those who are not. The bigger picture is that the Scottish Government appears not to have considered the merits of LBTT alongside the contemporaneous reform of the Council Tax.

Exemplar Policy 3: Council Tax[9]

The Council Tax was introduced in Scotland in 1993 to replace the highly unpopular Community Charge ("Poll Tax"). It can be characterised as being a hybrid property tax and service charge (Stephens, 2011). Properties are placed in one of eight bands according to their 1991 value, but single person households receive a 25% reduction. A means-tested rebate system operates in parallel (see Section 5). The system is widely recognised as being unfair (e.g. Mirrlees, et al, 2011), mainly because cheaper properties are taxed proportionately more than expensive ones, as a result of properties being banded with the tax burden falling as values rise, and ultimately there is a cap on the amount paid.

Previous attempts at reforming or replacing the Council Tax have been unsuccessful. The Local Government Finance Review Committee's 2006 report recommended the replacement of the Council Tax by a tax based on a percentage

[9] This section is an edited and updated version of a submission to Local Government and Communities Committee Consideration of the Council Tax (Substitution of Proportion) (Scotland) Order 2016 by Mark Stephens on behalf of Scottish Property Tax Reform, September 2016

value of properties, but was immediately rejected by the then Labour-LibDem Scottish Government. The minority SNP Government elected in 2007 wished to replace the Council Tax with an income tax, but did not have the support in Parliament. Instead it froze the Council Tax, which has been popular[10], but increasingly expensive for the Scottish Government (as the compensatory sum paid to local authorities accumulated year by year).

In an attempt to create a consensus towards reforming the system of local tax, the Scottish Government established a cross-party Commission on Local Tax Reform, which was chaired by the then Minister for Local Government and the President of Convention of Scottish Local Authorities (CoSLA). All of the parties represented in the 2011-16 Holyrood Parliament, other than the Conservatives, were represented on the Commission, the bulk of whose membership was independent of the parties. The Conservatives declined to participate and instead established an independent Commission for Competitive and Fair Taxation.

The Commission on Local Tax Reform (2015) reported in December 2015, proposed that the freeze should cease and concluded that "the present Council Tax system must end" (para. 13.1) A new system would be likely to depend on more than one tax instrument in order to meet competing objectives of increased autonomy for local government, fairness for taxpayers and efficiency. It recognised that a new system would create winners and losers, and that transitional arrangements would be desirable. Indeed, it suggested that reform might be put forward as an on-going programme, with short-term measures distinguished from a longer-term vision.

The "predominant view" (ibid. para. 13.12) of the Commission was that any reform had to include a recurrent property tax alongside an improved rebate scheme to help people on low and precarious incomes. It considered a land value tax as being "promising" (ibid. para., 13.13), but recognised that more work would need to be done to understand its impacts. The Commission also favoured extending the local tax base to include income. However, it seems that it is not yet feasible to collect income tax on a local authority basis and as an interim measure a share of receipts from the new Scottish Rate of Income Tax might be assigned to local authorities.

The Commission suggested that whilst "property, land and income are the three potential tax mechanisms that have the revenue raising capacity to match the present system" (ibid., para. 13.15), other taxes (e.g. environmental, sales or tourist taxes) could be made available to local authorities. The Commission accepted that the political parties would attach different emphases to the approaches that it identified as being feasible, but "[t]here is now a real prospect of beginning a programme to make local taxation fairer…" (ibid., para. 13.17).

[10] Indeed Gibb (2018) cites exit poll evidence which suggested that this was the SNP's single most popular policy in the 2011 election.

Reform of the Council Tax

The Scottish Government's response to the Commission's report was to propose cautious reform of the existing system.

Like its counterpart in the UK, the Scottish Government decided that it would continue to assess the Council Tax on the basis of 1991 property values. The UK Government pulled out of a revaluation in 2005. The Welsh Government conducted one revaluation (in 2005), but has shown no inclination to repeat the exercise. Revaluation of Northern Ireland's domestic rates system also took place when it was reformed in 2005.

The principal reform in Scotland has been to make the Council Tax less regressive by increasing the so-called "band multipliers" on properties in the top four bands (representing roughly the top quarter of property values) (Table 6).

Whilst 26% of properties across Scotland as a whole have been taxed more heavily since April 2017, the proportion varies greatly between local authorities. For example only 10% of properties in Eilean Siar, 15% in Dundee and 16% in Glasgow are in the top four bands. In contrast 56% of properties in East Renfrewshire and 54% in East Dunbartonshire are in the top four bands. The proportions for Aberdeen and Edinburgh are 42% and 38% respectively (author calculations based on Scottish Government, 2015).

Table 6. The Council Tax in Scotland

Band	% all dwellings	Value Range (1991 values)	Percentage of D (old system)	Percentage of D (reformed system)
A	21	Up to £27,000	67	67
B	24	£27,001-35,000	78	78
C	16	£35,001-45,000	89	89
D	13	£45,001-58,000	100	100
E	13	£58,001-80,000	122	131
F	7	£80,001-106,000	144	163
G	5	£106,001-212,000	167	196
H	1	£212,001 or more	200	245

Source: Scottish Property Tax Reform Briefing No. 3; Scottish Government

On average, the Scottish Government estimated that bills would rise by £105 per year for properties in Band E, £207 for Band F, £335 for Band G and £517 for Band H. These changes would increase revenue by about £100 million per year. It did intend that the additional revenues raised by higher band properties would be redistributed by the Scottish Government and directed towards schools. However, this proposal did not survive the parliamentary process.

In an attempt to address the problem of people on low incomes living in more expensive houses, the proposal includes some exemptions. People living in Band E-H properties can be exempted through the Council Tax Reduction Scheme (see Section 5) if their net income is below £16,750 (single) £25,000 (others), which is the median for these household types. The Scottish Government estimates that 54,000 households would be protected in this way.

(It is perhaps notable that a blanket exemption has not been given to pensioner households – the group that has largely been protected from "austerity" measures, at least as delivered through social security changes across the UK.)

The Scottish Government ended the Council Tax freeze in 2017/18, and thereafter to allow local authorities to increase the tax by a maximum of 3% per year. The Scottish Government estimates that this would raise an additional £70 million a year. All 32 local authorities applied the maximum increase in 2018/19.

The limited reform of the Council Tax was widely criticised by commentators at the time (Stephens, 2016b). The scheme has become less regressive (or more progressive, if you prefer), and it has been implemented without any discernible backlash. (The SNP made gains in the council elections that took place just after the reform took effect.) As with other tax reforms (income tax and LBTT) the Council Tax is careful to target groups higher up the value of the tax base. It is possible to envisage further and progressive changes to the band multipliers, which can be changed relatively easily, both legally and operationally. The biggest barrier to fundamental reform is political antipathy to revaluation. Research for the Commission found that if there were to be a revaluation, it is likely that *most* households would move from one band to another (with similar numbers moving up or down reflecting changes in relative house values). The news that most people are in the "wrong" band highlighted simultaneously the case for revaluation *and* the political dangers of doing so (Stephens, 2016b).

3. Social Security

As is indicated in section 2, the framework for devolving social security benefits in Scotland has occurred since 2010, partly in an ad hoc manner, and as a result of the speedy Smith Commission negotiations. In its response to the Calman Commission the UK Government ruled out devolving social security powers on the basis that:

> "… there is another sense in which the UK is a social union. This has its most explicit expression in our social security system, which ensures that people across the UK have access to the same support in times of need… What this aspect of the social union means is that resources are pooled across the UK, so that wherever or whenever risks occur – risks like unemployment or the inability to work through ill health – help is there to meet them. This will continue to be a founding principle in our proposals for devolution" (HM Government, 2009, para. 2.7).

The current Secretary of State for Scotland offered a watered down version of this position as the 2016 Scotland Act conceded selected devolution of social security:

> "Crucially, these powers [over social security] will be transferred while maintaining the benefits of a single labour market, pensions and the sharing of risk that comes with Scotland's position in the United Kingdom" (BBC, 2016).

However, as Mullen observed in relation to the Smith Commission,

> "[it is] a rather terse document and does not explain the rationale for the particular package of social security powers necessary for devolution. Neither did the UK Government's response." (Mullen, 2016, p. 3 of author's accepted version).

(It might be added there is very little logical linkage with suitability of the devolved tax powers for supporting the devolved social security obligations.)

Approach/ ethos

The Scottish Parliament passed the Social Security (Scotland) Bill in April 2018 and it received Royal Assent in June. The Act seeks to establish the guiding principles of a Scottish social security system and to introduce them into law. These principles are intended to signal a different approach to social security compared to that pursued by the UK. So social security is described as being "an investment in the people of Scotland" and the system should have "dignity for individuals at its heart". It builds consultation into the process of developing policy so that it is "designed with the people of Scotland on the basis of evidence" (see para. 21 of policy memorandum). There are more familiar principles such as the delivery of value for money, but the emphasis is on ensuring that eligibility is translated into receipt and the system is "continuously" improved through annual reports to the Scottish Parliament.

The Scottish Government introduced a further principle in the Act, namely that "social security is itself a human right and essential to the realisation of other human rights" (Scottish Government, 2017). The principle is justified with reference to the position of the UN Committee on Economic, Social and Cultural Rights and "recognises the right to social security is respected in international law" (Scottish Government, 2017, para. 46). It describes this principle as "fundamental to the nature of the system the Scottish Government intends to create" (ibid., para. 47), and contrasts this with the usual approach in the UK system where the onus is on the claimant to demonstrate eligibility (ibid., para. 84). The Scottish system "will operate on the basis that anyone may be entitled and the Scottish Ministers will first determine only those who are not…" (ibid., para 84). It acknowledges that the "practical effect may be similar in most cases" (ibid.), but taken as a whole the Bill signals an ambition to change the ethos that surrounds the UK social security system, particularly in the climate of welfare reform and work tests and sanctions.

Policy

As well as establishing the principles that should underpin a new Scottish social security system, the Act addresses the administration of the eleven new benefits that are being devolved. In this regard the Act establishes the eligibility criteria for the benefits that are being devolved and provides an enabling framework for Scottish Ministers to make regulations.

The immediate priority is to establish the administrative capacity to administer the benefits. Audit Scotland describes this task as being "exceptionally wide-ranging and complex" (Audit Scotland, 2017, para. 64). Whilst legislative competence is transferred through the Social Security (Scotland) Act, the administration of benefits will be transferred over a number of years – up to April 2020 (ibid., para. 65). (Currently there are concerns about the speed of progress partly (inevitably?) linked to the IT system and negotiations with DWP.) The devolved benefits (with the exception of DHPs) will be administered by a new executive agency (Social Security Scotland), and the process is being overseen by a Social Security Programme Board. Use of legislative powers before the administration has been transferred requires the co-operation of the DWP, and administrative costs will be borne by the Scottish Government in line with the Fiscal Agreement. A Scottish Commission on Social Security will provide independent scrutiny of regulations and oversight of how the system is faring against the principles set out in the Act.

Resources

The Scottish Government provides the following succinct summary of social security expenditure in Scotland:

> "In 2016/17, the UK government spent £211.6 billion on benefits in Great Britain with £18.2 billion (8.6%) spent on individuals in Scotland. Of this, around £15.3 billion (84.4%) was spent on reserved benefits and £2.8 billion (15.6%) was spent on benefits to be devolved after 2016/17. In

addition, the Scottish Government allocated £33 million to the Scottish Welfare Fund in 2016/17.

"As of April 2017 Discretionary Housing Payments (DHPs) were devolved. This still leaves £2.8 billion of benefits remaining to be devolved after 2017." (Scottish Government, 2018)

Disability Living Allowance is the largest of the devolved benefits in terms of expenditure (43%). PIP and Attendance Allowance account for a further 36 per cent of expenditure. Together these three benefits account for almost 80 per cent of devolved social security expenditure.

Table 7. Social Security Benefits devolved under the Scotland Act 2016

Benefit	Expenditure (£ m)	No. claimants ('000)	Comments
Discretionary Housing Payments	49	116	Devolved 2017/18
Disability Living Allowance (DLA)	1,400	303	Legacy benefit being replaced by PIP
Attendance Allowance	487	128	
Personal Independence Payment	318	78	
Carer's Allowance	222	68	
Winter Fuel Payment	181	1,061	
Industrial Disablement Benefit	87	26	
Severe Disablement Allowance	51	8,000	
Cold Winter Payment	3	136	
Funeral Payment	4	-	
Sure Start Maternity Grant	3	-	
Total	**2,800**	-	

Source: Audit Scotland (2017), Exhibit 6

Given that powers and the ability to use them are still in the process of being devolved, there is not yet a Scottish social security "system" that can be assessed. The best that we can do is to examine those benefits that were de facto devolved under "localisation" and other ad hoc means, such as enhancement of DHP powers, and the firm proposals regarding the devolved benefits.

Exemplar Policy 4: Scottish Welfare Fund

The Scottish Welfare Fund was established as a result of the UK Government's decision to abolish the discretionary Social Fund from April 2013, as part of its localisation agenda. (The regulated fund which includes maternity, funeral and winter fuel payments continues.) The SWF was established by the Welfare Funds (Scotland) Act 2015. It is a national scheme delivered by local authorities. It was preceded by an interim scheme which operated for the first two years. This was subject to an evaluation (Sosenko, et al, 2014), which examined the detailed operational aspects of the scheme.

The SWF has two components: Crisis Grants (CGs) (provided when an individual is facing a disaster or emergency and where there is an immediate threat to the health or safety of their family); and Community Care Grants (CCGs) (which are intended mainly to help vulnerable people to establish or maintain a settled home). Statutory Guidance is issued by the Scottish Government, which stresses, inter alia, the importance of adopting a "holistic" approach through co-operation with a range of local partners such as the NHS and advice agencies (Scottish Government, 2018b). The Scottish Government allocates funds to local authorities through a formula. This has been modified over a number of years in order to target the fund geographically on "the most vulnerable communities" (Scottish Government). This has been implemented by increasingly relating the grant to the Income Domain of the Scottish Index of Multiple Deprivation. This transition has been completed in 2018/19 with the allocation based purely on the Income Domain.[11]

Scottish Government (2018a) analysis suggests that since it was devolved, the number of awards for both CCGs and CGs has increased. In April 2013 there were about 2,000 awards for CCGs and 4,000 for CGs. In July 2017 these had increased to almost 4,000 and 10,000 respectively. However, in the case of CGs, there was a rapid rise to about 6,000 March 2014, with a general downward trend since then (Scottish Government, 2018c). The average CCG award in July-September 2017 was £582 for CCGs and £78 for CGs. CGs were awarded most commonly for food, heating and other household expenses. CCGs were most commonly awarded for floor coverings, beds and beddings and kitchen appliances (ibid.).

[11] Scottish Government website https://beta.gov.scot/policies/social-security/income-related-benefits/

The Scottish Government intended to use CCGs to mitigate the planned restrictions on Housing Benefit for 18-21 year olds. However, the UK Government has abandoned this policy.

There does not appear to be any outcome-based evaluation available, although the Scottish Public Services Ombudsman publishes an annual independent review of how complaints about the SWF are handled and resolved.

Exemplar Policy 5: Council Tax Reduction Scheme[12]

In 2013 the UK Government abolished Council Tax Benefit, which had provided means-tested (and savings limited) assistance to low income households to help them pay their Council Tax bills. Responsibility for assistance was passed to English local authorities with a 10 per cent reduction in the amount that had previously been awarded to people living in the area, but with pensioner households to be protected from any cuts. The scheme was also transferred to the Scottish and Welsh governments on the same basis (i.e. a 10% cut in the sum previously awarded).

The Scottish Government agreed with the Convention of Scottish Local Authorities (CoSLA) to make up the funding gap of £40 million with the Scottish Government contributing £23 million and local authorities the balance (Berry and Shaw, 2017). So the cuts most English local authorities introduced have been avoided. (An early evaluation of the localisation of the scheme identified 18% of English councils as having retained the previous scheme, but that about 2.4 million low-income families paid an average of £138 more council tax in 2013/14, Bushe, et al, 2013.)

The Scottish Government introduced a reform to the Council Tax Reduction scheme in 2017 by increasing the allowance for dependent children by 25% to £83.63 a week. The Scottish Government estimates that this is worth an average of £173 to 77,000 households containing almost 140,000 children (Stephens, 2016a).

A third reform to the scheme arose from the desire to protect lower income households from increases in Council Tax liability as a result of the changes to band multipliers introduced on more expensive (Bands E-H) properties in April 2017. This is covered in Section 4, above.

A fourth "reform" is that the two child limit will not be applied to the scheme.

Exemplar Policy 6. Discretionary Housing Payments

Discretionary Housing Payments (DHPs) were introduced alongside a series of restrictions to Housing Benefit after the election of the Coalition in 2010 as a

[12] Technically this is now a tax rebate, as the liability is reduced rather than cash paid to the recipient. However, the previous GB-wide scheme was part of the social security system, and Rent Rebate, which is also a reduction in liability, is treated as a social security benefit.

means of providing temporary assistance to people facing hardship. Although these changes primarily affected private tenants (for example the extension of the Shared Accommodation Rate to people aged 26-35), a measure aimed at limiting under-occupation in the social rented sector attracted most attention. The Removal of the Spare Room Subsidy (or "bedroom tax") introduced restrictions to Housing Benefit to social tenants with "spare" bedrooms from April 2013. The UK Government anticipated that the policy would encourage tenants who were underoccupying social housing to trade down, and free up accommodation for more suitably sized households. The policy (incorrectly) assumed that suitable smaller accommodation was available, but it "has been both unpopular and has not worked in terms of its key propositions" (Gibb, 2015, p. 148).

The controversy over the policy was intensified in Scotland during the independence referendum campaign, with pro-independence campaigners arguing that independence was needed to reverse the measure, whilst some unionists argued that the Scottish Government could use DHPs to mitigate the impacts of the measure. The Scottish Government was constrained by the limitation imposed on DHP expenditure by the UK Government (which also applied to English local authorities). The UK government made the concession to allow Scottish Ministers to set the limit in Scotland in 2014 with the result that the Scottish Government has mitigated the "bedroom tax" through DHPs.

Table 8. Discretionary Housing Payment Funding in Scotland (2013-2017)

	2013/14	2014/15	2015/16	2016/17	2017/18
SG	£20m spent	£35.1m spent	£35.8m spent	£35m spent	£57.8m estimated
DWP	£18m	£15.2m	£13.3m	£15.2m	NA
Total	**£38m**	**£50.3m**	**£49.2m**	**£50.2m**	**£57.8m**

Source: Scottish Government

When it was applied in Scotland the "bedroom tax" affected around 20 per cent of social tenants in receipt of Housing Benefit (some 71,000 households) (Berry, 2014). Many social landlords reported shortages of smaller dwellings that could be used for tenants to "downsize" and reported that it was an important contributor to rent arrears (ibid.). Moreover, the Scottish Government estimated that 80 per cent of households affected reported that there was someone living in a disability living in the house (ibid).

The policy has evidently assisted those households subjected to the "bedroom tax". An evaluation of its mitigation would need to consider whether DHP expenditure had been diverted away from people with other needs – although the profile of people affected by the Bedroom Tax identifies them as being low income and with other needs. Nonetheless, it would also need to consider whether other groups affected by Housing Benefit cuts might have suffered greater hardship that remained unmitigated. The Welsh Government decided not to use DHPs to mitigate the "bedroom tax" believing its cost to be excessive (Stephens, 2017).

Exemplar Policy 7. Newly devolved benefits

There are two clear areas where newly devolved powers have been used to reform benefits.

Linked to the use of DHPs to mitigate the "bedroom tax" is the intended use of powers to change the housing cost element in Universal Credit to affect working-age households who have been moved from Housing Benefit to Universal Credit. This political imperative is why this element of UC was devolved.

Powers have also been used to allow tenants to opt for the housing cost element to be paid directly to the landlord, and for UC to be paid more frequently: twice a month, rather than monthly. These applied to new "full service" claimants from October 2017, and to all UC claimants from January 2018. Of the current UC claimants in Scotland, more than 45% of 5,800 UC claimants had exercised some choice: 1,600 for more frequent payments, 500 for direct payments to their landlord and 500 for both (Scottish Government, 2018a).

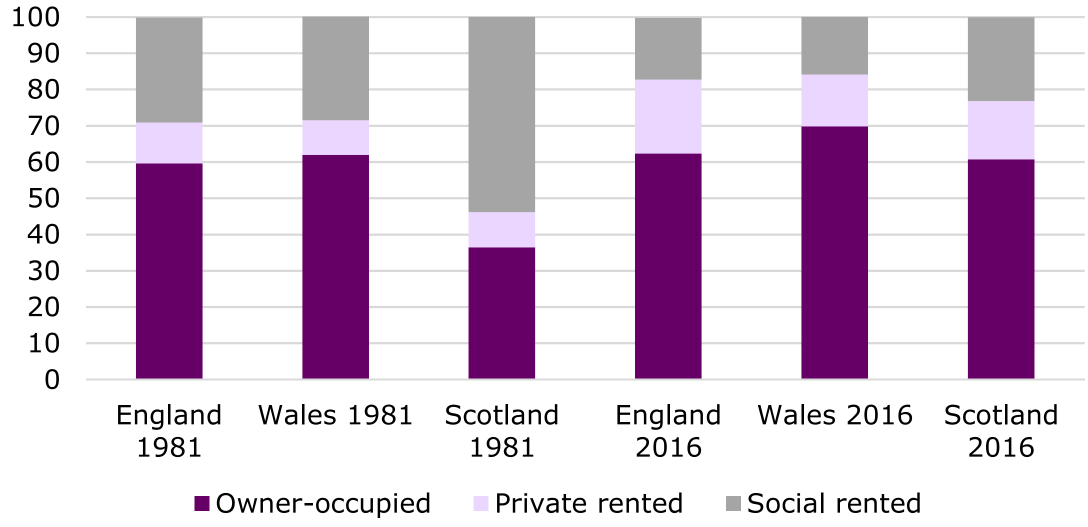
Other policies

It is worth noting other uses of the Scottish Government's new powers. The Social Security (Scotland) Act enables Scottish Ministers to increase Carer's Assistance, and in October 2018, 75,000 carers began to receive enhanced payments under Carer's Allowance Supplement, which will be worth £442 per year. The logic is to bring the payment in line with Job Seeker's Allowance. The Best Start Grant is replacing the UK Sure Start Maternity Grant. Payments will be made for all children, and additional payments will be made during transition period to nursery and school. A new Funeral Expense Assistance benefit is due to be introduced in 2019. The Winter Fuel Payment is being extended to working-age families with a severely disabled child.

4. Housing

Historically, housing policy in Scotland has followed the main trends in the rest of the UK. The main initiatives that were introduced in the twentieth century were also applied in Scotland, albeit sometimes through separate legislation. Accordingly, rent control was introduced in 1915, central government subsidies for local authority housing were introduced in 1919, the first wave of slum clearance occurred in the 1930s, council housing grew enormously after 1945, but fell back from the IMF crisis in the mid-1970s. That said, the scale of tenure change was different: in particular, at its peak in the late 1970s/ early 1980s *most* households in Scotland lived in public rented housing – a higher proportion than the peak in most European communist countries! The corollary of this was that owner-occupation was well below the rUk level (Figure 2). The Housing (Homeless Persons) Act 1977 was applied across Great Britain (though not in Northern Ireland until 1989). The Right to Buy was applied to Scotland (and was taken up in great numbers), housing associations became the main providers of new social housing after 1988, private rents were deregulated from 1989 and landlords were able to use insecure tenancies. A considerable degree of tenure convergence took place between Scotland and rUK, although the social rented sector remains proportionately larger than in England or Wales (Figure 2). Even after devolution, policy approaches ran in parallel with those in England, although the main initiative in the early years of the Scottish Parliament was the extension of homelessness obligations through the abolition of "priority need". The emphasis on improving the quality of social housing under the 1997-2010 UK Labour Governments was applied in Scotland, with the transfer of the City of Glasgow's council stock facilitated by a close to £1 billion debt write off from the Treasury making it a major beneficiary.

Figure 2. Dwellings by tenure in England, Wales and Scotland (%; 1981 and 2016)



Source: Stephens, et al. (2018), Table 17b

However, there has been increasing divergence since the formation of the Coalition Government 2010, caused not only active policies adopted by the Scottish Government (Celtic radicalism or progressivism), but the decision not to introduce policies adopted by the UK Government and applied in England (Celtic conservatism).

Before moving to examine the exemplar policies it is important to note that although housing policy is devolved, key policy instruments connected to it are not.

Housing Benefit is the largest financial subsidy to housing throughout the UK, but is largely reserved, as it is treated as being a social security benefit. The use of recent limited concessions is addressed in Section 5, but what the Scottish Government can do is very limited. Key elements of taxation are also reserved, so that, for example, the decision to toughen the tax treatment of private rented housing was announced by the UK Chancellor, and applies across the UK. Given the contemporaneous reforms to the private rented sector in Scotland, this represents the kind of asymmetry that is likely to be damaging to good policy making.

We have selected three exemplar policies to illustrate the direction of housing policy in Scotland.

Exemplar policy 8. Social rented housing

In distributional terms, social rented housing is progressive in that it provides housing with security of tenure at below market rents to a section of the population that is living on predominantly low incomes and often has some other vulnerability such as disability. In Scotland a high proportion of lets are to statutorily homeless households. A study of the distributional impacts of housing policy in England in 2008 found that they reduced the poverty rate by some six percentage points. The key redistributive factors were below market rents for social tenants, Housing Benefit and net imputed rental income of (mainly) older home-owners (Stephens and van Steen, 2011). We therefore assume for the purposes of this exercise that the provision of social rented housing is progressive in distributional terms, although we should note the extensive literature on the effects of concentrated poverty associated with social rented housing.

Right to Buy

The different parts of the UK have operated increasingly different Right to Buy (RTB) schemes. For example, limits on the maximum discount introduced by the 1997-2010 Labour Governments greatly reduced the level of sales in England until these were "reinvigorated" under the Coalition, with a rapid recovery in sales (Table 8). A lower limit was set in Wales, but in Scotland the lower limit applied only to post-2001 tenancies (subject to the "modernised Right to Buy"), so there was no limit for most tenants. This helps to explain the proportionately higher level of sales in Scotland over the period since 2010.

However, the situation has now changed dramatically. RTB has been phased out in Scotland. In March 2011 the scheme ended for new tenants, and from August

2016 the scheme ended altogether. The anticipation of the scheme's end is reflected in the uplift in sales figures in 2015/16 and 2016/17. Wales has now also legislated to end the scheme, so this policy has become a clear area of divergence, and is under review in Northern Ireland.

The initial effect is to end transfers of asset to households which are likely to be on a modest income, whilst not depriving anyone of a home until the point that the household would have vacated the property to free it up for a new tenant. However, longer-term impacts of ending Right to Buy can be expected to be progressive, given that we know that a significant proportion of ex-social housing sold under RTB is now owned by private landlords charging market rents to tenants who will often receive Housing Benefit. (A survey of 111 English authorities put the figure at 40 per cent, Guardian, 2017.)

Table 9. Right to Buy Sales 2010/11-2016/17 England, Wales, Scotland

	England	Wales	Scotland
Social stock in 2010	3,960,000	221,000	565,000
RTB Sales			
2010/11	3,179	102	2,024
2011/12	3,744	171	1,518
2012/13	8,402	170	1,372
2013/14	15,682	253	1,526
2014/15	16,519	286	1,834
2015/16	16,223	359	2,093
2016/17	18,110	274	3,510
Total RTB sales 2010/11-2016/17	81,859	1,616	13,877
Sales as % 2010 Stock	2.1	0.7	2.5

Calculated from Stephens et al (2018), Tables 17a; 20a-c

New supply

As in the rest of the UK, housing investment during the period of the 1997-2010 UK Labour Governments, the priority for publicly-funded housing investment was to improve the existing stock of social housing. There was an upswing in supply during the economic crisis as part of the UK-wide stimulus package, but since then the UK Government has attempted to contain spending, leading to the significant reconfiguring of the sector in England, notably with the new category of "affordable" homes, with rents of up to 80 per cent of market levels permitted. Other measures included the (subsequently withdrawn) policy of mandatory fixed-term tenancies, which would have ended the legal security of tenure offered to tenants since 1980 (and in practice before then, too).

The changes in England have been met with Celtic conservatism in the devolved administrations, none of which have adopted these measures. Each has also committed themselves to investment in new social and affordable housing.

The Scottish Government met its target of supplying 30,000 new affordable homes over the 2011-16 Parliament, and is now pursuing a target of 50,000 units, 35,000 units of which are to be social rented (the remainder being low cost home ownership). The Scottish Government increased the grant per unit available to social landlords in 2016, and it is roughly twice the level in England (Stephens, et al, 2018). A notable feature of the Scottish housing programme is the revival in local authority housebuilding, which is enabled by the less rigorous borrowing limits that are applied to them.[13] Over the most recent five years, Scotland's local authorities have actually built more housing than their English counterparts (Stephens, et al, 2018). The upswing in local authority building (the most recent statistics place new local authority new build on par with housing associations) can be attributed to the end of Right to Buy (so new properties won't be lost), the absence of borrowing caps, and the availability of capital grants only slightly less generous than those received by housing associations.

At the half way point, the signs are that the 50,000 target is on course to be met.[14] The Scottish Government has committed significant financial resources to the programme. The five year programme ending in 2015/16 attracted almost £1.8 billion of government subsidy. The cumulative subsidy available for the five years to 2020/21 is £3 billion, with the annual figure rising from £572 million in 2016/17 to £756 million in 2018/19 (ibid.)

By way of comparison the Welsh Government has a five year target of 20,000 units of affordable accommodation (the split between social and other affordable has not been made clear). Pro rata this is somewhat less ambitious than the Scottish target. Comparisons with England are now problematic as the affordable housing programme is now dominated by "affordable" rent housing. Traditional social rental accommodation accounts for less than 2 per cent of current outputs in England (ibid.).

Exemplar Policy 9: Reform of private renting

As in the rest of the UK, the private rented sector has grown since rents were deregulated and security of tenure was removed under the (often six month) Short Assured Tenancies (as Assured Shorthold Tenancies are called in Scotland). As the sector had grown and housed a wider cross-section of society, its policy salience has grown.

Compulsory landlord registration, which requires landlords to pass a "fit and proper person" test, was introduced in 2008. This was an attempt to remove "worst" landlords, and improve property management. An evaluation suggested

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[13] The UK Government announced the lifting of housing borrowing caps on English and Welsh local authorities in October 2018.

[14] https://www.scottishconstructionnow.com/29041/affordable-housing-programme-on-target-at-halfway-point/#

that it had not succeeded in removing the worst landlords, but had led to some improvements in property management (Lees and Boyle, 2011). A tenancy deposit scheme was introduced in 2011 requiring landlords and letting agents to lodge deposits with a recognised scheme in an effort to tackle the long-standing problem of the non-return of tenant deposits. Statistical modelling carried out by Retties on behalf of Shelter found that

> "in the letting agent sector indicates that between 1% and 2% of the rent rises in Scotland in 2013 could, in part, be caused by the law on fees, this is inconclusive, and appears short-lived. Just 2% of landlords increased rents specifically because of the fee ban." (Shelter, 2013, p. 5)

The most significant legislation beyond these regulatory interventions has been the Private Housing (Tenancies) (Scotland) Act 2016, which is introducing a new tenancy regime, involving greatly increased security of tenure, and a framework for rent regulation, and regulation of lettings agencies.

From 1 December 2017, all new tenancies are Private Residential Tenancies, replacing the Short Assured Tenancies and Assured Tenancies. These tenancies are open-ended, and increase tenure security by greatly reducing the scope for "no fault" evictions.

There are now eight mandatory and eight discretionary grounds for eviction, as well as two that can be either. Six of the mandatory grounds identify circumstances where the law regards it as being reasonable for the landlord to gain vacant possession of the property regardless of the tenant's behaviour and include a decision to sell it, to refurbish it, live in it, or change its use to non-residential property. The other two mandatory grounds relate to a "relevant" criminal conviction on the part of the tenants and abandonment.

The discretionary grounds relate to breach of tenancy, anti-social behaviour, loss of landlord or HMO registration, and overcrowding. The other includes the use of the property by a member of the landlord's family, and a tenant who is in tied accommodation, but no longer works for the employer.

The accrual of more than three months' rent arrears may be treated as being a mandatory ground for possession (if arrears still exceed one month by the date of the tribunal), and discretionary (if less than one month or cleared).

An important innovation is that the Act removes private renting cases from the Sheriff Court system, and transfers them to the First-tier Tribunal for Scotland (Housing and Property Chamber). Landlords must now go to this body if they believe that the have a ground for eviction. Former tenants may also use it if they believe that their tenancy has been ended unlawfully.

Part of the logic behind this is to remove landlords' frequently expressed concern that the court system is too slow, expensive and with uncertain outcomes – the reason why many landlords liked the security of the blanket "no fault" evictions in the Short Assured Tenancies. It is also intended to provide a less formal means of dispute resolution.

Security of tenure is generally accompanied by some kind of mechanism to prevent landlords from raising rents excessively in order to price the tenant out of the property. In the Scottish case, a tenant who thinks that they have experienced an excessively large rent increase may refer it to a Rent Officer for determination. If either party is dissatisfied then the can go to the First-tier Tribunal.

Whilst the new tenancy system has only recently been introduced, an early assessment states:

> "The new tenancy fundamentally altered the nature of the relationship between landlords and tenants, moving it decisively from a contractual to a statutory legal basis." (Robertson and Young, 2018, p.17)

The Act also introduces the possibility for local authorities to introduce caps on rent increases for tenants on existing Private Residential Tenancies in Rent Pressure Zones (RPZs). The Guidance (Scottish Government, 2017) suggests that the aim is to protect tenants, without deterring investment or the upkeep of properties. A minimum increase (CPI + 1%) is included in the legislation to provide landlords with comfort, and it is made clear that rents on new contract will continue to be market-led.

Local authorities must apply to Ministers for all or part of a local authority area to be made a RPZ, and may do so providing three grounds apply: rapidly rising rents, hardship to tenants and impact on the broader housing system.

The Guidance for local authorities wishing to make a case for a RPZ is detailed and onerous. For example, in support of the case that rents are rising too rapidly, the Guidance requires:

- "A profile of PRS property characteristics (e.g. house type, size, age, location) and details of any changes to this profile impacting on rent changes;
- Time series administrative or survey data and/or other research evidence showing the size of the rent increase, for existing tenants in the same properties, in a range of property types, sizes and ages;
- Information on the sample used to demonstrate the rent increase (e.g. sample frame, methodology, size, non-response rates, sample error or biases and coverage issues, including efforts made to increase coverage);
- Details of the methodology/ies used to analyse this evidence; and
- A statement based on this evidence (and any other evidence gathered) to explain why the local authority believes that rents are rising by too much in the proposed RPZ.

> "Rent data must be collected from existing tenants who have had a rent increase (in the same properties) and be representative of the PRS profile of the area. Other rent data (i.e. new lets) can be used as context only

and cannot be used as supporting evidence as they may not represent the rents of existing tenants." (Scottish Government, 2017, p. 10)

Robertson and Young identify the lack of reliable rent data in Scotland to enable Rent Officers, First Tier Tribunals make judgements about "excessive" rent rises, and for local authorities to make a case for a RPZ. Whilst inadequate data seems unlikely to prevent the first (because Rent Officers already operate with inadequate data), it is likely to make the establishment of RPZs very difficult. A recent report concludes:

> "…it seems unlikely that most local authorities will consider a RPZ to be an attractive, or necessary intervention to pursue. While it is right that the Scottish Government insists that local authorities must provide a robust and compelling case for a RPZ, given the potential risk of creating further market distortions, the requirements set out in the guidance are exceptionally challenging. Whether by design, or otherwise they may very well effectively curtail consideration of this measure." (Robertson and Young, 2018, p. 36)

Exemplar Policy 10. Homelessness

Shortly after devolution, in August 1999, a Homelessness Task Force (HTF) was set up by the then Scottish Executive with the Minister for Social Justice, Jackie Baillie, as its chair. The HTF's style of work was intended to be explicitly consensual and 'inclusive', with membership drawn from local government, the voluntary sector, academia and housing providers (Fitzpatrick, 2004). The HTF was given the following terms of reference:

> "To review the causes and nature of homelessness in Scotland; to examine current practice in dealing with cases of homelessness; and to make recommendations on how homelessness in Scotland can best be prevented and, where it does occur, tackled effectively."

The work of the HTF underpinned two landmark pieces of legislation on homelessness in Scotland: the Housing (Scotland) Act 2001 (Part 1) and the Homelessness Etc. (Scotland) Act 2003. The 2001 Act introduced new duties on local authorities to provide temporary accommodation for "non-priority" single homeless households, and also imposed obligations on housing associations to give "reasonable preference" to homeless people in their allocations policies and to rehouse statutorily homeless households referred to them by local authorities. The 2003 Act signaled much more radical divergence between Scotland and rUK on homelessness (Pawson & Davidson, 2008). Most significantly, it made provision for the abolition of the "priority need" test that had, since 1977, been the main "rationing device" limiting rehousing rights under the homelessness legislation. As a result, from 31st December 2012, all unintentionally homeless households in Scotland have been entitled to settled accommodation.

The dominance of the centre-left within the Scottish political establishment, and its "tightly knit, small and coherent" policy community, together with a relatively large social housing sector, compared to England, were key factors enabling fairly easy passage of both the 2001 and 2003 Acts through the Scottish Parliament (Fitzpatrick, 2004). Homelessness was taken up as a flagship policy by a young Scottish Parliament eager to flex its new devolved powers and establish its social justice credentials (Celtic radicalism). The existence of a well-organised and vocal third sector in this field also pushed homelessness up the political agenda at the start of the devolution period.

The clear progressive strength of the "Scottish model" on homelessness is that there is now an (almost) universal statutory safety net for homeless households, the great majority of whom are likely to come from low-income backgrounds (Bramley & Fitzpatrick, 2017). Scotland has won international plaudits, even Human Rights Awards, as the only country in the world where (virtually all) homeless people have an absolute entitlement to settled housing. This has undoubtedly led to much better treatment of single homeless people in particular by local authority homelessness services (Mackie and Thomas, 2014). It is also very likely related to a decline in recorded rough sleeping since the 2003 Act came into force (Littlewood et al, 2017).

On the other hand, the additional demand pressures generated by this widening of the statutory safety net, coupled with a reduction in the number of social lets available, led to an almost trebling in the number of households living in temporary accommodation in Scotland between 2001 and 2011. After a marginal decline, the numbers in temporary accommodation are again close to record levels in Scotland (Littlewood et al, 2018).

In parallel, the proportion of Scottish social landlord lettings absorbed by statutorily homeless households almost doubled over roughly the same time period, from around one quarter in 2001/02, to 45% by 2011/12, with the latest figures only slightly lower (at 42% in 2016/17) (Stephens et al, 2018). Clearly this has implications for other (generally low-income) households in Scotland seeking access to social housing, particularly in high pressure areas like Edinburgh.

In response, from 2010 onwards, the Scottish Government promoted prevention measures along the lines of the English "Housing Options" advice model in an effort to reduce "statutory demand" and meet the 2012 commitment to abolish priority need. There was a consequent sharp drop in statutory homelessness acceptances and, as in England, this prompted concerns about unlawful "gatekeeping" in certain local authority areas. However, evidence indicates that it is a pretty "light touch" form of Housing Options that generally operates in Scotland, often culminating in a statutory homelessness application rather than "diversion" into the private rented sector (Fitzpatrick et al, 2015).

The post-devolution Scottish model on homelessness has survived several changes in government and continues to enjoy broad, cross-party support. Moreover, in the most recent period, homelessness has become a key policy priority for the current SNP administration. In September 2017, the Scottish

Government announced "a clear national objective to eradicate rough sleeping in Scotland and transform the use of temporary accommodation". A short-life Homelessness and Rough Sleeping Action Group (HARSAG) was convened by the First Minister, alongside the announcement of £50 million additional expenditure on homelessness over the next five years. This commitment is all the more remarkable given the lack of evidence of a rising homelessness or rough sleeping problem in Scotland (Littlewood et al, 2017), in sharp contrast to the deteriorating position in England since 2010 (Fitzpatrick et al, 2018), albeit that persistently high levels of temporary accommodation use are an ongoing concern. The HARSAG had already made a series of recommendations on "minimising rough sleeping in winter 2017/18", and on "eradicating rough sleeping for good", all of which were accepted in principle by the Scottish Government. The Group's final report, published in June 2018, placed an emphasis on rapid rehousing and the adoption of Housing First approaches in response to homelessness. It also highlighted links between homelessness prevention and other policies (such as continuing the social housing building programme after the current five year plan has been completed), reforming social security, early intervention with high risk groups such as care leavers and the role of Health and Social Care Partnerships[15]. The Group's final recommendations were also accepted in principle by the Scottish Government which simultaneously announced the allocation of the first £21 million of the £50 million total additional expenditure on homelessness to support rapid rehousing and Housing First.[16]

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https://beta.gov.scot/binaries/content/documents/govscot/publications/factsheet/2018/06/homelessness- parliament-election-aske#line and-rough-sleeping-action-group-final-report/documents/c98c5965-cabf-4933-9aae-26d9ff8f0d12/c98c5965-cabf-4933-9aae-26d9ff8f0d12/govscot:document/

16

http://www.parliament.scot/S5_Local_Gov/Inquiries/20180627_Homelessness_MinLGHToConvener.pdf

6. Conclusions

Overall, we make the following assessments.

Progressive politics and conservative public values

Scotland has a distinctive party political system, which has been dominated by centre-left parties since devolution (and before). This leads to an assumption that public opinion must be significantly more supportive of redistributive policies than in the rest of the UK. However, there is little support for this in terms of public values, at least so far as they are revealed in surveys and polls. There is more to values than this, but it does mean that progressive parties are operating within a less progressive value system than is often assumed. On the other hand, there is a much higher level of trust in the Scottish Parliament than there is in Westminster, and no discernible backlash against the governing party following the changes in Council Tax and income tax.[17]

Powers and resources

The Scottish Parliament has had control over a range of social policies since its formation almost 20 years ago. These powers enabled it to alter spending priorities, but gave it little control over financial resources. The main exception to devolved powers was social security. With little control over tax or social security, the principal instruments of direct monetary redistribution have been absent. The recent devolution of income tax provides the Scottish Parliament with a greater ability to increase its spending power or to redistribute the tax burden, although powers over social security remain limited. These powers are recent, and it is difficult to judge the impact of their use, although the direction of travel may be clearer. The institutions for the administration of income tax and social security are still in the process of being created. Of course taxation and social security are not the only means of redistribution. Many of the reforms in housing have been achieved through regulation and the creation of legal duties rather than expenditure.

Progressive goals

The aspirations surrounding each of the three policy areas of taxation, social security and housing are undeniably progressive.

Recent tax changes have been supported by statements supporting redistribution and public services. Social security has been imbued with individual initiatives that are intended to protect low-income and otherwise vulnerable households.

There is a concerted effort to change the ethos surrounding the provision of social security, and the way in which it is administered by emphasising entitlement. The opportunity to shape social security is relatively recent. The use of powers over

[17] A recent opinion poll (5 October 2018) published on *What Scotland Thinks* puts the SNP on 44% for the Scottish Parliament constituency vote, 22 points ahead of the Conservatives. http://whatscotlandthinks.org/questions/how-would-you-use-your-constituency-vote-in-a-scottish-parliament-election-aske#line

"localised" benefits suggests a desire to protect households from cuts applied elsewhere in the UK, with other changes directed at low-income households with children and people caring for relatives.

Housing policies have been aimed at the most vulnerable people (homelessness) and, given the profile of tenants and lettings, people on low-incomes. Private sector reform principally provides greater security for a much broader range of society.

Caution in policies

Individual policies, whilst progressive in motivation and direction, are also imbued with degrees of caution.

It has taken nearly 20 years for any Scottish Government to exercise its income tax powers. The recent changes to date have been limited and crafted to ensure that most tax payers are gainers or non-losers whilst tilting the tax burden further up the income scale. The decision not to increase the top rate of tax to 50 pence was informed by caution against causing tax flight.

The reform of the Council Tax and Land and Buildings Transaction Taxes reflect the same distributional caution by tilting the burden of these taxes upwards, whilst protecting lower income losers from Council Tax reform. The decision not to replace or revalue the Council Tax repeats the caution of previous Scottish and UK Governments.

In social security, the most high profile policy has been to mitigate and when powers allow, abolish the "bedroom tax", a policy of symbolic as well as material importance. There has been no ambition to support other groups who lost Housing Benefit under the Coalition's austerity programme.

In housing, the private sector tenancy reforms explicitly attempted to balance the interests of tenants and landlords. In this respect, the Scottish Government has resisted populism. The provisions for rent regulation appear to be very difficult to use.

Overall assessment

Based on this overview of 10 exemplar policies, Scottish social policy is progressive in motivation and direction. It is also imbued with a caution – both in terms of upsetting the electorate and provoking counter-productive responses.

This assessment is partial in two senses.

Given the only very recent use of tax raising powers, it is clear that expenditure on progressive causes must have been diverted from elsewhere in the Scottish budget. A full assessment would need to examine which areas have been de-prioritised as well as those that have been prioritised.

Further, a range of other policies, notably in education and health have not been assessed. The abolition of university tuition fees for Scottish (and non rUK EU) students is often contrasted with the treatment of further education. And whilst the Council Tax has now been reformed, it was also frozen for a decade.

Future directions

There are both positive and negative considerations for the future.

The greatest concern for the Scottish Government must be its ability to maintain spending programmes now that a significant part of the income tax base has been devolved. This carries risks if Scottish economic performance lags behind the rest of the UK. This concern prompted the First Minister to appoint a commission to seek ways to improve productivity and growth within the context of independence (Sustainable Growth Commission, 2018).

The narrowness of the tax base which has been devolved is another source of concern, as income tax is the only major tax over which the Scottish Government has significant control. This has sometimes been portrayed as being a trap into which the Scottish Government has fallen. Whether any Scottish Government would risk allowing income tax to diverge very much from rUK may be put to the test sooner rather than later if the UK Government continues to increase tax thresholds. The accelerated rise in the personal allowance (over which the Scottish Government has no control) represents an erosion of its principal tax base and it cannot be offset by raising other taxes.

The lack of coherence in the current mix of devolved powers and resources is another cause for concern. As noted by Mullen, there is no rationale for the powers and taxes that have been devolved following the Smith Commission, and no attempt to balance responsibilities with an appropriate resourcing base. It is not only a question of matching long-term expenditure with resources, but dealing with their volatility. (A tentative framework was proposed by Stephens, et al, 2015.) This is likely to be a cause of frustration and conflict between the Scottish and UK Governments, not to mention the already apparent administrative complexities involved with even minor differences in income tax.

The generally positive point, however, is that Scotland is gradually establishing the institutions for operating its own tax and social security system. These are following the successful establishment of the Scottish Parliament whose abolition is now unthinkable.

Given time a more strategic approach to redistributive policies might be expected to emerge, and with them another assessment of what powers and resources should be extended to the Scottish Parliament.

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