

OUTLINE BUSINESS CASE FOR THE AGENCY FOR SOCIAL SECURITY IN SCOTLAND



This diagram is a word cloud of **A New Future for Social Security in Scotland** - Analysis of Written Responses to the Social Security in Scotland Consultation. The size of words reflects how often they appear in the document. The word "respondents" has been suppressed.

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FOREWORD

This Outline Business Case (OBC) for the agency for social security in Scotland is a repository of the analysis and evidence behind the Ministerial Statement made in the Scottish Parliament on 27 April 2017, that announced the preferred option for the form that the agency will take.

This document follows on from the Stage 1 Options Appraisal that formed the basis of the decision to deliver social security in Scotland via an agency of some form. It has been written following the HMT “five-cases” model of business case development and is published in order to set out the evidence behind the preferred option in a clear and transparent way.

Information on the costs of the different potential options, including the preferred option, is provided but is not broken down in detail. This is because including detailed cost breakdowns at this stage could prejudice the ability of the social security agency to obtain maximum public value from spending on future development.

Social Security Directorate and Communities Analysis Division
Scottish Government

April 2017.

EXECUTIVE SUMMARY

1. Introduction

This Outline Business Case (OBC) is for the agency for the delivery of social security in Scotland but includes how the agency aligns with the wider delivery landscape. As the OBC progresses towards a preferred option the scope narrows to that of the future Scottish Social Security Agency alone.

The OBC follows on from an options appraisal stage 1 which was completed in early 2016 and which formed the basis for an announcement by Scottish Ministers that social security in Scotland would be delivered by a new agency. It found that the agency should have close links to Scottish Ministers and be flexible enough to respond as the social security landscape in Scotland unfolds.

This OBC follows standard HMT guidance and is aligned to both the Green Book and the “5 cases” model.

The OBC should be seen in the wider context of the further devolution of powers to Scotland as currently represented by the Scotland Act 2016. The journey to date is outlined by, and forms the basis of, the **strategic case**. By way of context, expenditure on benefits in Scotland in 2015/16 was £18.3bn, 9.1% of the GB total. Of this 15.3%, or around £2.8bn, is to be devolved.

2. Approach

Initial work was undertaken to look at the current delivery landscape in Scotland and the form and scale of current delivery agencies. The resultant report (included as an Annex) forms the first part of the **commercial case** and provided initial assurance that the scale of the delivery challenge, whilst large, was manageable.

The six delivery options set out below were formulated following over 30 scenario workshops with internal Scottish Government and external stakeholders from across the benefits being devolved, possible new benefit areas and delivery focused leads. These scenario workshops asked these key stakeholders to describe the different possible things that the social security system could be doing in 2040. The focus was looking at how possible policy might translate into the physical things which might be needed in the system e.g. services, buildings, concession cards, helpline etc. This date was chosen to ensure that stakeholders were thinking about ‘steady state’ rather than transition.

These scenario workshops also gave these stakeholders the opportunity to frame the possible future discussion around the outcomes which the social security system would need to deliver using logic modelling based on the guidance from Evaluation Support Scotland. The outcomes from this exercise were included in the Social Security Consultation which ran up to the 28 October 2016.

In addition to following the standard HMT guidance on business cases and being aligned to both the Green Book and the “5 cases” model, the OBC is consistent with the wider approach taken by the Scottish Government in considering the wider socio-economic impacts.

3. Description of the options

Administration of social security benefits in Scotland is currently provided by the Department for Work and Pensions (DWP). This OBC assesses the six strategic options alongside the status quo option of DWP continuing to deliver.

The options have been identified based around the eight capabilities which will be needed to deliver existing benefits being transferred to Scotland plus any new or revised benefits. These eight capabilities were broken down into 78 sub capabilities that are delivered by 15 enabling functions. What differs between the options is who delivers these functions and where these functions operate within the existing Scottish public service landscape.

The options are:

- Option 1 - The agency centrally delivers social security in Scotland;
- Option 2 - The agency delivers social security in Scotland through local offices;
- Option 3 - The agency delivers non-discretionary benefits and local authorities deliver discretionary benefits;
- Option 4 - The agency delivers cash and benefits ‘in kind’ as goods, services or concessions;
- Option 5 - The agency provides governance but delivery of social security is done by others e.g. via procurement or a Service Level Agreement (SLA); and
- Option 6 - The agency provides governance but delivery is embedded in a range of existing public services.

How the options fit into the existing landscape in terms of delivering the 15 functions is illustrated by the following figure.

	Option 1 central agency	Option 2 agency and local offices	Option 3 LAs as local offices	Option 4 benefits in kind	Option 5 delivery by others	Option 6 existing public services
Capabilities	Queries/ General Enquiries	Agency - central	Agency and LAs	Agency (central or local)	Other organisation	Existing public services
	Pre Claim/ Support Services [1]		LAs		Agency / Other Organisation	
	Administration - assessments					
	Administration - other [5]				Agency	
	Dispute Resolution [2]		Agency and LAs		Agency / Other Organisation	
	Error Management/ Investigation [3]	Agency - central		Scottish Government		
	Continuous Capabilities					
	Management Information [4]					
	Centralised Functions					
	Centralised Functions - Policy and Strategy				Agency	
System features	In Kind functions					
	Who makes payments to those in receipt of benefits	Agency	Agency and LAs	Agency	Other organisation	Existing public services
	IT system	1 new central system	1 central and 4 LA systems	1 new central system	Other organisation plus agency system	Existing IT systems developed further
	Access to social security (with exception of assessment)	Online/ phone/ post	Online/ phone/ post/ face-to-face	Online/ phone/ post/ face-to-face	Other organisation	Online/ phone/ post/ face-to-face
	UC flex			DWP		
<p>[1] Existing advice and support services in Scotland would continue to provide independent advice, support and advocacy in all options.</p> <p>[2] For dispute resolution some functions would continue to be undertaken by others such as tribunals and ombudsman</p> <p>[3] Some functions of Error management / Investigation would continue to be undertaken by existing public services for all options.</p> <p>[4] The agency would also produce a range of management information with Scottish Government in all options.</p> <p>[5] The agency would retain decision making functions.</p>						

These options are constructed in such a way that “hybrids” that combine different aspects of different options can be constructed easily. Given the complexity of social security it is anticipated that the preferred option is likely to be a hybrid of these 6 initial options. In addition, Option 2 is broken down into two sub-options (2a and 2b) which vary the amount of processing that is undertaken locally versus centrally to illustrate the impact on costs although the socio-economic and commercial cases do not make this distinction.

These options are initially compared in terms of costs to the public sector in Scotland against a theoretical option 0 of DWP delivering on behalf of the SG. This is not a viable delivery option but is a theoretical construct and is required (in line with common practice) to act as a baseline for comparison.

The Strategic Case

The strategic case is, in essence, the political process that started with the Expert Working Group on Welfare in the run-up to the independence referendum and ended with the passing of the Scotland Act in 2016. Key milestones were the Smith Commission itself, the agreement on the Fiscal Framework between the Scottish and UK Governments and publication of the vision and principles for social security in Scotland in March 2016.

OUR VISION: SOCIAL SECURITY IS IMPORTANT TO ALL OF US AND ABLE TO SUPPORT EACH OF US WHEN WE NEED IT

The Scottish Government issued a public consultation to inform the content of the new Scottish Social Security Bill. The consultation was in three parts, covering:

- a principled approach;
- the devolved benefits;
- operational policy.

The consultation contained a total of 234 questions. The responses to the consultation was published as A New Future for Social Security in Scotland - Analysis of Written Responses to the Social Security in Scotland Consultation¹ on 22nd February 2017. The views of the people of Scotland, as expressed in this document, have had a major, abiding and important influence on how this OBC has been undertaken and on the decision that this OBC makes in terms of a preferred option.

The Financial Case

In order to provide an informed body of evidence to support the decision of what form the agency will take, and to allow a meaningful comparison of the different options, a number assumptions underpinning the presentation of the running costs in steady state have been made. These assumptions are common across the different options and include assumptions around caseloads and the costing of the functions and capabilities.

Following the development of the options, the Current Activity Based Model (CAB-M) was developed to enable them to be costed. CAB-M is an Excel based model which uses detailed activity based information from DWP on the administration of the benefits we are receiving as part of further devolution. This activity based information from DWP is then used to estimate the activity needed for Scotland to administer the benefits going forward by applying caseload forecasts for devolved benefits in Scotland in 2020-21 to estimate steady state costs.

An important point is that digital costs are handled differently in line with HMT guidance for this area. This work is subject to significantly greater variation than the rest of the analysis and has been accompanied by detailed work exploring the specific sensitivities as well as an appropriate treatment of optimism bias.

This steady state costings work forms the basis of the **financial case**. The steady state costings for each option are shown in the following table. These include all costs for the agency and core Scottish Government. The figures are based on assumptions about policy decisions that may change and should not be considered as final estimates of cost. They are sensible estimates of the relative costs of the options based on a number of sensible assumptions.

¹ <http://www.gov.scot/Publications/2017/02/1068>

Cost Estimate		
Option 0	£155m	Represents an SG estimate of the costs of the DWP calculated on an equivalent basis to the costings of the other options.

Range of Cost Estimates			
Option 1	£145m	to	£180m
Option 2a	£170m	to	£210m
Option 2b	£165m	to	£205m
Option 3	£145m	to	£180m
Option 4	£150m	to	£190m
Option 5	£165m	to	£200m
Option 6	£225m	to	£275m

The estimated DWP costs are SG estimates based on the low-level data supplied by DWP, calculated on the same basis and scaled in the same way as the options to projected caseloads for 2020-21. They are not the costs faced by DWP in Scotland at present and assumptions have been prudently made to provide a realistic baseline. The actual costs of DWP changing their systems on an ongoing basis to deliver a theoretical option 0 are unknown and crucially would be additional to the costs illustrated above. Evidence and experience tells us those additional costs would not be insignificant, and would therefore increase the cost of option 0 beyond the estimate given above.

The table shows that options 1, 3 and 4 are potentially less costly than option 0. Specific sensitivities around the breakdown of costs and the impact on overall costs, illustrate that the cost-ranking of options is not very sensitive to variations in the scale of individual cost elements. These ranges include Optimism Bias (OB) a technique for accounting for the tendency for optimistic estimates and contingency.

The Socio-Economic Case

Standard Green Book techniques are used to assess the overall socio-economic impact of the benefit expenditure. This approach is broad and does not enable the specific delivery characteristics of each option to be monetised. This analysis is combined with the costs to form a standard cost-benefit analysis by option that allows the calculation of a Net Present Value (NPV) (the net position taking into account the benefits and costs) and a Benefit Cost Ratio (BCR) – the value per £1 of public spending.

Option	Overall NPV and BCR						
	Overall NPV (£million) BCR(=PVB/PVC)						
	1	2a	2b	3	4	5	6
Population growth (0.3%)	5,680 3.16	5,290 2.75	5,360 2.81	5,690 3.17	5,570 3.03	5,440 2.89	4,310 2.08
Constant population (0% growth)	5,480 3.16	5,100 2.75	5,160 2.81	5,490 3.17	5,370 3.03	5,240 2.89	4,150 2.08
O65 population (3% growth)	8,050 3.00	7,490 2.61	7,580 2.67	8,060 3.01	7,890 2.87	7,700 2.74	6,100 1.97

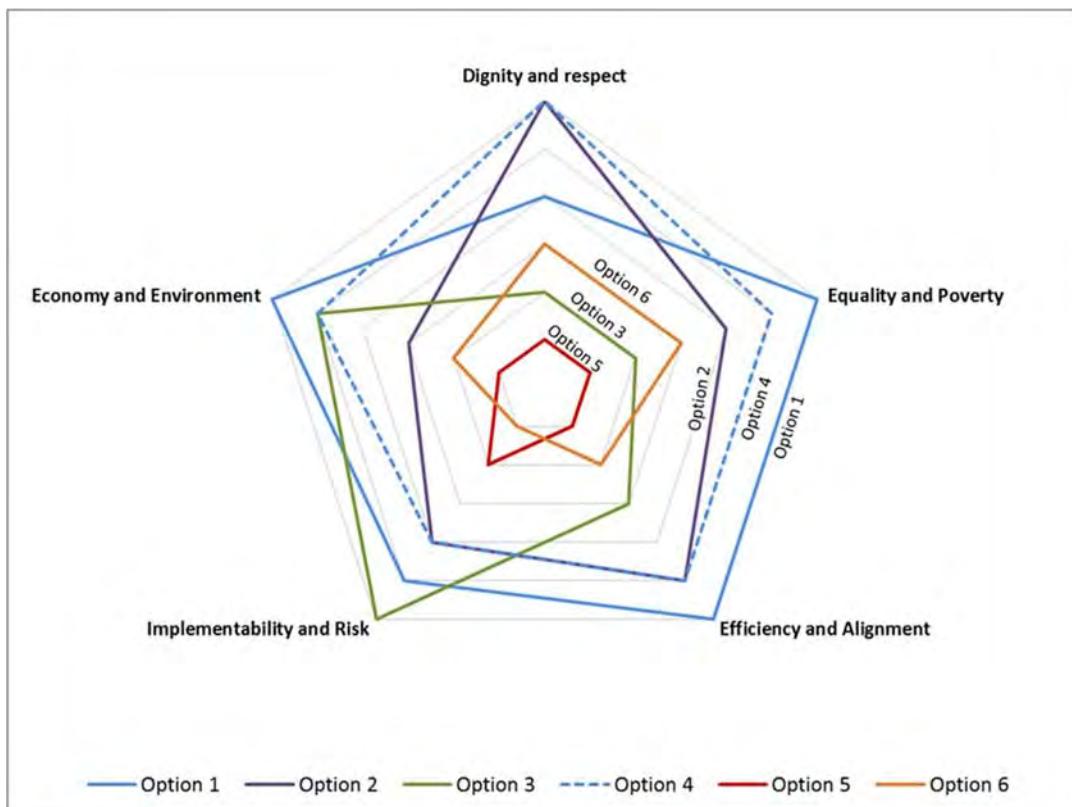
This analysis, although limited in its power to choose between options, is a strong demonstration of the overall value of the system – the expenditure on the benefits and the cost of doing so. In terms of the BCR, in pure monetary terms any of the options represents strong technical value for money. By way of comparison, a BCR of greater than one demonstrates that the benefits are greater than the costs and a BCR greater than around 1.3 does so whilst taking into account that government expenditure needs (to a greater or lesser extent at the UK level) to be funded by tax receipts. All options show significant “value-for-money”.

Given that the characteristics of the options are complex and are not easy to capture in monetary terms, a more subtle approach to assessment - a multi-criteria analysis (MCA) - is used to illustrate the impact on the people of Scotland of the options. Multi-criteria analysis refers to a set of techniques for comparing policy options without assigning monetary values to their impacts. MCAs are a good augmentation to Cost-Benefit Analysis where there is insufficient information about monetary values or deriving those is impractical. In this specific case the analysis is able to distinguish between the options in a way that would not otherwise be possible. A MCA can take several forms but the approach followed in this OBC is to rank each of the six options against a number of criteria.

The criteria for the MCA, which were developed from a range of sources including the **strategic case** and shortlisted with the help of stakeholders, were grouped into the following five broad sets:

- Dignity and Respect
- Equality and Poverty
- Efficiency and Alignment
- Implementability and Risk
- Economy and Environment

Each broad set has numerous sub-criteria resulting in 27 individual criteria. Information was gathered via several different channels, including responses to *A New Future for Social Security - Consultation on Social Security in Scotland*, separate stakeholder engagement processes and internal expertise. This information was analysed and used to create the rankings of options against each individual criterion. These were then aggregated to give a score against each of the five criteria sets. The results are summarised in the Figure below and form the basis of the **socio-economic case**.



The Commercial Case

The commercial case includes a report on comparator agencies that illustrates that whilst the scale of the delivery challenge is high, there are already bodies within Scotland that act on a similar (if not identical) scale. The main part of the commercial case is an assessment of the commercial risk of the options (see table below) that concludes that option 1 and option 4 are the easiest to commercially deliver and that option 5 is the most difficult.

Option	Commercial Risk Rating
Option 0 – DWP continues/Do nothing.	HIGH
Option 1 - The Agency centrally delivers social security in Scotland.	MEDIUM
Option 2 – The agency delivers social security in Scotland through local offices.	MEDIUM - HIGH
Option 3 – The agency delivers most benefits, but local authorities provide the face to face contact for the social security system and additional benefits based on local need.	MEDIUM - HIGH
Option 4 – The agency delivers cash and benefits in kind as goods, services or concessions.	MEDIUM
Option 5 – The agency provides governance but the delivery of social security is done by others e.g. via procurement or a service level agreement.	VERY HIGH
Option 6 – Social security is embedded in a range of existing public services with the agency providing governance.	MEDIUM - HIGH

The Management Case

The purpose of this Management Case is to provide confidence that recognised project management methods and robust governance arrangements are planned or in place in order to deliver this specific project to time, cost and quality. Recognising that this project is pre-OBC decision, and represents the process of reaching a preferred option, the management arrangements articulated in this Case are appropriately generic and high level. Whilst the project is the agency, the nature of the decision path to the preferred option has meant that there is a wider discussion within this document. The management case should be considered as relating to what has been put in place to allow the preferred option to be taken forward from this point. This is wider than the agency itself but narrower than the entire system.

The Management Case largely responds to the question of achievability for the programme as a whole for which the Agency is the key component. It is important to note that, for this OBC, it has been written in an ‘option agnostic’ fashion, and recognises the significant delivery capabilities and management strategies that the wider programme will provide. Such programme-level capabilities will be assessed against industry best practice (e.g. P3M3) to ensure they are, and remain, fit for purpose. As such, the Management Case is purposely generic.

The programme has acquired a number of highly skilled transformation specialists and is utilising their extensive experience in order to help direct and govern the Programme, and ultimately to ensure that the strategic outcomes are realised. A dedicated HR Partner Manager has been embedded into the programme, as well

as actively recruiting for a fulltime Resource and Asset Manager. Also, early recruitment of the Agency's senior management team will help ensure appropriate sponsorship and ownership.

The programme has initiated a significant 'Lessons Learned' activity where individuals with project and programme experience within the public sector in Scotland can share their (relevant) 'Gone Well' and 'Not Gone Well' experiences. Furthermore, the programme will place all of its arrangements under continual improvement, and will seek to regularly learn from and share any new lessons.

Whilst the enormity of the task to create a fully capable and compliant agency should not be underestimated, there is no known 'show stopper'.

Towards a preferred option

The next stage was to bring all five cases together.

The multi-criteria analysis (MCA) in the **Socio-economic case** strongly suggests that option 1 or option 2 represent the best scoring options across the five criteria overall. In terms of costs in the **Financial case** option 1 and option 3 are very similar but option 3 scores considerably lower on all of the criteria except "Implementability and risk" in the MCA.

The **strategic case** demonstrated the importance placed by Ministers on the dignity and respect criteria but also the importance of a smooth transition from the existing system. Option 1 scores somewhat weaker than option 2 on the first of these and weaker than option 3 on the second.

The **commercial case** rates option 1 as the lowest (medium) risk along with option 3 with option 2 being rated as medium high. The commercial case confirms the ruling out of options 5 and 6 via the MCA or on costs grounds due to high commercial risks. Whilst the managerial case does not specifically rule out any option it does suggest the scale of the task and reinforces the strategic case around the importance of Implementability.

In conclusion, out of the 6 options it is clear that option 1 represents the best value. It is the joint lowest cost and scores overall best in both the socio-economic and commercial cases.

However, aspects of the **strategic case** suggests that some areas where option 1 does less well than other options are important. Specifically, these are some aspects of Dignity and Respect around the availability of local support (from option 2), easier Implementability (in some respects) of option 3 and the importance of a high quality system of assessments (the processes by which eligibility for benefits is determined) that could draw on a range of possible alternatives.

Based on above the following three Hybrid options were constructed for both the system and for assessments. The three hybrid options for the delivery system considered are:

- *Hybrid X* - a central agency with enhanced phone and online support, which incorporates face-to-face pre-claims and support services locally in existing public sector locations (a variant of option 1)
- *Hybrid Y* - a local agency model with one central and 8 local offices providing face-to face pre-claims and support and local caseload processing (a variant of option 2)
- *Hybrid Z* - a local agency model with one central and 32 local offices providing face-to face pre-claims and support and local caseload processing (a variant of option 2)

The three models of assessment are:

- *Model MA1* – Mobile agency staff conduct face-to-face assessments in people's homes and document-based assessments remotely.
- *Model MA2* - Agency staff conduct assessments in fixed office locations, which are existing health and social care settings (under Hybrid X) or agency's local offices (under Hybrids Y and Z).
- *Model MA3* – Existing NHS professionals sign up to be part of an assessment pool and are paid hourly by the agency for both face-to-face and document-based assessments.

The assessment hybrids can be utilised as part of any of the delivery hybrids. It should be noted that the additional analysis of the medical hybrids should not be thought of as excluding any other options at this stage. This is because the optimum form of assessments is dependent on policy decisions that have yet to be made.

The hybrids were costed and the costs are shown below. For Implementability reasons, local authorities remain in control of existing social security powers and the costs are presented in terms of the agency only (core Scottish government costs are excluded). Sensitivity analysis is also shown (Monte Carlo simulation is a technique for examining the sensitivity of cost estimates to changing assumptions).

Costs of the hybrids, under the current set of modelling assumptions (average cost after Monte Carlo simulation presented)

	MA1	MA2	MA3
X	£145.0m	£146.6m	£157.0m
Y	£149.3m	£149.8m	£167.1m
Z	£159.4m	£159.7m	£170.5m

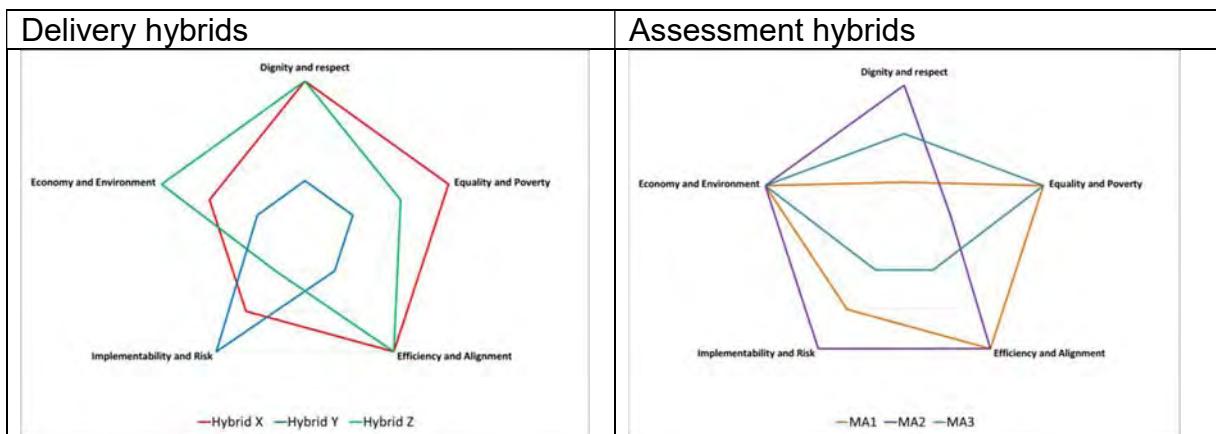
The figure below shows the uncertainty in these estimates, showing graphically that the distribution ranges from a low of around £130m to a high of about £190m. Again, these are not budget figures, they simply represent best estimates of the likely costs of different delivery models, and exist as an aid to decision-making,

where the difference between the estimates is more important than their absolute level.

Costs of the hybrids (point estimate from CAB model, with 5th percentile, mean and 95th percentile costs from Monte Carlo simulation)



The MCA analysis is repeated for the hybrids (accounting for the fact that the differences between the hybrids is much smaller than the differences between the original options).



It is worth noting that the 3 delivery hybrids already reflect the evidence within the strategic, commercial and management cases so the focus in moving to the preferred option is based on the MCA (or socio-economic case) results and the financial implications.

The analysis above is conclusive for the choice of delivery hybrid as hybrid X stands clear from the other two options. It is the best overall in terms of the MCA analysis and it has the lowest cost. As such, hybrid X should be considered the preferred option for the delivery structure of the agency.

Given the complex nature of the delivery landscape across Scotland, the choice of hybrid X as the preferred option for the basic form of the structure should not preclude adaptation to specific local needs. For instance, existing public sector locations may be limited in some areas so the agency could explore alternative options such as a mobile workforce or mobile offices or consider the use of a limited amount of its own offices if there would be strong local value.

The situation with assessments is much more complicated. Each of the three hybrids have advantages and disadvantages. Although the use of NHS professionals in hybrid MA3 is more expensive and is harder to implement when faced with the current situation it has advantages that could be developed in the context of wider change.

The optimum choice of assessment process will be dependent on decisions that are yet to be made around policy and practice. As such it is too early at this OBC level to reach a preferred option for assessments. All three assessments models examined as part of this section and indeed other variants which could include contracting to an external organisation could be implemented with any of the three hybrid options and with the preferred hybrid x in particular. This refines the preferred option overall, at this stage, to:

Preferred option - a central agency with enhanced phone and online support, which incorporates face-to-face pre-claims and support services locally in existing public sector locations and with assessments undertaken in a manner that is appropriate for policy choices that will be made as the final business case is progressed.

Estimates of the required staffing for this preferred option are subject to considerable variation based on detailed decisions yet to be made but it is reasonable to suggest that the central agency will be directly responsible for at least 1500 jobs (Full Time Equivalents) with a number of additional staff in other locations.

OUTLINE BUSINESS CASE FOR THE AGENCY FOR SOCIAL SECURITY IN SCOTLAND	1
FOREWORD	2
EXECUTIVE SUMMARY.....	3
LIST OF TABLES AND FIGURES.....	18
SECTION A: CONTEXT AND INTRODUCTION	20
1. INTRODUCTION	21
1.1 THE NATURE OF THIS DOCUMENT	22
1.2 THE SCALE OF THE DELIVERY CHALLENGE	23
1.3 LINK BETWEEN OUTLINE BUSINESS CASES AND OPTIONS APPRAISAL.....	25
1.4 SCALE, APPROACH TO OPTIONS AND CHALLENGE	27
1.5 THE FIVE CASES MODEL AND THE CHOICE OF THE PREFERRED OPTION FOR SOCIAL SECURITY.....	29
SECTION B: DESCRIPTION OF THE OPTIONS	30
2. METHOD OF OPTION FORMULATION AND COST ESTIMATION	31
2.1 OPTION GENERATION AND COSTING OF THE OPTIONS.....	32
2.2 CAPABILITIES NEEDED TO DELIVER SOCIAL SECURITY IN SCOTLAND	32
2.3 OPTIONS	33
2.4 DETAILED DESCRIPTION OF THE SIX OPTIONS.....	37
2.5 SUMMARY	46
SECTION C: FIVE CASES	47
3. THE STRATEGIC CASE.....	48
4. SOCIO-ECONOMIC CASE	55
4.1 STANDARD HMT APPROACH.....	55
4.2 USING MULTI-CRITERIA ANALYSIS TO SELECT THE BEST OPTIONS.....	58
4.3 DIGNITY AND RESPECT	60
4.4 EQUALITY AND POVERTY.....	70
4.5 EFFICIENCY AND ALIGNMENT.....	76
4.6 IMPLEMENTABILITY AND RISK	83
4.7 ECONOMY, SOCIETY AND ENVIRONMENT.....	89
4.8 ASSIGNING OPTION SCORES AGAINST EACH BROAD CRITERIA SET	100
5. FINANCIAL CASE	104
5.1 KEY ASSUMPTIONS	105
5.2 ESTIMATION OF COSTS.....	107
5.3 SUMMARY OF COST RANGES.....	112
5.4 FORMAL PRESENTATION OF PRESENT VALUE OF COSTS FOR EACH OPTION, NPV AND BCR	113
5.5 OPTIMISM BIAS AND CONTINGENCY FOR DIGITAL	115
5.6 SENSITIVITY OF COSTS TO OTHER FACTORS.....	117
5.7 POTENTIAL IMPACT OF IMPLEMENTATION	118
6. COMMERCIAL CASE	119
6.1 OVERVIEW.....	119
6.2 SUMMARY OF COMPARATOR AGENCIES WORK	119
6.3 COMMERCIAL RISKS.....	121
7. THE MANAGEMENT CASE	127
7.1 INTRODUCTION	127
7.2 BACKGROUND	127
7.3 METHODOLOGIES	127
7.4 ORGANISATIONAL STRUCTURE.....	128
7.5 POST PROJECT EVALUATION.....	129
SECTION D: MOVING TOWARDS THE PREFERRED OPTION.....	130

8. SELECTING THE BEST OPTIONS	131
8.1 RESULTS OF THE MCA	131
8.2 TAKING COSTS INTO ACCOUNT	134
8.3 OVERALL CONCLUSIONS ON VFM AND DRAWING IN THE OTHER CASES	135
8.4 CONSTRUCTING HYBRID OPTIONS	136
9. ASSESSMENT OF THE HYBRIDS AND THE PREFERRED OPTION	138
9.1 MCA ASSESSMENT OF HYBRIDS.....	138
9.2 MCA ASSESSMENT OF ASSESSMENT MODELS.....	139
9.3 COSTS OF THE HYBRIDS.....	141
9.4 THE PREFERRED OPTION	145
ANNEX A.....	147
10. DEVELOPMENT OF THE OPTIONS.....	148
10.1 OPTION 0 - DWP CONTINUES DO NOTHING/ STATUS QUO.....	148
10.2 OPTION 1 - THE AGENCY CENTRALLY DELIVERS SOCIAL SECURITY IN SCOTLAND.....	150
10.3 OPTION 2 - THE AGENCY LOCALLY DELIVERS SOCIAL SECURITY IN SCOTLAND THROUGH LOCAL OFFICES.....	154
10.4 OPTION 3 THE AGENCY DELIVERS MOST BENEFITS	156
10.5 OPTION 4 THE AGENCY DELIVERS CASH AND BENEFITS IN KIND AS GOODS, SERVICES OR CONCESSIONS.	160
10.6 OPTION 5 THE AGENCY PROVIDES GOVERNANCE BUT THE DELIVERY OF SOCIAL SECURITY IS DONE BY OTHERS	163
10.7 OPTION 6 SOCIAL SECURITY IS EMBEDDED IN A RANGE OF EXISTING PUBLIC SERVICES	167
ANNEX B.....	172
11. ESTIMATION OF COSTS.....	173
11.1 ESTIMATED COSTS OF OPTION 1 - THE AGENCY CENTRALLY DELIVERS SOCIAL SECURITY IN SCOTLAND.....	173
11.2 ESTIMATED COSTS OF OPTION 2 - THE AGENCY DELIVERS SOCIAL SECURITY IN SCOTLAND THROUGH LOCAL OFFICES	174
11.3 ESTIMATED COSTS OF OPTION 3 - THE AGENCY DELIVERS MOST BENEFITS, BUT LOCAL AUTHORITIES PROVIDE THE FACE-TO-FACE CONTACT FOR THE SOCIAL SECURITY SYSTEM AND ADDITIONAL BENEFITS BASED ON LOCAL NEED	175
11.4 ESTIMATED COSTS OF OPTION 4 - THE AGENCY DELIVERS CASH AND BENEFITS IN KIND	177
11.5 ESTIMATED COSTS OF OPTION 5 - THE AGENCY PROVIDES GOVERNANCE BUT THE DELIVERY OF SOCIAL SECURITY IS DONE BY OTHERS E.G. VIA PROCUREMENT OR A SERVICE LEVEL AGREEMENT.....	179
11.6 ESTIMATED COSTS OF OPTION 6 - SOCIAL SECURITY IS EMBEDDED IN A RANGE OF EXISTING PUBLIC SERVICES WITH THE AGENCY PROVIDING GOVERNANCE.	180
ANNEX C.....	186
12. OVERVIEW OF PUBLIC BODIES WHICH PROVIDE SIMILAR FUNCTIONS	186

LIST OF TABLES AND FIGURES

TABLE 1 - CURRENT BENEFIT SYSTEM	49
TABLE 2 - KEY MILESTONES FOR EXPERT WORKING GROUP (EWG) ON WELFARE	49
TABLE 3 - SUMMARY OF SMITH SOCIAL SECURITY POWERS	51
TABLE 4 - WEIGHTING SOCIAL SECURITY SPENDING BY RELATIVE PROSPERITY	56
TABLE 5 - OPTION PERFORMANCE AGAINST ALL INDIVIDUAL CRITERIA	99
TABLE 6 - OVERALL RANK BY EACH MAIN CRITERIA IN MCA	103
TABLE 7 - COMPARISON OF COSTS	112
TABLE 8 – PRESENT VALUE OF COSTS (PVC) AND PRESENT VALUE OF BENEFITS (PVB)	114
TABLE 9- NET PRESENT VALUE (NPV) AND BENEFIT COST RATIO (BCR)	114
TABLE 10 - STANDARD OB UPLIFTS	116
TABLE 11 - BCR INCLUDING 200% DIGITAL OPTIMISM BIAS	117
TABLE 12 - SENSITIVITY OF COST RANKINGS TO CHANGES IN COSTS OF INDIVIDUAL CAPABILITIES	117
TABLE 13 - SIZE OF COMPARATOR BODIES	119
TABLE 14 - VOLUME OF WORK OF COMPARATOR AGENCIES	121
TABLE 15 - OVERALL RISK RATING FOR EACH OF THE OPTIONS	122
TABLE 18 – COSTS OF THE HYBRIDS (AVERAGE COST)	143
TABLE 19 - COSTS OF THE HYBRIDS (POINT ESTIMATES)	143
TABLE 20 – BREAKDOWN OF COSTS (POINT ESTIMATES) IN THE HYBRID OPTIONS.	143

FIGURE 1 – TOTAL BENEFIT EXPENDITURE IN SCOTLAND 2015/16	23
FIGURE 2 - BREAKDOWN OF BENEFIT EXPENDITURE IN SCOTLAND 2015/16 ON BENEFITS TO BE DEVOLVED	24
FIGURE 3 - CRITERIA USED IN MCA	26
FIGURE 4 - USER EXPERIENCE NARRATIVE FOR OPTION 1	35
FIGURE 5 - SOCIAL SECURITY FUNCTION OVERVIEW	36
FIGURE 6 - FUNCTION OVERVIEW FOR ALL OPTIONS	45
FIGURE 7 - DESCRIPTION OF OPTIONS	46
FIGURE 8 - PRINCIPLES FOR SOCIAL SECURITY	52
FIGURE 9 - SOCIAL SECURITY SPENDING BY INCOME DECILES	56
FIGURE 10 - ACTUAL AND WEIGHTED SOCIAL SECURITY SPENDING	57
FIGURE 11– FULL LIST OF CRITERIA AND THEIR GROUPINGS	59
FIGURE 12 - FISCAL FRAMEWORK BOX-OUT	105
FIGURE 13 - FTES IN EACH OPTION (AGENCY/SG AND PUBLIC SECTOR)	113
FIGURE 14- GOVERNANCE STRUCTURE	128
FIGURE 15 - PROJECT GOVERNANCE	129
FIGURE 16 - RESULTS OF THE MCA	131
FIGURE 17– MAIN SOCIAL SECURITY SYSTEM FUNCTIONS	137
FIGURE 18 - MCA FOR HYBRID DELIVERY STRUCTURES	139
FIGURE 19 - MCA RESULTS FOR ASSESSMENTS	141
FIGURE 20 - COSTS OF THE HYBRIDS (POINT ESTIMATE FROM CAB MODEL, WITH 5 TH PERCENTILE, MEAN AND 95 TH PERCENTILE COSTS FROM MONTE CARLO SIMULATION)	143
FIGURE 21 - CAPABILITIES NEEDED TO DELIVER SOCIAL SECURITY	171

SECTION A: CONTEXT AND INTRODUCTION

1. Introduction

1. The devolution of social security to Scotland is an integral part of the Scottish Government's wider constitutional reform agenda following the Scotland Act 2016.

1.1. In March 2016 the Scottish Government announced that: "The social security system in Scotland can be seen to have a number of levels of delivery. This ranges from the governance of the entire system, the back room delivery functions which will process applications and arrange for payments to be made etc. to the user interface where customers will interact with the system. This system is in the process of being appraised over two stages."

1.2. A report was published² on our initial high level appraisal around the governance of social security in Scotland and the strategic case for change. It found that the governance body should have close links to Scottish Ministers and be flexible enough to respond as the social security landscape in Scotland unfolds.

1.3. Flexibility means having the capacity to expand and take on new work as well as being able to continually improve. A central agency with access to the wider resources of the Scottish Government family was seen as being able to deliver this flexibility. Ministers therefore decided that social security in Scotland should still sit within the Scottish Government family in order that it might be able to draw upon the strengths and resources of the parent organisation, when needed.

1.4. The work leading to this point, although not formally written up as such, was the process by which a case for change was initially made. It forms, along with the wider political debate and narrative around further devolution following the Independence Referendum, the Strategic Outline Business (SOBC) case for social security delivery in Scotland.

1.5. Subsequently, work was undertaken to formally examine the potential options for delivery of social security in Scotland within the context of the decision to do so in the form of an agency. Work undertaken to extend the initial options appraisal into this second stage forms the bulk of the Socio-Economic Case and Financial case of this OBC.

² <http://www.gov.scot/Topics/People/fairerscotland/future-powers/Publications/Delivery>

1.1 The nature of this document

1.6. The nature of social security delivery is complex and is very different to a standard government investment project, particularly those of a capital nature.

Whilst this OBC follows HMT guidance on the construction of business cases³ it does so in a way that is consistent with the wider approach taken across Scottish Government that extends the narrow focus of the economic case under HMT guidance to consider the wider socio-economic impacts.

1.7. The form and structure of this OBC is driven by these factors. An initial section (Section A) discusses the context of the work and the approach undertaken.

1.8. Social security delivery within an agency could take many forms. Section B of this document details the process that was followed to develop the six options that are initially examined in this OBC. These options are primarily about how delivery takes place and who or what undertakes different components. The options are defined from the “bottom-up” in terms of the activities that a social security delivery system needs to undertake.

1.9. Section C applies the five cases approach. It examines the **Socio-Economic** and **Financial** Cases for the six options. An overview of the recognised Programme and Project Management (PPM) methodology being used and governance structures is covered in the **Management** Case. It also revisits the **Strategic** case as discussed above and updates the position to take account of recent developments. Not least amongst this is the consultation on Social Security undertaken in 2016, the results of which are published as “A New Future for Social Security in Scotland”.

1.10. The six options, crucially, represent a wide spectrum of possible delivery options. Each option would require very different contracting and procurement process and indeed would require significantly different organisational structures to deal with commercial aspects and interactions with other organisations. This means that the **Commercial** case developed in Section C is more about exploring these issues than providing detailed information on the specific way in which delivery would be taken forward.

1.11. Drawing together the evidence across the five cases leads to the creation of three hybrid options in Section D that represent the best combination of components of the options in terms of their ability to deliver against outcomes and their financial implications. These hybrids are assessed and this leads to the choice of a preferred option that forms the recommendation of this OBC.

1.12. In terms of the Financial case, it is important to note that the costs of administering these benefits refers to the staff, non-staff resources and infrastructure costs which will be needed under each option on an on-going basis, it does not include the amount paid out to those in receipt of benefits. The Fiscal

³ <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

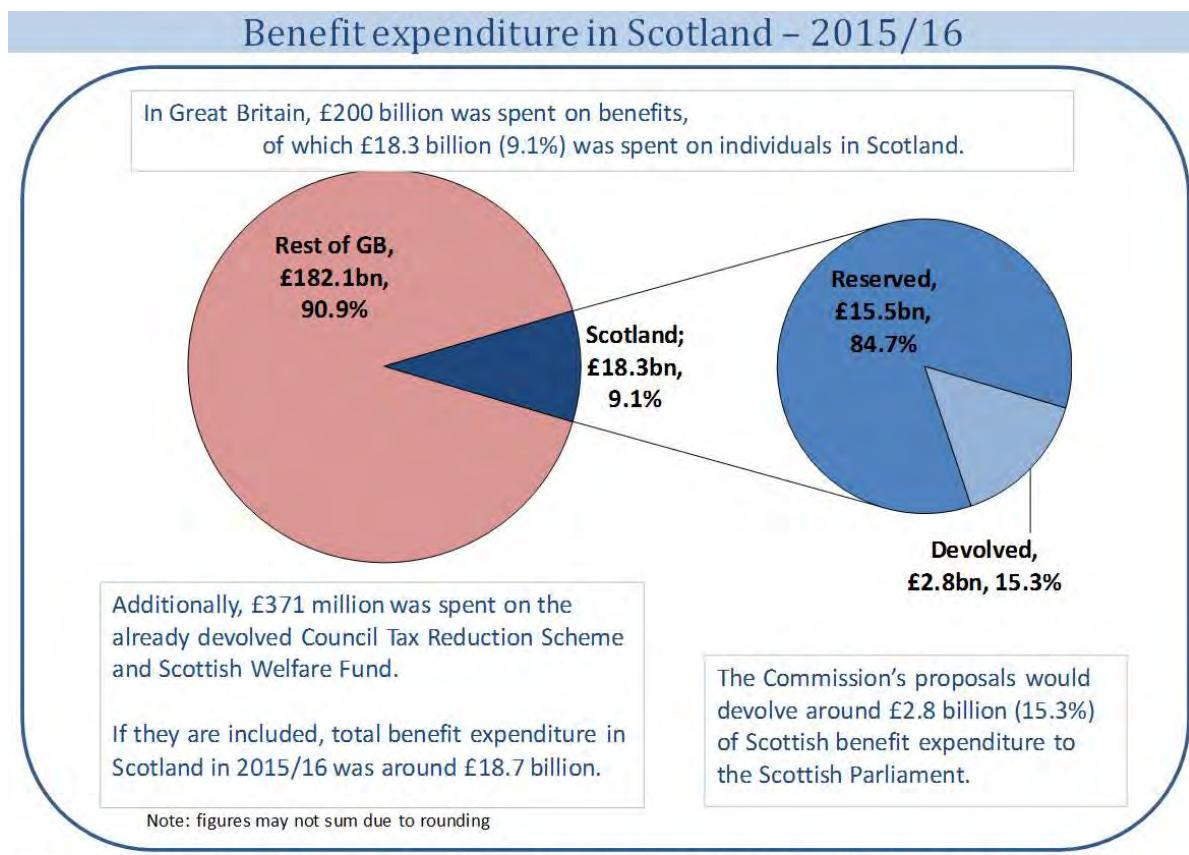
Framework (detailed in the Strategic case in Section 3.12) between the UKG and SG makes provision for this money (based on equivalent DWP expenditure) to be transferred to Scotland. There are financial implications if the SG alter the nature of the benefits being transferred, top-up existing benefits or create new ones but these are future policy decisions that are not considered in this OBC.

1.13. Nor does this OBC examine changes in delivery policy from the current system. It is very clear that changes to this, specifically around the nature and frequency of assessments will have large impacts on the on-going costs and the expenditure on benefits. These decisions have not yet been made and are thus not considered at this point. However, within the Financial case, sensitivity analysis is undertaken on likely policy variation to ensure that such variation would not lead to different choices between the delivery options.

1.2 The scale of the delivery challenge

1.14. Expenditure on benefits in Scotland in 2015/16 was £18.3bn, 9.1% of the GB total. Of this 15.3% or slightly less than £3bn is to be devolved. See Figure 1 below.

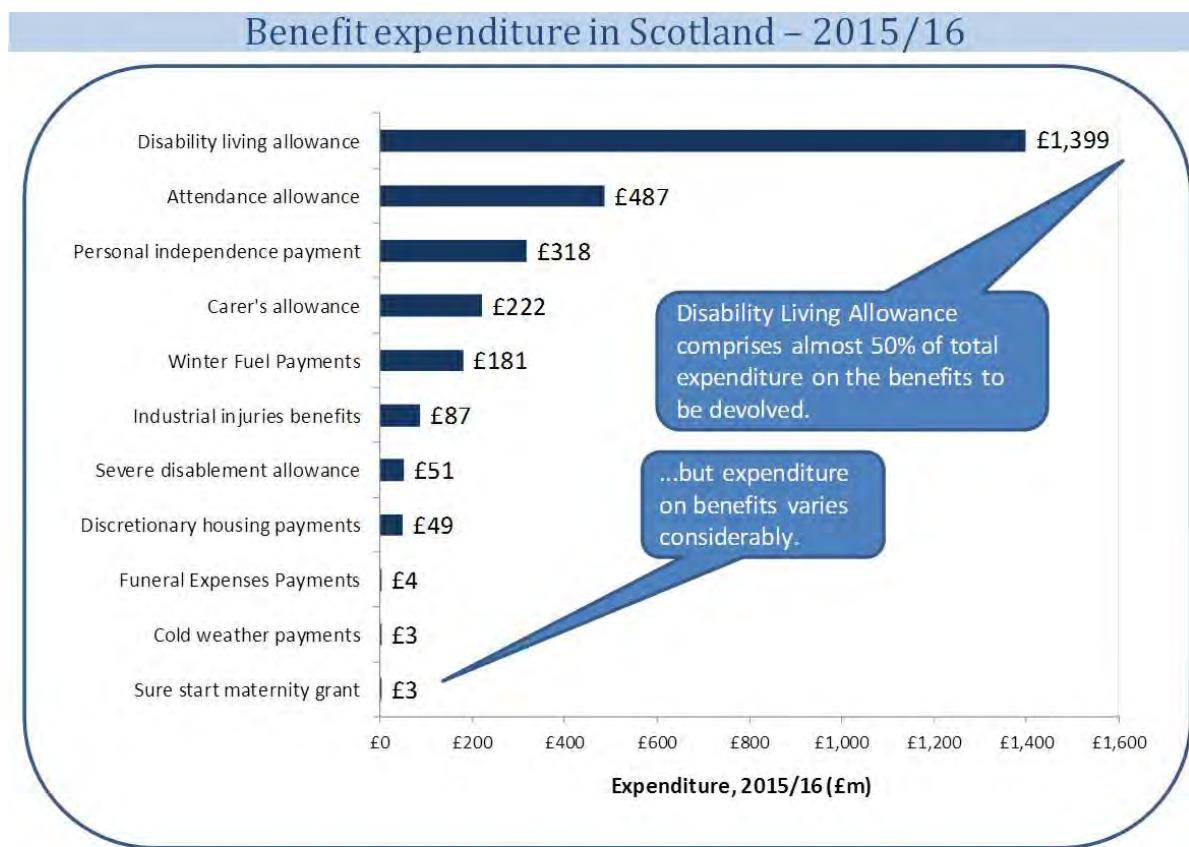
Figure 1 – Total Benefit expenditure in Scotland 2015/16



Sources: DWP Outturn and Forecast: March Budget 2016, DWP benefit expenditure by Region 1996/97 to 2015/16, HMRC Tax Receipts between England, Wales, Scotland & Northern Ireland, Scottish Welfare Fund Statistics: 2015/16, Council Tax Reduction: Caseload and Expenditure 2015/16.

1.15. Expenditure on benefits to help disabled people with the additional costs that they face, namely Disability Living Allowance (DLA) and Personal Independence Payment (PIP) and Attendance Allowance represent around 2/3rds of the expenditure. See Figure 2 below.

Figure 2 - Breakdown of benefit expenditure in Scotland 2015/16 on benefits to be devolved



Source: DWP benefit expenditure by region from 2000/01 to 2015/16. Industrial Injuries benefits includes IIDB. A further breakdown is unavailable.

1.16. The variation in size of the benefits to be devolved is significant as is their complexity. Most are not primarily dependent on income but on an individual's circumstances and health.

1.17. Administration of these social security benefits in Scotland is currently provided by the Department for Work and Pensions (DWP). Section B of the stage 2 options appraisal looks to estimate the costs of six options for providing this function out with DWP.

1.18. These are:

- Option 1 - The agency centrally delivers social security in Scotland;
- Option 2 - The agency delivers social security in Scotland through local offices;
- Option 3 - The agency delivers non-discretionary benefits and local authorities deliver discretionary benefits;

- Option 4 - The agency delivers cash and benefits ‘in kind’ as goods, services or concessions;
- Option 5 - The agency provides governance but delivery of social security is done by others e.g. via procurement or a Service Level Agreement (SLA) and
- Option 6 - The agency provides governance but delivery is embedded in a range of existing public services.

1.19. These options can be thought of as representing somewhat stylised views of the possible delivery landscape. See section 1.4 for an initial discussion and section 2 for a full elaboration. The following parts of this section provide wider context on the environment under which this OBC has been undertaken.

1.3 Link between Outline Business Cases and Options appraisal

1.20. This document is written as a formal OBC but it also provides a record of the Stage 2 appraisal of options for social security delivery in Scotland. The approach is based on HMT’s Green Book.

1.21. The appropriate form for an options appraisal under the approach common in Scotland is a neutral document that provides the evidence base for decision making but does not itself make the decision. For other examples, relating to appraisal see Scottish Transport Appraisal Guidance⁴ and more widely, Housing Need and Demand Guidance⁵. This is detailed in Section C of this document under the headings of the five case OBC model but Section C specifically and deliberately does not impose value judgements or reach a decision. As such, Section C of this OBC is similar to separate options appraisals conducted elsewhere in Scottish Government. Section D carries this process forward in order to arrive at a preferred option.

The completion of a study, as documented in a final report, allows the rationale behind a potential transport options to be presented in a clear, evidence-led manner and provides the information required by a decision maker to make an informed choice of the most appropriate options for design development. **STAG Technical Database Section 1.1**

The HNDA should be factual in scope and bring together the evidence upon which subsequent housing policy and planning policy decisions and interpretations should be based. **HNDA Managers Guide Section 8.1**

1.22. The standard approach within options appraisal is to compare options for an intervention against a base case when no action is taken. This is referred to as a

⁴ <https://www.transport.gov.scot/our-approach/industry-guidance/scottish-transport-analysis-guide-scot-tag/#>

⁵ <http://www.gov.scot/chma>

“Do-nothing” or a “Do-minimum” option. For social security this is assumed to be DWP continuing to deliver all benefits in Scotland. Convention dictates that this is referred to as option 0 but this should not be taken to imply that it is actively being considered as an option. This option is the basis of the cost model detailed in Section C. However, this option is not practically viable as it both counters the point of devolution and DWP would be unable to deliver it (and allow for any changes from the current system). As such its prime purpose is as a comparator on the costs (and the basis by which the costs of the options are assessed).

1.23. The nature of social security and specifically the determination of the form of the delivery of social security means that a standard cost-benefit approach is not sufficient to provide the information that is required to choose between options. This is demonstrated at the start of the Socio-Economic case – a standard Cost-Benefit analysis of the options is undertaken but is not helpful in assessing the characteristics of the systems (other than cost) that vary between the options. Instead, a multi-criteria approach (MCA) has been adopted to provide a broad spread of evidence to inform the socio-economic case. This includes drawing on submissions to the social security in Scotland consultation that ran from August to October 2016⁶ as well as a number of workshops with internal and external experts. The criteria used in the multi criteria analysis are shown in Figure 3 below and fully discussed in Section C.

Figure 3 - Criteria used in MCA



⁶ <http://www.gov.scot/Publications/2017/02/1068>

1.24. Note that each criteria has a number of sub-criteria. There is no weighting given to the criteria. Instead, the multi criteria analysis provides information on the benefits of the options against the range of criteria and, in a similar manner to Transport or Housing, it is down to the person making the decision to weigh the importance of that evidence against the associated costs.

1.25. The focus of the Financial case is to provide a steady state estimate of these costs. This is the typical annual cost for the social security system to operate normally. This normal operation would be characterised by each benefit having relatively small and smooth changes in numbers of people accessing them and administration costs year to year, although some degree of on-going change will be a part of the steady state social security system. Currently, two of the main benefits being devolved (Disability Living Allowance (DLA) and Personal Independence Payment (PIP)) are not in steady state, owing to the current transition of working age DLA claimants to PIP. Due to limitations on caseload forecast data, it is not possible to accurately predict long-term costs in, say, 2030. Therefore a simplification is made; administration costs are provided for 2020/21, on the basis that this is close to being in steady state. This relies on the assumption that all cases will have migrated from adult DLA to PIP.

1.26. In line with standard practice, the costs of each option are fixed in 2014-15 prices (based on the latest data available). This assumes that costs are constant in real terms. The Financial case then makes realistic and sensible assumptions about how caseload might vary in the future, based on demographics and projects the steady state costs forward. It also makes some basic assumptions about implementation costs, specifically regarding Information Technology. These are combined in a standard way to provide a measure of the long-term discounted cost of the system that would be found in any standard OBC. This is followed by a section that examines appropriate levels of optimism bias (OB) in terms of implementation costs.

1.4 Scale, approach to options and challenge

1.27. The scale of this options appraisal is unprecedented in Scotland in recent history. By way of comparison, an options appraisal was undertaken for the Forth Replacement Crossing (FRC) as part of a wider Transport Strategic Projects Review in 2006-7⁷. The final three reports are broadly equivalent to the material in this OBC and run to several thousand pages. Like the FRC work this OBC provides full detail of the analysis and thinking that will inform any decision.

1.28. The total cost of the FRC project, which was estimated to be between £1.325 billion to £1.350 billion as of winter 2015 is slightly less than half what the annual expenditure on social security will be in Scotland even if the administration and (initial) implementation costs are excluded. Whilst there are large differences between the operation of a social security system and the construction of an

⁷ <http://www.transport.gov.scot/project/forth-replacement-crossing/history-project>.

estuary crossing, the scale and importance of the decision over the form of the social security system in Scotland is clear.

1.29. Another way of thinking of the choice of options is that it provides the information necessary to answer a series of questions, each of which have two possible answers and some of which have follow-ups. Once these questions have been answered the form of the agency will become clear. These questions are:

- Should the social security agency administer / govern the administration of **all** devolved social security benefits in Scotland?
- Should social security in Scotland make some provision for face-to-face contact (through local offices) in addition to that which would be provided for assessment and how is it best to provide this?
If yes, should it be part of the agency or be in partnership with local authorities?
- Should we, as much as possible, aim to deliver social security through already available public sector services and organisations?
If so, should it be local authorities or other public sector organisations?
Should any aspect of social security be delivered by others such as the third or private sector?
- Should the agency deliver social security assessments for disability related benefits itself or work with others?
If others, should it be private/third sector or public?
If public should it be local authorities or other existing public services?
- Should the social security agency in Scotland be responsible for providing benefits in cash only or offer a choice of cash and non-cash options (e.g., discount cards, energy discounts, physical goods)?

1.30. And also a question in more general terms:

How best can we harness digital services for social security delivery in Scotland?

1.31. There are therefore five questions plus five sub-questions plus the consideration of digital which the options in this OBC aim to answer. To answer each question in a traditional manner by constructing all possible options would require a matrix of 2^{10} or 1024 options plus consideration to digital services. This would clearly be impractical. The approach taken of using the six options that are detailed in Section B allows these questions to be considered in a framework that is manageable. Note that these answers require an assessment of the benefits as well as the costs.

1.5 The five cases model and the choice of the preferred option for social security

1.32. The standard approach to government business case development follows the Five Case Model:

- Make a robust case for change – the 'strategic case';
- Optimise Value For Money in terms of economic, social and environmental benefit – the 'socio-economic case';
- Be commercially viable – the 'commercial case';
- Be financially viable – the 'financial case' and
- Be achievable – the 'management case'.

1.33. Section C of this document presents the current five cases for the social security agency. The complexity of the options means that the choice of the preferred option is a more complicated process than for many other projects or programmes.

1.34. Following Section C, Section D considers the merits of each of the six options in line with their respective costs. To account for the complexity of the system, Section D then constructs hybrid options based on the Socio-Economic and Financial cases that can best deliver the outcomes discussed in the Strategic case.

1.35. These hybrids are subjected to further analysis and a preferred option established as the conclusion of this outline business case.

SECTION B: DESCRIPTION OF THE OPTIONS

2. Method of option formulation and cost estimation

2. The six options set out below were formulated following over 30 scenario workshops with internal Scottish Government and external stakeholders from across the benefits being devolved, possible new benefit areas and delivery focused leads. These scenario workshops asked these key stakeholders to describe the different possible things that the social security system could be doing in 2040. The focus in this was looking at how possible policy might translate into the physical things which might be needed in the system e.g. services, buildings, concession cards, helpline etc. This date was chosen to ensure that stakeholder were thinking about ‘steady state’ rather than transition.

2.1. These scenario workshops also gave these stakeholders the opportunity to frame the possible future discussion around the outcomes which the social security system would need to deliver using logic modelling based on the logic modelling guidance from Evaluation Support Scotland. The outcomes from this exercise were included in the Social Security Consultation which ran up to the 28 October 2016.

2.2. Following the scenario planning events each possible future was mapped into 80 things which the social security system might do in the future. These were then thematically mapped into the six options laid out in this options appraisal.

2.3. Alongside this, work was undertaken to describe the capabilities and activities currently undertaken by DWP (based on 2014/15 data) in the administration of the benefits being devolved to Scotland. From this, current process maps were created. In addition, current activities undertaken by DWP across the benefits were modelled against the forecast for the number of people in receipt of benefits in Scotland in 2020/21, the latest year where a forecast was available. This amounted to 500 activities across the benefits being devolved from DWP. This modelling work enabled an estimate of option 0, the *status quo*, which is each option is compared against in this appraisal.

2.4. Following on from both these pieces of work, generic processes for the future social security system in Scotland were designed based on the assumption that benefits in Scotland would not be administered under different silos and the system would potentially need the capability to perform the core activities which occur under all options. These generic processes were then translated into high level functions and sub category functions that the social security system would need regardless of the option, and additional ones which related to one of the options only. Each of these were then mapped against each of the options in terms of who would provide each function.

2.5. Each option was then costed using data from 2014/15 based on caseload for Scotland uplifted to 2020/21. The number of people in Scotland estimated to be in receipt of benefit in 2020/21 was applied to the detailed activities needed to administer these benefits. These costs were then aggregated up into the eight high

level functions for the system as a whole (and separate in kind-functions for option 4) outlined below.

2.6. Different options were then applied to vary the costs e.g. full time equivalent (FTEs) in the agency, estate footprint, digital, other provider costs and assessment processes. The method for this is described under the cost estimates for each option and in annex A.

2.1 Option generation and Costing of the options

2.7. Section 5.2 of this Outline Business Case estimates the administrative costs of running devolved social security (excluding the costs that would fall to DWP) and provides evidence regarding long-term affordability of each of the options for Scotland. This section provides a link between the costings work and option generation.

2.8. It is therefore concerned with the likely on-going annual costs to the Scottish Budget in the potential ‘steady state’ for each of the options to meet those projected costs, and how far it differs in terms of costs from the status quo. This contrasts with section 4 which assesses the benefits of each option.

2.9. It should be noted that this Outline Business Case does not include an assessment of the costs that would be incurred by the existing independent advice and support sector, Ombudsman, Tribunal Service, and the Procurator Fiscal of devolving the benefits to Scotland. The impact of the devolution of social security to Scotland on these existing services will be explored separately at a later date. In addition, any charges DWP or HMRC would ask the social security agency to pay are also not explored in this Outline Business Case. These will be explored as part of the negotiations with DWP and added to the Final Business Case which will document the precise form and detail of the agency.

2.2 Capabilities needed to deliver social security in Scotland

2.10. Building on the existing service provided by DWP and the scenarios based mapping of what the future policy and service landscape might be in Scotland 8 functions were identified that would be needed in any social security system. These functions are to provide:

- Queries / General Enquiries;
- Pre Claim / Support Services;
- Administration (Application, processing/evaluation (including assessment), Award, Payment and Change of Circumstances);
- Dispute Resolution;
- Error Management/ Investigation;

- Centralised Functions (Corporate Functions, Business Development, Stakeholder Management/ Research / Support Services, Learning and Development, Policy and Strategy Development);
- Management Information and
- Continuous Capabilities (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government

In addition there is one area of functions (greyed out in the Figure 5 below) which would only be needed under option 4 of the appraisal. These are:

- ‘In Kind’ functions.

2.11. These eight functions have be further broken down into 78 sub category functions (See end of Annex A) which the social security system as a whole will need to provide in order to provide the basis for the detailed cost model.

2.12. There are 15 enabling systems that will be required to support these 78 functions:

- 1 Enabling Systems - Case Management System
 - 2 Enabling Systems - Contact Centre / Telephony
 - 3 Enabling Systems - Document Handling Solution
 - 4 Enabling Systems - Identity Management Solution
 - 5 Enabling Systems - Reporting and Statistical Modelling Solution
 - 6 Enabling Systems - Data Feeds and Interrogation
 - 7 Enabling Systems - Attribute Exchange
 - 8 Enabling Systems - Online Presence (website)
 - 9 Enabling Systems - Digital Access Solution (Web portal etc.)
 - 10 Enabling Systems - Payment Handling and Reconciliation System
 - 11 Enabling Systems - Knowledge Management Solution
 - 12 Enabling Systems - Data hosting
 - 13 Enabling Systems - Corporate accounting
 - 14 Enabling Systems - Development Environment
 - 15 Enabling Systems - Inventory / Stock Control etc.
-

2.13. Whichever option is taken forward for social security, most of these functions will be needed. What differs between the options is who delivers these functions and how these functions operate within the existing Scottish public service landscape.

2.3 Options

2.14. Each of the six options in the OBC set out a view of what the future delivery of the functions outlined above could look like in ‘steady state’ and include how assessment, the digital landscape and the user experience differ between each future. That is, who will deliver the functions and in what way. Steady state in this case differs from transitional arrangements and is focused on the system that will be in place in Scotland in the longer term.

2.15. The OBC aims to determine what social security system should be built to administer benefits in Scotland. The OBC concludes with a preferred option that will

form the basis of the final configuration of the system. This will be set out in detail in the Full Business Case.

2.16. It is standard practice to include a (theoretical) ‘do-nothing’ or “do-minimum” option against which all costs will be compared. The six options are compared to a do-nothing or status quo option. Social security powers are being devolved to Scotland and the creation of a Scottish social security agency has been announced. Whilst a theoretical do-minimum could be a minimal agency providing governance whilst DWP deliver the devolved benefits, such an option is neither feasible, practical or desirable. There is no appetite for DWP nor Scottish Ministers for this route and the costs of policy variance cannot be quantified. Most importantly, at an earlier stage of the process this option was ruled out.

2.17. A narrative around the user experience for each option has been constructed. These narratives are useful to see the detail of how the user experience would vary between options. They have also been constructed to offer a positive view of how a social security system should work for the people it helps in order to provide a frame for decision making. An example for option 1 is shown in Figure 4 and the rest can be found in annex A.

2.18. The detailed process by which each option is determined is to take the map of functions shown in Figure 5 and determine for each option:

- What the agency does;
- What the agency does not do;
- What changes occur to the status quo and
- What would this look like practically.

2.19. The options are examined in detail in the following section.

Figure 4 - User experience narrative for option 1

Option 1 - From the perspective of the person receiving the service

I saw an advert on the side of a bus about knowing what benefits people were entitled to. I went into the local Citizens Advice Bureau / disability rights organisation / housing support office and they explained I might be able to claim a disability benefit so I rang the Scottish social security agency on their phone line to find out. I have Tourette's and anxiety and don't really like speaking to people that I don't know and that don't understand my condition. Someone answered the phone quickly. The person asked if I had any particular communication needs and was friendly and supportive.

The agency staff talked me through applying for the benefit and what I needed to do over the phone. They said they could help me fill in the application over the phone and then send it to me to check or amend or I could fill it in online. I decided to fill it in online and set up an account to do this. Luckily I have my own laptop otherwise this would have been difficult and inconvenient. The online application system was easy to use and accessible, but I still found a few bits of it tricky. I phoned up the agency again and went over the tricky bits of my application with them over the phone. They helped me understand what the questions were trying to find out and what material I should include in my responses.

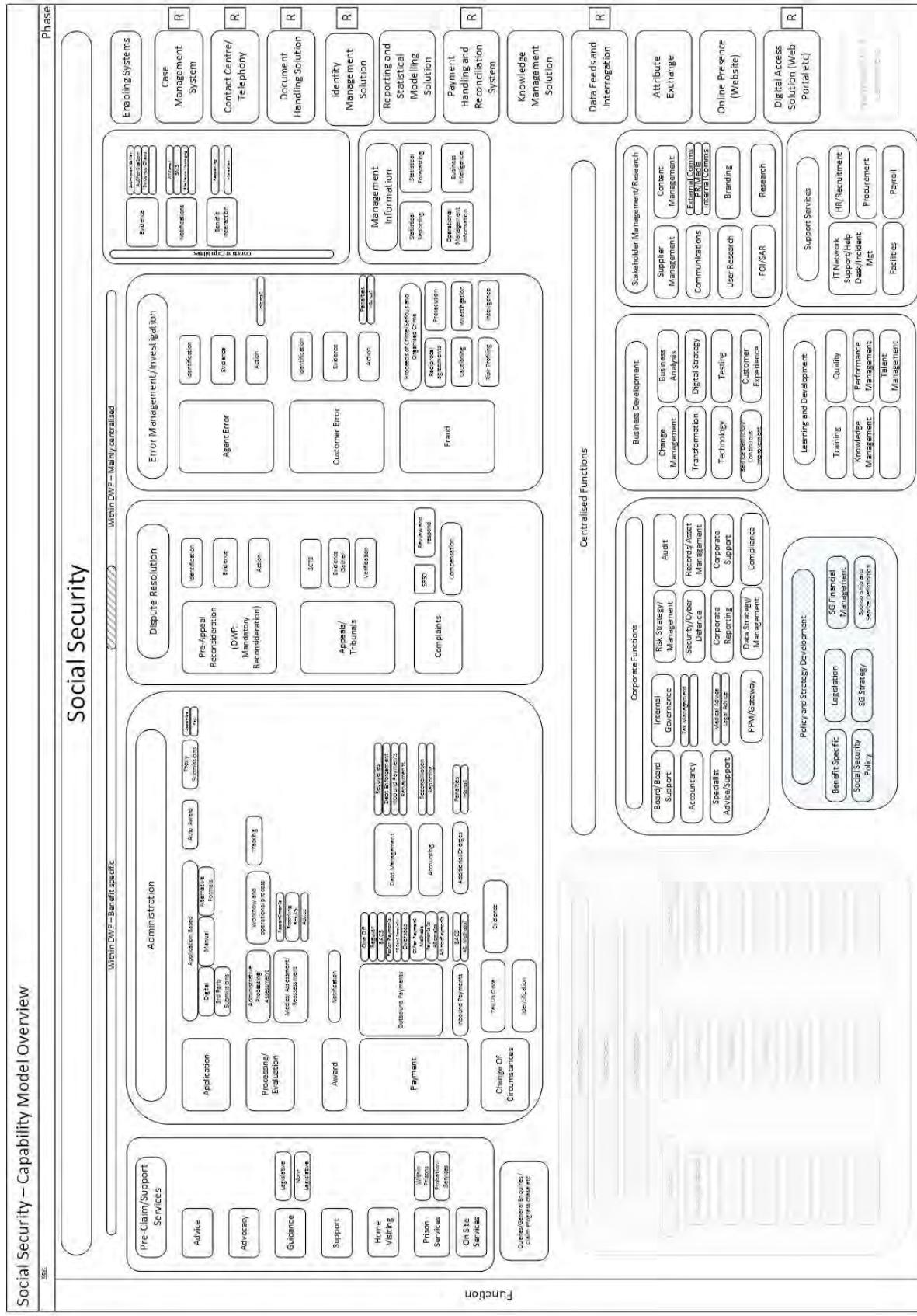
I gave permission for them to contact my doctor, consultant and mental health community nurse about my condition and verified my identity online. I got an email back saying the agency was processing my application and how long this would take.

Soon after that I had a call from the agency office explaining that I would need a face-to-face assessment and when the date was for this. The agency staff member talked to me about any concerns I had about the assessment and explained that they had useful information about my condition and circumstances but that someone with expertise in my condition would meet with me to understand how it impacted on my life and what could help. I also got a text message to confirm the date and time. The assessment was undertaken by a member of staff from the agency in my home. I was quite worried about it but was encouraged to bring someone with me and given written information about what would happen and why. The assessor wrote notes on his computer at the assessment but told me what he was writing and made sure that I was comfortable with it. I was told when I would receive a decision.

Once this had happened the agency informed me in an email and by letter that I would receive the benefit and that I could give some of this up to have access to a car from the Motability scheme. I liked having the choice but decided not to do this and wrote back to confirm this and my bank details. They informed me of the date for my first payment in an email they sent confirming payment arrangements. The payment was paid promptly after this into my bank account on a day I expected.

Six months later, I moved house. I phoned the social security agency about it and they said that I could log in to my account on the social security agency's website to update my address, but that I could phone them if I needed help with it. I found that it was straightforward and didn't need more help.

Figure 5 - Social Security function overview



2.4 Detailed Description of the Six Options

2.4.1 Option 1 - The agency centrally delivers social security in Scotland

What the agency does	<p>Under option 1 most aspects of the 8 functions outlined above would be undertaken by the social security agency. The agency would receive and answer queries and general enquiries. They would also administer benefits (application, processing/evaluation (including assessment), award, payment and change of circumstances). This would mean Assessment being undertaken by staff directly employed by the agency with no external involvement. The agency would undertake most error management and investigations. It would provide a range of centralised functions (Corporate Functions, Business Development, Stakeholder Management / Research / Support Services, Learning and Development). It would also produce a range of management Information with Scottish Government. It would also run a range of continuous capabilities (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government (see Annex A).</p>
What the agency does not do	<p>Functions the agency would not undertake in their entirety under option 1 include pre claim and support services, where existing advice and support services in Scotland would continue to provide independent advice, support and advocacy alongside advice and support given by the agency. The agency would, however, provide some aspects such as home and prison visits. This would also be the case for dispute resolution where some functions would continue to be undertaken by others such as tribunals and ombudsman and investigations where this would lead to prosecutions would be undertaken by the procurator fiscal. In addition policy and strategic development and some aspects of management information would be provided by Scottish Government (see Annex A).</p>
What changes occur to the status quo?	<p>Under option 1, the agency would take over responsibility for administering the social security benefits currently administered by others such as Local Authorities e.g. Scottish Welfare Fund. These would be paid as cash payments without the option of in kind as now (option 4 explores these being given as 'in-kind'). Universal Credit Flexibilities (these are where the timing and payee elements can be varied in Scotland) would be administered by DWP and the agency would provide appropriate support. It would take over control of the benefits being devolved to Scotland and work with DWP where Scottish benefits interact with reserved benefits.</p>
What would this look like practically?	<p>Under option 1 devolved social security in Scotland would be provided by a recognisable, branded agency. The agency would be housed in centralised headquarters (possibly in one or only a few locations), with a centralised caseload, IT capability and staff resource. As well as general corporate, HR and IT staff, there would be operational staff working to administer benefits and specialist staff for particular demographics (e.g. carers) and benefit related support (e.g. bereavement). In this option the agency would be accessed across Scotland in a largely remote way: mainly online, over the phone or by post. Assessments, where needed, would be undertaken across Scotland but not at fixed office locations with agency staff travelling out to these locations from their home or office base. Within the digital space the user interface would be consistent across all benefits administered by the agency and all access from a staff perspective will be familiar and similar. The user experience would be standardised and made as accessible as practical.</p>

2.4.2 Option 2 - The agency locally delivers social security in Scotland through local offices

What the agency does	Under option 2 what the agency does would be identical to option 1, the difference is how it will do this (see below).
the What agency does not do?	The only functions the agency would not undertake in their entirety under option 2 would be identical to those in option 1, see Annex A.
What changes to the status quo?	Under option 2, the agency would take over responsibility for the same things as in option 1.
What would this look like practically?	<p>Under option 2 social security in Scotland would be provided by a recognisable, branded agency. The agency would have a central headquarters, as well as a network of local offices, 'hubs' or mobile units managing local caseload and providing the face-to-face user interface with those applying for and in receipt of benefits. These offices would provide outreach to more remote areas, caseload management would be done locally as would assessment, along with some decisions, advice and support.</p> <p>Two variants of option 2 are considered. Option 2a has a larger central headquarters with more central functions whereas option 2b has a smaller headquarters with more processing in local areas. Further detail is given in section 5.2.3.</p> <p>The agency would have a staff resource divided into central headquarters staff who would not provide face-to-face contact and local staff providing face-to-face contact. The agency HQ would provide governance and management over centralised functions (such as IT and HR), but local offices would administer the benefits. The agency would be accessed across Scotland in a number of ways: online, over the phone, by post and face-to-face. Assessments, where needed, would be undertaken across Scotland at local office locations by local office staff or by these local staff travelling out to people's homes, prisons or more remote locations.</p> <p>The digital landscape for option 2 would involve local caseloads managed in local offices by agency employees. Local telephony to support local caseload management with centralised telephony for centralised administrative functions. Secure connectivity from local offices to a centralised IT capability administering all benefits will be in place to support localised working. Flexibility to access workload from any connected location subject to permissions and security rules with the ability to operationally flex the priorities and routing of the caseload for local access. Notifications and payments will be made by a central system with automated reconciliation. The user interface would be consistent across all benefits administered by the agency and all access from a staff perspective will be familiar and similar. These user interfaces would be designed to ensure that accessibility standards are met and exceeded where possible.</p>

2.4.3 Option 3 - The agency delivers most benefits, but Local Authorities provide the face-to-face contact for the social security system and additional benefits based on local need

What the agency does	<p>Under option 3 a dual landscape would operate with most aspects of the 8 functions outlined above being undertaken by the social security agency. The agency would receive and answer queries and general enquiries as well as centralised advice and support online and over the telephone. They would also administer the bulk of benefits at a national level (application, processing / evaluation (but not assessment), award, payment and change of circumstances).</p> <p>The agency would undertake most error management and investigations. It would provide a range of centralised functions (Corporate Functions, Business Development, Stakeholder Management/ Research/ Support Services, Learning and Development, Policy and Strategy Development). Under Option 3 this would however also include the development of nationally consistent guidance on social security to avoid a postcode lottery and providing funding to Local Authorities. It would also produce a range of management Information with Local Authorities and Scottish Government. It would also run a range of continuous capabilities (Evidence, Notification and Benefit Interaction) particularly between local authorities, DWP and Scottish Government.</p>
What the agency does not do	<p>Under option 3 Local Authorities would, alongside the agency, receive and answer queries and general enquiries. Local Authorities would also administer one off and crisis benefits at a local level (application, processing / evaluation, award and payment) via their existing systems. They would produce a range of Management Information for the agency and Scottish Government. They would also run a range of continuous capabilities (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government, see annex A.</p> <p>Under option 3 pre-claim and support services would be provided via existing advice and support services in Scotland who would continue to provide independent advice, support and advocacy alongside advice and support included in a face-to-face setting given by local authorities. With Local Authorities providing face to face support for applications, agency resources for telephone support are smaller in this option than in option 1.</p> <p>Local authorities would provide assessments, with the agency providing administrative support and decision making. Local Authorities would provide home and prison visits. The agency and Local Authorities would provide most, but not all of, dispute resolution (some functions would continue to be undertaken by others such as tribunals and Ombudsman) and investigations (where this would lead to prosecutions, these would be undertaken by the Procurator Fiscal). In addition, policy and strategic development and some aspects of management information would be provided by Scottish Government, see annex A.</p>
What changes occur to the status quo?	<p>Under option 3 the agency would govern the system but the delivery of benefits would be split between the Scottish social security agency and 32 local authorities. The agency will provide the bulk of benefits at a national level across Scotland. Additional benefits based on local need and for rapid response (short-term, one-off or occasional assistance based on local need) would be provided by local authorities (this would build on their current benefit administration e.g. SWF and DHP's). As in options 1 and 2, Universal Credit Flexibilities would be administered by DWP and the agency would provide appropriate governance over this arrangement. The agency and local authorities would take over control of the benefits being devolved to Scotland and work with DWP where Scottish benefits interact with reserved benefits.</p>

What would this look like practically?

Under option 3 a dual landscape would exist with both a social security branded agency and the 32 Local Authorities providing a service.

The agency would be housed in centralised headquarters (possible in one or only a few locations), with a centralised caseload, IT capability and staff resource, employed by the agency housed within it. As well as general corporate, HR and IT staff, there would be operational staff working to administer benefits and specialist staff for particular demographics (e.g. carers) and benefit related support (e.g. bereavement). In this option the agency would be accessed across Scotland in a largely remote way: mainly online, over the phone or by post. Within the digital space the user interface would be consistent across the benefits administered by the agency and all access from a staff perspective will be familiar and similar.

Local authorities would provide the 'front door' service for social security giving advice and support and helping with additional application needs alongside the existing services they already provide in this area. They would also provide assessments locally alongside the existing services and assessments they already provide around social care. Within the digital space local authorities could use their existing systems to administer benefits in a similar way to the existing Scottish Welfare Fund. These systems would need to link to the agency's systems. Alternatively, if agreed they could use the agency's digital systems.

2.4.4 Option 4 The agency delivers cash and benefits in kind as goods, services or concessions.

What the agency does	Under option 4 what the agency does would be the same as option 1 and 2 the difference is that it would also be providing benefits 'in kind' as well as in cash in the form of goods, services and concessions (see annex A).
What the agency does not do	The only functions the agency would not undertake in their entirety under option 4 would be identical to those in option 1 or 2, see annex A.
What changes occur to the status quo?	Under option 4, the agency would take over responsibility for the same things as in option 1 and 2.
What would this look like practically?	<p>Under option 4 social security in Scotland would be provided in the same way as in option 1 or option 2 either centrally or via local offices. The difference with this option is that as well as delivering cash benefits, the agency also delivers an array of benefits in kind. Under option 0 the status quo benefits in kind include Healthy Start vouchers, the Motability Scheme and items under the Scottish Welfare Fund. Under this option benefits in kind would cover these existing 'in kind' benefits and new ones covering 'goods' (e.g. carpets or fridges), 'services' (e.g. legal aid or caring/respite) and 'concessions' (e.g. discounts or travel cards). As well as the social security agency staff outlined in option 1 and 2, an additional staff resource would be brought in (either as permanent staff or by procurement contract) to procure and in some cases store and deliver the various types of benefits in kind and an IT system to cover inventory, stock control and delivery. The Motability Scheme would remain as it is under the status quo under this option as well as all others.</p> <p>If this option is a bolt on to option 1, pre-claim and support services would rely heavily on digital and phone routes for the user interface. If it was a bolt on to option 2, pre-claim and support services would be delivered through these routes as well as local offices. Therefore as a bolt on to option 2 face-to-face contact would also be available.</p> <p>In terms of decision and receipt, under option 4 receipt would take different forms, depending on whether the recipient is receiving a cash payment, benefits in kind or a mixture. Recipients could also be provided with a 'benefits smart card', which works in the same way as a payment card which would be preloaded with money. Where recipients receive benefits in kind, these would be delivered to their home address and in some cases fitted.</p>

2.4.5 Option 5 The agency provides governance but the delivery of social security is done by others e.g. via procurement or a Service Level Agreement.

What the agency does	Under option 5 a range of operational functions around pre claims support, enquiries, benefit processing and Assessment would be undertaken by others via procurement or an SLA rather than by the social security agency. This would mean that the agency would be much smaller than under other options like in option 6. The agency would however undertake decision making, dispute resolution and some error management and investigations. It would provide a range of centralised functions (Corporate Functions, Business Development, Stakeholder Management / Research / Support Services, Learning and Development) with much larger procurement and audit divisions. It would also produce a range of management Information with Scottish Government. It would also coordinate a range of continuous capabilities (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government, see Annex A.
What the agency does not do	Others via procurement or an SLA would receive and answer queries and general enquiries. They would also administer benefits (application, processing (including assessment), payment and change of circumstances). This would mean assessment being undertaken by others not directly employed by the agency with the potential for private sector involvement, as is the case under the current status quo. In addition in the area of pre claim and support services existing advice and support services in Scotland would continue to provide independent advice, support and advocacy alongside advice and support given by others via procurement or an SLA. Under dispute resolution some functions would continue to be undertaken by other existing providers such as tribunals and ombudsman and investigations where this would lead to prosecutions would be undertaken by the procurator fiscal. In addition, policy and strategic development and some aspects of management information would be provided by Scottish Government.
What changes occur to the status quo?	Under option 5, the agency would take over responsibility for governance of the social security benefits currently administered by local authorities e.g. Scottish Welfare Fund. These would be paid as cash payments (option 4 explores these being given as 'in-kind'). Universal Credit Flexibilities would be administered by DWP and the agency would provide appropriate governance over this arrangement. It would take over governance of the benefits being devolved to Scotland and work with DWP where Scottish benefits interact with reserved benefits. Others via procurement or an SLA would administer the benefits on behalf of the agency.
What would this look like practically?	Under option 5 the governance of social security in Scotland would be provided by a recognisable, branded agency. The agency would be housed in centralised headquarters (probably in one location), with a centralised IT capability and staff resource, employed by the agency housed within it. In this option the agency staff would be general corporate, procurement, audit, HR and IT staff employed by the agency. There would be additional operational staff working on specific aspects of benefits administration (disputes, appeals, error management /investigation, and decision making), with specialist staff for particular demographics (e.g. carers) and benefit related support (e.g. bereavement). Other administration functions (application processing, advice and support) would be undertaken by others on the agency's behalf. Contracted providers would be responsible for their own staff, estate, IT and telephony arrangements. How this would be specified would be up to the Scottish Government / agency and could include, or not include, face-to-face contact being available across Scotland as outlined in option 1 and option 2. Under this option there could either be a number of providers providing functions or only one or two - this would to some extent be determined by the way functions were procured or SLAs set up.

2.4.6 Option 6 Social security is embedded in a range of existing public services with the agency providing governance.

What the agency does	<p>Under option 6 a range of existing public services in Scotland rather than the social security agency would processes benefits. This would mean that the agency would be much smaller than under other options.</p> <p>The agency would however undertake some error management and investigations. It would provide a range of centralised functions (Corporate Functions, Business Development, Stakeholder Management/ Research/ Support Services, Learning and Development, Policy) with much larger procurement and audit divisions. It would also produce a range of management information with Scottish Government. It would also coordinate a range of continuous capabilities (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government, see Annex A</p>
What the agency does not do	<p>Other public sector organisations would receive and answer queries and general enquiries. They would also administer benefits (Application, processing/evaluation (including assessment), award, payment and change of circumstances). This would mean assessment being undertaken by others not directly employed by the agency with the potential, for example, for this to be done by the NHS or Local Authorities.</p> <p>In addition in the area of pre claim and support services existing advice and support services in Scotland would continue to provide independent advice, support and advocacy alongside advice and support given by the agency. Under dispute resolution some functions would continue to be undertaken by other existing partners such as tribunals and ombudsman and investigations where this would lead to prosecutions would be undertaken by the procurator fiscal. In addition policy and strategic development and some aspects of management information would be provided by Scottish Government, see Figure B below.</p>
What changes to the status quo?	<p>Under option 6, the agency would take over responsibility for governance of the social security benefits. Local authorities would continue to administer the Scottish Welfare Fund. Universal Credit Flexibilities would be administered by DWP and the agency would provide appropriate governance over this arrangement. It would take over governance of the benefits being devolved to Scotland and work with DWP where Scottish benefits interact with reserved benefits. Other public sector organisations would however administer the benefits with the agency providing guidance, monitoring and oversight.</p>

What would this look like practically?

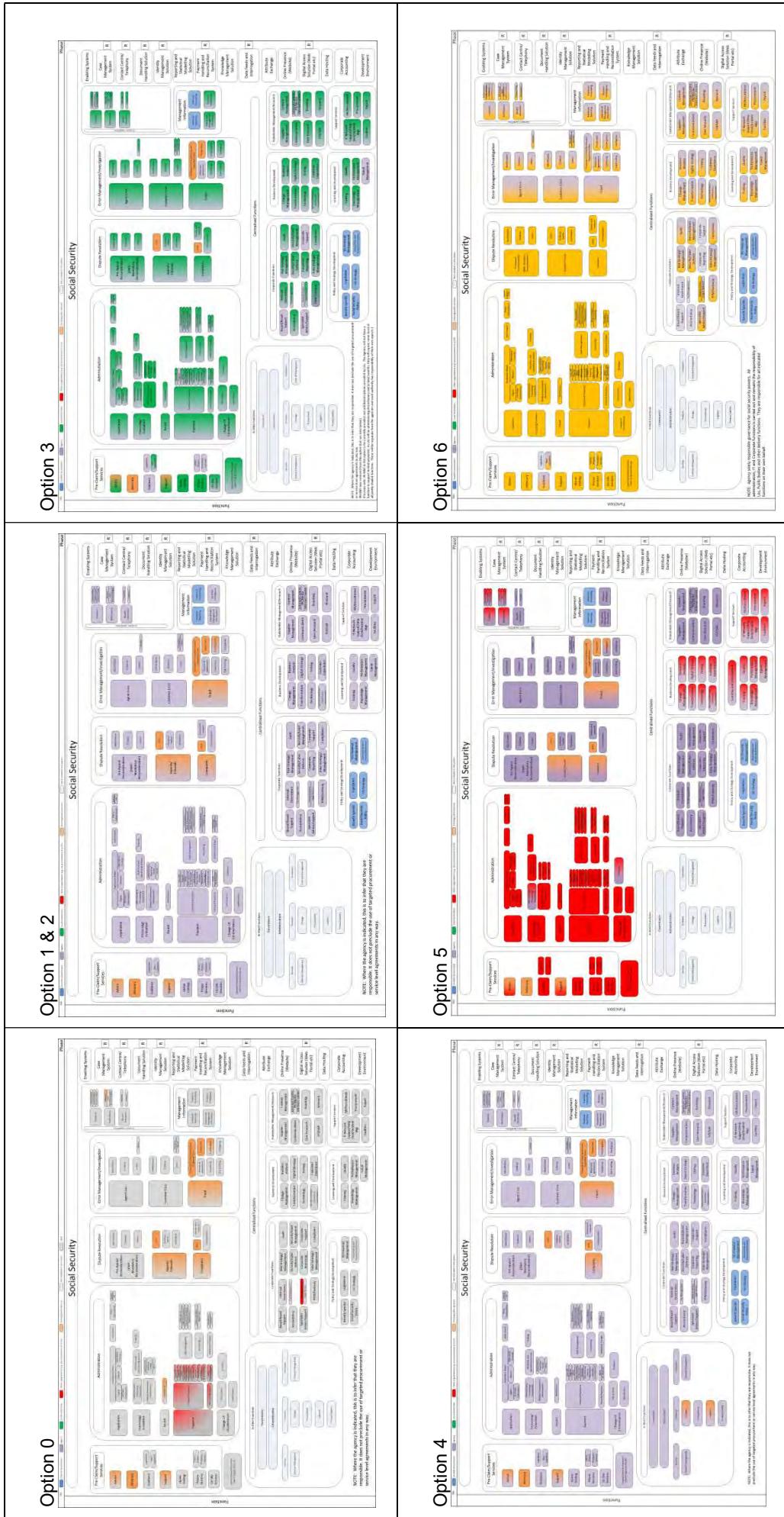
Under option 6 the governance of social security in Scotland would be provided by a recognisable, branded agency. The agency would be housed in centralised headquarters (probably in one location), with a centralised IT capability and staff resource, employed by the agency housed within it. In this option the agency staff would be general corporate, HR and IT staff employed by the agency, there would be no operational staff working to administer benefits, which would be undertaken by other organisations. There would, however, be specialist staff for particular demographics (e.g. carers) and benefit related support (e.g. bereavement).

Other public sector organisations would be responsible for their own staff, estate, and telephony arrangements. Guidance and standard operating procedure on this would be designed by the agency to ensure consistency of information etc. The agency would therefore provide a coordination role similar to that provided to the NHS by National Services Scotland in terms of its commissioning of national services as well as a consistent IT solution. Responsibility would be based on the best location for each benefit's interface with the users. For example, this could mean that the NHS is asked to take on the responsibility for administering Disability and Maternity payments and local authorities continue with discretionary benefits.

The bulk of the new social security powers would therefore be delivered by existing and new staff across the public sector. For this to function, training and / or recruitment would be required to provide the additional services, and support is required for staff (e.g. midwives) to do this in addition to existing workloads.

2.20. The function overviews are presented in a summary form for each of the options in Figure 6 and a full discussion can be found in annex A. In Figure 6, different colours represent different organisations – the functions are the same across options. The information in Figure 6 is summarised in a more accessible form in Figure 7.

Figure 6 - Function overview for all options



2.5 Summary

2.21. Each of the options provide the functions needed to provide the services needed to operate the social security system under steady state. The difference is who will provide these functions and how. Under all options some corporate functions are provided by the Scottish Government e.g. in terms of policy and strategy and some by the social security agency e.g. governance. The other functions are provided depending on the option by either the agency or through another route e.g. local authorities, across the public sector or via procurement or SLA (see Figure 7 below). These delivery arrangements interact with the existing landscape of the Procurator Fiscal, Ombudsman and independent advice and support landscape the next section of the report looks at the costs of each of the options.

Figure 7 - Description of options

	<u>Option 1</u> central agency	<u>Option 2</u> agency and local offices	<u>Option 3</u> LAs as local offices	<u>Option 4</u> benefits in kind	<u>Option 5</u> delivery by others	<u>Option 6</u> existing public services	
Capabilities	Queries/ General Enquiries Pre Claim/ Support Services [1]	Agency - central	Agency and LAs	Agency (central or local)	Other organisation	Existing public services	
	Administration - assessments		LAs		Agency / Other Organisation		
	Administration - other [5]				Agency	Existing public services and agency	
	Dispute Resolution [2]		Agency - central		Agency / Other Organisation		
	Error Management/ Investigation [3]		Agency and LAs		Agency		
	Continuous Capabilities				Other organisation		
	Management Information [4]				Other organisation plus agency system		
	Centralised Functions				Other organisation plus agency system		
	Centralised Functions - Policy and Strategy			Scottish Government			
	In Kind functions			Agency			
System features	Who makes payments to those in receipt of benefits	Agency		Agency and LAs	Agency	Other organisation	
	IT system	1 new central system		1 central and 4 LA systems	1 new central system	Other organisation plus agency system	
	Access to social security (with exception of assessment)	Online/ phone/ post	Online/ phone/ post/ face-to-face	Online/ phone/ post/ face-to-face	Online/ phone/ post/ face-to-face	Online/ phone/ post/ face-to-face	
	UC flex	DWP					
		[1] Existing advice and support services in Scotland would continue to provide independent advice, support and advocacy in all options. [2] For dispute resolution some functions would continue to be undertaken by others such as tribunals and ombudsman [3] Some functions of Error management / Investigation would continue to be undertaken by existing public services for all options. [4] The agency would also produce a range of management information with Scottish Government in all options. [5] The agency would retain decision making functions.					

SECTION C: FIVE CASES

3. The Strategic case

3. In the standard five cases approach the Strategic Case demonstrates that the spending proposal provides business synergy and strategic fit and is predicated upon a robust and evidence based case for change. This includes the rationale of why intervention is required, as well as a clear definition of outcomes and the potential scope for what is to be achieved.

3.1. This strategic case requires the spending authority to demonstrate how the spending proposal fits in relation to national, regional and local policies, strategies and plans and furthers the required outcomes.

3.2. The wider context by which additional social security powers are being devolved to Scotland, in itself forms the Strategic case for change. This section documents the path that has been followed dating back to the run-up to the referendum on Scottish Independence in September 2014 and finishing with the recent consultation on social security following the passing of the Scotland Act 2016.

3.3. At a high level, the Scottish Government Purpose of sustainable economic growth is underpinned by five strategic objectives – to make Scotland wealthier and fairer, smarter, healthier, safer and stronger, and greener. At its best, the broader social security system should contribute to all these objectives, with the benefits to be devolved particularly supportive of the aim of a fairer Scotland that offers improved opportunities and better quality of life for everyone regardless of their circumstances. See <http://www.gov.scot/About/Performance/scotPerforms>.

3.4. The strategic objectives are supported by 16 National Outcomes. The social security system, aligned with other public services, should make a direct and significant contribution to several of these, most notably:

- We live longer, healthier lives;
- We have tackled the significant inequalities in Scottish society;
- Our people are able to maintain their independence as they get older and are able to access appropriate support when they need it and
- Our public services are high quality, continually improving, efficient and responsive to local people's needs.

3.5. The benefit system currently in place in Scotland is distributed across a number of recipient groups and the majority of these benefits are currently reserved to the UK Government, with the exception of the Council Tax Reduction and Scottish Welfare Fund which were localised and devolved respectively to the Scottish Government from April 2013. See Table 1 below.

Table 1 - Current benefit system

Benefits for people out of work	Benefits for elderly people	Benefits for people who are ill or disabled	Benefits for families with children	Benefits for people on low incomes	Other
Income Support	Financial Assistance Scheme	Attendance Allowance	Child Benefit	Council Tax Reduction	Bereavement benefits
In Work Credit & Return to Work Credit	Pension Credit	Carer's Allowance	Child Tax Credit	Discretionary Housing Payments	Christmas bonus
Job Grant	State Pension	Disability Living Allowance	Guardians Allowance	New Deal & Employment Programme	Universal Credit
Jobseekers Allowance	State Pension Transfers	Incapacity Benefit	Maternity Allowance	Maternity Pay	Other small benefits such as child trust fund etc.
Employment & Support Allowance	TV Licences Winter Fuel Payments	Industrial Injuries Personal Independence Payment Severe Disabilment Allowance Specialised Vehicles fund Statutory Sick Pay Vaccine Damage Payments			New Enterprise Allowance Scottish Welfare Fund Social Fund (regulated) Working Tax Credit Housing Benefit

3.6. A starting point of the process that has led to the current situation and context for social security was the Scottish Governments Expert Working Group (EWG) on Welfare. The key milestones of this group are shown in Table 2 below⁸.

Table 2 - Key milestones for Expert Working Group (EWG) on Welfare

Key Milestones
4 June 2014: The Group published their second report
■ The Group publish their second report setting out their route map for reform and short, medium and long term options for change.
23 September 2013: Expert Working Group issues Call for Evidence
■ The Group issued a Call for Evidence seeking the views of interested parties on future welfare policy.
4 August 2013: Expert Working Group to further develop independent welfare system
■ New Group members announced to consider medium and long term policy options.
11 June 2013: Expert Working Group publishes first report
■ The Expert Working Group published their first report on 11 June 2013.
11 June 2013: Scottish Government's response to the Expert Working Group's report
■ The Scottish Government published its response to the Expert Working Group's report.
8 February 2013 Initial Call for Evidence responses and analysis
■ The initial Call for Evidence ran from February until March 2013, the above paper provides links to the call for evidence responses as well as copies of all the analysis.

⁸ See <http://www.gov.scot/Topics/People/fairerscotland/EXPERTWORKINGGROUPONWELFARE>

3.7. The two reports of the group in 2013 and 2014 laid the foundations for current thinking around social security reform in Scotland. Whilst written in the context of possible independence, much of the analysis and discussion remains pertinent. Of particular relevance is the following paragraph from the summary of the second report:

It is clear to us that the key issue is trust: the trust of those who receive benefit payments in a system that supports them and the trust of society as a whole in the fairness and effectiveness of the system. A lack of trust erodes society's continued support for those in receipt of social security and also undermines the self-esteem and confidence of those who receive support from the benefits system. A recurring theme of our report is therefore how trust can be established and maintained.

3.8. It is also worth repeating the comments of the EWG chair in respect to the contribution of Ailsa McKay.

I am indebted to my fellow Group Members for their expertise and insight, and for the healthy challenge that each brought to our discussions. I know they have greatly valued the independence of the Group and the space this provided for our deliberations. Tragically, one of our members died before this report could be presented. Professor Ailsa McKay was a lively and enthusiastic contributor to our work and her expertise helped the Group enormously. Her vision and passion were limitless, and she continually encouraged us to see beyond the problems and embrace opportunities and possibilities. Though we greatly missed her input into the written report, we have made every effort to ensure her contribution is fully reflected in what we say. I hope she would be proud of our report.

3.9. Immediately following the independence referendum in September 2014, the Smith Commission was set up to oversee and deliver cross-party agreement on enhanced devolution for the Scottish Parliament - in line with "the Vow" made by the three largest UK parties immediately before the referendum, to create a stronger Scottish Parliament within the UK.

3.10. The Smith Commission included representation from all five main Scottish political parties and was tasked with agreeing a package of powers. Representations were made by each of those parties, as well over 400 civic institutions, organisations and groups and over 18,000 members of the public, providing a broad range of views on which powers should be devolved. Many of those representations, including those of the Scottish Government, favoured the devolution of the social security system in its entirety.

3.11. Their Heads of Agreement, published on 27 November 2014, detailed a number of recommendations in relation to social security. These included the recommendation that the Scottish Parliament be given complete autonomy to determine the structure and value of a range of powers over disability, and devolution of the components of the regulated social fund. In addition, the Scottish Parliament should be given the power to make administrative changes to Universal Credit and to vary the housing cost element. The Commission also made clear recommendations that the Scottish Parliament be given powers to create new benefits in areas of devolved responsibility, and top-up reserved ones. See Table 3.

Table 3 - Summary of Smith social security powers

For carers, disabled people & those who are ill	Currently part of the Regulated Social Fund	Other
Attendance Allowance (AA)	Cold Weather Payment (CWP)	Discretionary Housing Payments (DHP)
Carer's Allowance (CA)	Funeral Payment (FP)	
Disability Living Allowance (DLA)	Sure Start Maternity Grant (SSMG)	
Personal Independence Payment (PIP)	Winter Fuel Payment (WFP)	
Industrial Injuries Disablement Benefit (IIDB)		
Severe Disablement Allowance (SDA)		

3.12. Following and in parallel with the negotiations between the Scottish Government over the Fiscal Framework⁹ by which the new powers would be implemented a number of strands of work were undertaken. A key clause in terms of social security relates to the additonality of Scottish government powers.

The Governments have agreed that any new benefits or discretionary payments introduced by the Scottish Government must provide additional income for a recipient and not result in an automatic offsetting reduction by the UK government in their entitlement elsewhere in the UK benefits system. Any new benefits or discretionary payments introduced by the Scottish Government will not be deemed to be income for tax purposes, unless topping up a benefit which is deemed taxable such as Carer's Allowance.

3.13. In March 2016, the Scottish Government published a paper¹⁰ outlining the future for social security in Scotland and outlined a vision for social security.

Our vision: social security is important to all of us and able to support each of us when we need it

This was supported by five principles that were to form the basis of social security in Scotland. See Figure 8 below.

3.14. Additional work was undertaken as discussed in the introduction on the Stage 1 options appraisal that resulted in the decision to form an Agency to deliver social security in Scotland¹¹.

⁹ <https://www.gov.uk/government/publications/the-agreement-between-the-scottish-government-and-the-united-kingdom-government-on-the-scottish-governments-fiscal-framework>

¹⁰ <http://www.gov.scot/Topics/People/fairerscotland/future-powers/Publications/Future>

¹¹ <http://www.gov.scot/Resource/0049/00494859.pdf>.

Figure 8 - Principles for social security

Principle 1: Social security is an investment in the people of Scotland

- At the heart of our approach is an understanding that social security is an investment in the whole of Scotland, and an important tool for tackling poverty and inequality. Where some people in our society face additional costs in their daily lives - e.g. because of ill health or disability - then it is right that society as a whole helps to meet those costs.
- Social security should help provide protection and act as a safety net in times of need. It should also aspire to provide a springboard and maximise the life chances of everyone, acting as an early intervention to give people the best possible chance. It should work with other devolved services to ensure the best outcomes, contributing to the 2020 vision for health and social care.

Principle 2: Respect for the dignity of individuals is at the heart of everything we do

- At every step of our engagement with individuals, we will treat people with dignity and respect.
- Treating people with dignity and respect means using language that is carefully considered and does not stigmatise.
- Social security should be regarded by everyone in society as an integral component of a fair and prosperous country.

Principle 3: Our processes and services will be evidence based and designed with the people of Scotland

- The starting point for the design of our policies and processes is that they are based on the best evidence, and that the individuals who are affected by them should have their say and are listened to. By combining the best evidence available with the views of applicants and professionals who provide support in this area, we will be able to design more effective policies and services, and those services will be better equipped to meet the needs of those who need them.

Principle 4: We will strive for continuous improvement in all our policies, processes and systems, putting the user experience first

- In the first instance, our priority will be to ensure a smooth transition from the existing UK benefits to our new Scottish arrangements, so that people have confidence that they will continue to receive the support to which they are entitled.
- Our policies, processes and systems should evolve in response to how Scotland and its people change over time. We will ensure that they remain fit for purpose with a transparent approach to monitoring and review, built around listening to applicants and recipients.

Principle 5: We will demonstrate that our services are efficient and value for money

- Taxpayers are entitled to expect that the investment we all make in social security should be well managed, cost effective and streamlined. We will look to align what we do with other services, where appropriate.
- We know from our consultation that the system can be complex for individuals. We will look to reduce the bureaucracy involved in claiming benefits and ensure that, at all stages, people are provided with the relevant information on how the system will work for them.
- We will continue to work closely with other Scottish public services, learning from good practice and innovation with a view to working smarter to help deliver better objectives at a time of falling budgets.

3.15. Not least amongst this work was the Fairer Scotland conversation which culminated in the launch of the Fairer Scotland action plan in October 2016¹².

3.16. The Scotland Act 2016 which was passed on 23 March 2016 gives extra powers to the Scottish Parliament and a Scottish Government, in addition to formal control over certain aspects of social security as detailed above, most notably:

- The ability to amend sections of the Scotland Act 1998 which relate to the operation of the Scottish Parliament and the Scottish Government within the United Kingdom including control of its electoral system (subject to a two-thirds majority within the parliament for any proposed change)
- Legislative control over areas such as road signs, speed limits, onshore oil and gas extraction, rail franchising, consumer advocacy and advice amongst others by devolution of powers in relation to these fields to the Scottish Parliament and the Scottish Ministers.
- Management of the Crown Estate, the British Transport Police and Ofcom in Scotland
- Control over certain removable taxes including Air Passenger Duty and Aggregates Levy
- The ability to set Income Tax rates and bands on non-savings and non-dividend income
- Extended powers over Employment Support and Universal Credit
- The right to receive half of the VAT raised in Scotland.

3.17. Another significant part of the case for change is the current UK Government context. The devolution of the social security powers will not take place in isolation. Major welfare reforms are on-going at a UK level.

3.18. Disability Living Allowance (DLA) for people aged 16-64 is in the process of being replaced by PIP, which the UK Government is implementing in a staged manner. Both of these benefits will become the responsibility of the Scottish Government. Severe Disablement Allowance (SDA), which is also being devolved, has been closed to new claims since 2001 and existing claimants below state pension age have been, or are, reassessed for eligibility to Employment and Support Allowance, which remains reserved to the UK Government.

3.19. At the same time, Universal Credit is being rolled out across Great Britain, replacing six existing income-related benefits. Payment is normally made once a month into a recipient's account, with a claim by a couple being paid into a single account chosen by them. The Scotland Act has given the Scottish Government the power to alter the payment frequency of Universal Credit (UC), enable direct payments to landlords for rented accommodation, and pay into more than one household account. DWP will continue to administer UC and work is underway with DWP to establish how these powers can be used in practice.

3.20. Scottish Ministers' views on welfare reform differ markedly from those of UK Ministers with the Scottish Ministers' position being that many UK welfare reform policies are likely to have a negative impact on people in Scotland.

¹² <http://www.gov.scot/Topics/People/fairerscotland/creating-fairer-scotland>

3.21. From a specific social security perspective the launch of the large scale consultation on social security in Scotland on 29 July 2016 was a defining moment. The Scottish Government issued a public consultation to inform the content of the new Scottish Social Security Bill. The consultation set out a vision and recapped the five key principles for social security in Scotland. The consultation was in three parts, covering:

- a principled approach;
- the devolved benefits;
- operational policy.

3.22. The consultation contained a total of 234 questions. The consultation was designed in a modular way, to allow people to focus on the areas of most interest or relevance to them.

3.23. The responses to the consultation have been published as "A New Future for Social Security in Scotland"¹³. The views of the people of Scotland, as expressed in this document, have had a major, abiding and important influence on, specifically, the analysis of the socio-economic case component of this OBC and have a wider and deeper influence on the decision documented in this OBC in terms of a preferred option.

¹³ <http://www.gov.scot/Publications/2017/02/1068>

4. Socio-Economic Case

4. The complexity of social security and the nature of the delivery options means that it is difficult to distinguish between them by monetising the benefits and comparing with the costs in a standard way. Initial analysis is able to apply standard Her Majesty's Treasury (HMT) Green Book techniques to place a monetary value on the overall delivery of social security which can be compared with the costs to generate a Net Present Value (NPV) and Benefit cost Ratio (BCR). See section 0. However, this approach is unable to capture the differences the different delivery options make to the delivery experience of the Scottish public.

4.1. Instead, Multi-Criteria Analysis (MCA) has been used to as the primary method to compare the options. MCAs are often employed when a decision has to be made based on a large amount of qualitative evidence and provides a transparent framework for decision-making. In applying MCA techniques, we have followed HM Treasury's Supplementary Green Book Guidance. More detail on MCAs is provided on HM Treasury's website¹⁴.

4.2. Note that for cost purposes there are two versions of option 2 with one having some local elements but with a large head office and the other very local with a smaller head office. This is to tease out the implications of different structures on costs. These are treated as a single option in terms of the socio-economic case as there is not enough to meaningfully distinguish between them.

4.1 Standard HMT approach

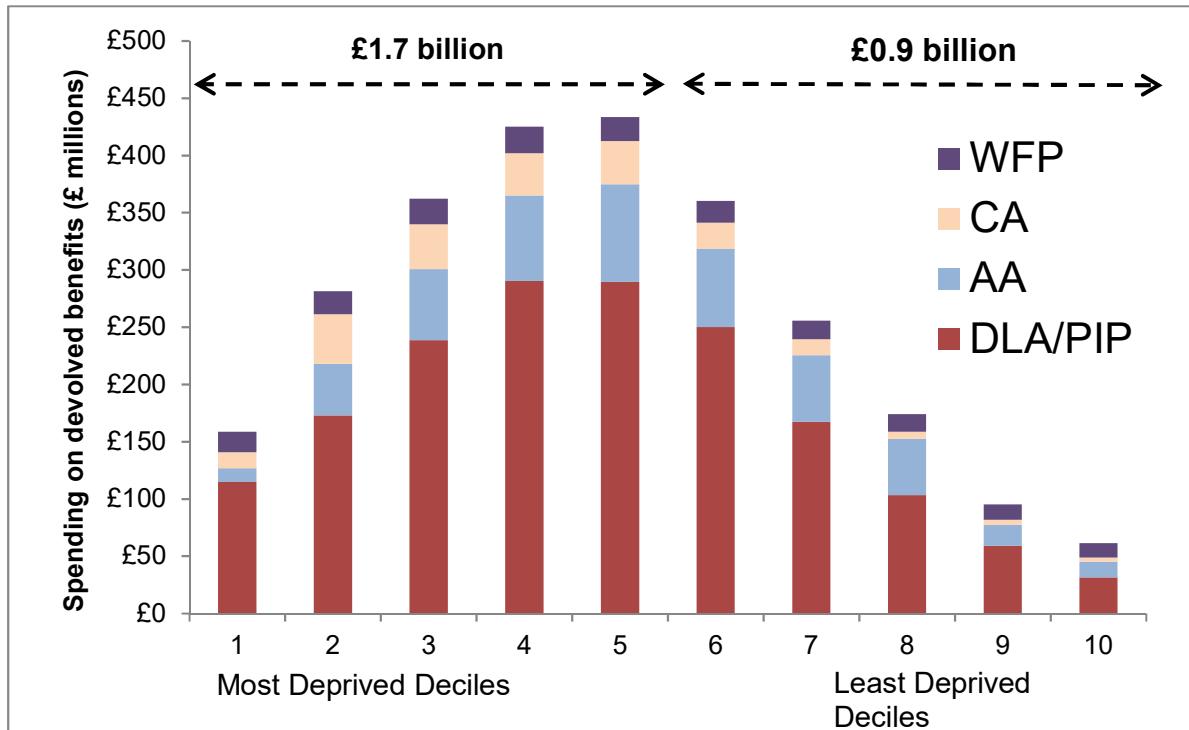
4.3. DWP expenditure on devolved social security benefits in Scotland was around £2.8 billion in 2015-16. DLA, PIP, AA, CA and WFP combined, accounted for £2.6 billion (93%) of this total spend. Whilst these benefits are non-means tested and therefore primarily not aimed at the redistribution of resources or alleviating poverty, nonetheless Figure 9 shows that more is spent on households in the bottom five deciles of the income distribution (£1.7 billion) as opposed to the upper five deciles (£0.9 billion).

4.4. Annex E of the Green Book details the approach used in this section. The fundamental economic principle of 'diminishing marginal utility' dictates that the additional utility or 'true value' that a person derives from an increase in their income (i.e. though social security benefits) diminishes as level of income they have increases. Therefore, it is recognised that the 'true value' of social security benefits (as well as other forms of additional income) for an individual's well-being will vary according to the relative prosperity of the person receiving the benefits.

¹⁴ Green Book supplementary guidance: multi-criteria decision analysis

<https://www.gov.uk/government/publications/green-book-supplementary-guidance-multi-criteria-decision-analysis>

Figure 9 - Social Security Spending by Income Deciles



4.5. HM Treasury guidance proposes a standard methodology for analysing the ‘true value’ of public spending so that any proposed policy which provides greater net benefits to lower income deciles is rated more favourably than one whose benefits largely accrue to higher deciles. According to this methodology, appropriate decile weights are derived by comparing the median equivalised net income within each decile to the median equivalised income across the whole income distribution¹⁵. The results mean, for example, that an additional £1 of spending on someone in the lowest decile corresponds to £2.45 of ‘true value’, whilst an additional £1 of spending on someone in the highest decile corresponds to only an additional £0.40 of ‘true value’.

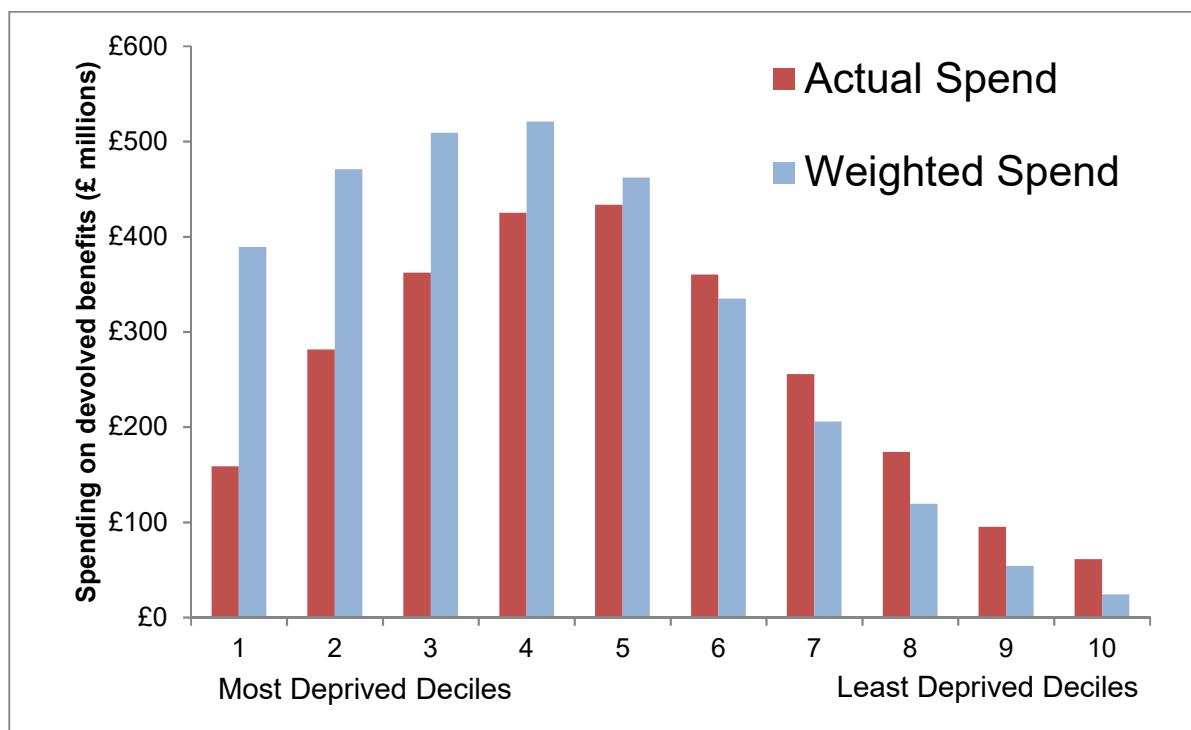
Table 4 - Weighting Social Security spending by Relative Prosperity

Deciles	‘True value’ of £1 of additional income	Actual Spend (£ millions)	Weighted Spend (£ millions)
1	2.45	£159	£389
2	1.67	£281	£471
3	1.41	£362	£509
4	1.23	£425	£521
5	1.07	£433	£462
6	0.93	£360	£335
7	0.81	£256	£206
8	0.69	£174	£120
9	0.57	£95	£54
10	0.40	£61	£24
Total	-	£2,607	£3,091

¹⁵ [Green Book](#), p 91 – 94.

4.6. Table 4 shows that through using these ‘true value’ weights, a comparison of the actual spending on social security (£2.6 billion) to the weighted ‘true value’ spend (£3.1 billion) is possible. Therefore, simply as a result of the income distribution of benefit recipients, social security is worth around an additional £500 million to Scottish households each year. This £500 million benefit would be foregone in the absence of a social security system for the devolved benefits. This figure is constant across all options and is combined with the steady-state costs in section 0 no provide a basic, but comparable, measure of the value of the agency. Figure 10 shows how the spending on social security across deciles compares when weighted for the relative prosperity of households.

Figure 10 - Actual and Weighted Social Security Spending



4.7. The redistribution of £2.6 billion from general taxpayers to recipients of social security benefits cannot be a costless and efficient transfer of resources from one group in to another. Therefore, to some extent, the £500 million of additional value generated by social security spending is offset by a number of costs. These are referred to in economics as ‘leakage’¹⁶ and there are four potential source of this:

- The administrative costs associated with redistributions of resources.
- Behavioural changes in the population who face new work incentives because of increased taxation to fund social security.
- Changes in saving and investment behaviour, for example take-up of long-term care insurance.

¹⁶ Okun (1975) ‘Equality and Efficiency: The Big Tradeoff’

- Changes in attitudes, for example, to the formation of human capital or the propensity for altruistic behaviour.

4.8. An assessment of administrative costs related to options for the social security system is outlined in this business case. Other costs are more challenging to estimate and are not investigated in this business case.

4.9. Undoubtedly, there are other benefits to social security benefits as well beyond the £500 million which has been identified. For example, the payment of Carer's Allowance to support informal carers, reduces the costs of providing equivalent formal personal home care and disability benefits are often vital in supporting people with disabilities to enter and maintain employment, which is ultimately a net benefit for society. Given these considerations, it is likely that, even talking into account the costs of the social security system, the economic value of social security is greater than its cost. But there are difficulties in placing monetary values on these benefits. It is this that drives the use of multi-criteria analysis to examine the advantages and disadvantages of the options as a way of helping to choose between them.

4.2 Using Multi-criteria Analysis to select the best options

4.10. Multi-criteria analysis (MCA) refers to a set of techniques for comparing policy options without assigning monetary values to their impacts. MCAs are a good alternative to Cost-Benefit Analysis (used widely across the public sector) where there is insufficient information about monetary values or deriving those is impractical. See HM Treasury's Green Book Supplementary Guidance¹⁷. Full details of the rationale for choosing MCA and the full results can be found in Annex B.

4.11. The exercise considered how the six options compared against a framework of criteria that had been selected to ensure that the chosen social security system in Scotland meets the outcomes sets out in the *Creating Fairer Scotland* paper, as well as outcomes that have been set out in other Scottish Government strategy documents.

4.12. The starting point for selecting criteria was the *Creating a Fairer Scotland - A New Future for Social Security in Scotland* paper published in March 2016¹⁸. As much as possible, the outcomes and principles for Social Security that were mentioned in the paper were translated into criteria for the delivery system options. This meant that some of the outcomes and principles that were only related to policy were not considered.

¹⁷ <https://www.gov.uk/government/publications/green-book-supplementary-guidance-multi-criteria-decision-analysis>

¹⁸ <http://www.gov.scot/Resource/0049/00496621.pdf>

4.13. Sources for criteria also included other Scottish Government strategy documents, which included the Scotland's Economic Strategy¹⁹, Regeneration Strategy²⁰ and Scottish Transport Appraisal Guidance²¹.

4.14. Stakeholders (internal and external) have been asked to comment on the draft set of criteria and their input is reflected in the final set of 27 criteria. It was decided that the final set of criteria would be grouped into five sets and each option's performance would be assessed against each of the 27 individual criteria as well as each of the five broad sets. The full list of criteria and their assignment to broad sets is shown in Figure 11.

Figure 11– Full list of criteria and their groupings

Dignity and Respect 1 Flexibility, choice and communication 2 Simplicity and support alignment 3 Assessments 4 Governance and accountability 5 Organisational culture 6 Public perception of claimants	Equality and Poverty 7 Interaction with various groups 8 Take up 9 Income and poverty 10 Consistency and fairness
Efficiency and Alignment 11 System efficiency and flexibility 12 Alignment with reserved benefit system 13 Alignment with other public services 14 Control 15 Transparency	Implementability and Risk 16 Scale of change 17 Timescales 18 Risk 19 Public perception of system
	Economy , Society and Environment 20 Assessment employees 21 Non-assessment employees 22 Regeneration 23 Impact on private sector 24 Impact on third sector 25 Impact on public sector 26 Resource consumption 27 Travel and transportation

4.15. Each of the individual criteria was used to rank the six options in terms of their strength in meeting the criteria in a positive way. It should be noted that no specific scores were attached to options – all rankings were relative. For example, in some cases the differences between options were found to be marginal and in other cases they were found to be significant. To quantify the differences would have added another layer of complexity to the exercise and there was insufficient information available to justify such precision. Hence simple rankings, where

¹⁹ <http://www.gov.scot/Topics/Economy/EconomicStrategy>

²⁰ <http://www.gov.scot/Resource/Doc/364595/0123891.pdf>

²¹ <http://www.tactran.gov.uk/documents/WorkingPaperSTAGAppraisal.pdf>

<http://www.transport.gov.scot/report/j9760-05.htm>

options were placed in a certain order depending on whether they were better or worse than every other option, were employed.

4.16. The rankings of options against each individual criterion are based on a number of different sources of information, which include the response to *A New Future for Social Security - Consultation on Social Security in Scotland*, separate stakeholder engagement processes and internal expertise.

4.17. Section 4.3 to section 4.7 discuss each of the 27 criteria in turn and provides the reasoning behind assigned rankings. These are used to create rankings against each of the five broad criteria sets and the approach to doing this is described in section 4.8.

4.3 Dignity and Respect

4.18. The following outcomes set out in “Creating a Fairer Scotland” were used to create the Dignity and Respect criteria set

Outcomes:

People applying for or in receipt of Scottish benefits are:

- treated with **dignity and respect**
- can access **help and advice** to claim the benefits they are entitled to
- **supported** throughout the **application** assessment process
- given a reasonable **choice** about how their benefits are administered
- have **positive experience** of the Scottish social security system

People resident in Scotland:

- have an **awareness** of benefits and who and what they are for
- **view** the benefit and **those who receive them positively**



- 1. Flexibility, choice and communication**
- 2. Simplicity and Support Alignment**
- 3. Assessments**
- 4. Governance and accountability**
- 5. Organisational culture**
- 6. Public perception of claimants**

4.3.1 Flexibility, choice and communication

4.19. This criterion looks at the users' experience of interaction with the social security system and how well each option would allow the system to be tailored to each individual claimant. This includes the availability of information about entitlement that is clear and consistent , application channels that are suited to users' preferences and needs at different stages of the process, including pre-claim, processing and post-award stages.

4.20. Much of the evidence gathered in the process of appraisal and consultation highlighted that face-to-face contact between claimants and agency employees has to be made available. This is especially pertinent in both the initial stages of the application process, and in cases where errors or disputes arise. Therefore, the performance of options 1 and 4, which do not provide for any face-to-face contact is weakened. However, both still perform relatively well because of they have certain other strengths against this criterion.

4.21. For example, for claimants comfortable with digital technology, face-to-face support could be provided via video calling, or a 24-hour chat helpline, with staff specifically trained to provide support in such a manner. Options 1 and 4 would aid in delivering a consistent experience for claimants that would be more difficult in other options. Options 1 and 4 could also incorporate features such tracking progress of the claim online that can be updated frequently. Although some of these features could still be incorporated under option 2, more of these additional features can be included and can be made more effective under options 1 and 4, with more resource being dedicated to the digital and phone services. It is likely that many claimants who prefer phone and online communication would receive a faster service.

4.22. Options 1 and 4 also allow for greater privacy. Stigma is a big factor in reduced take-up and an increased reliance on local support could disadvantage people in smaller communities, some of whom may prefer online and phone application channels direct to a central agency to maintain confidentiality.

4.23. Option 4 provides an additional choice for the claimant to receive their benefit as an 'in kind' payment rather than cash. The consultation highlighted that cash is seen as the best default option to allow people choice and flexibility, and where goods or vouchers are provided this should be optional. In option 4, in kind payments are optional, which lowers the risk of this being interpreted that people are incapable of managing their own finances. Optional in kind provision may be valued by some claimants as recognising their specific needs and removes the burden of having to 'shop around' for goods and services they need. If these can be provided at a lower cost by the agency, it would widen the choice and flexibility of the system and hence option 4 is ranked higher than option 1.

4.24. In terms of the options that provide face-to-face support, option 2 has the advantage of local offices still being part of the agency and not being tied to existing application channels as under option 3. This would make it easier to incorporate flexibility and choice into the system from its inception rather than adding new

choices into an existing set up. It would also be more difficult to ensure that the same choice and flexibility would be provided to claimants living in different Local Authority areas. For example, there is currently a significant level of variation in terms of channels of application across Local Authorities for the Scottish Welfare Fund payments²².

4.25. Generally, the more removed the local offices are from the overarching governance of the agency, the less scope there would be to ensure that application channels align with users' needs, which means that option 5 did not perform particularly well on this criterion.

4.26. Option 6 has advantages over other options in that it would provide access points to the benefits system via a wide range of public services with which the claimant may already be interacting with regularly. However, due to the complexity of option 6, the central agency could face challenges in monitoring the channels that are available to the claimant and as with option 3, changes may be difficult to implement in an existing system.

4.27. There is already existing complexity in the system in terms of advice and information provision. A central agency that delivers a consistent advice and support service in a centralised fashion minimises the number of points of contact for the claimant. It is recognised that local offices in option 2 may add a degree of confusion as they would be sitting alongside Jobcentre Plus offices as well as Local Authority offices and Citizen Advice Bureaus. However, due to the presence of face-to-face support and this support being provided by the agency itself, option 2 comes out as the most preferable in terms of flexibility and choice.

4.28. The highly digitalised systems in options 1 and 4 are likely to incorporate channels that will not be available in the local office based options and hence also perform well on this criterion. Options 1 and 4 assume comprehensive phone support, which mean that claimant would not necessarily have to apply online as it is recognised that a "digital by default" approach would limit access to the system for some²³. However, the absence of face-to-face option in options 1 and 4 rank them lower than option 2.

	Criteria	Strongest	2nd	3rd	4th	5th	Weakest
1	Flexibility, choice and communication	2	4	1	3	5	6

²² Scottish Welfare Fund, How to Apply

<http://www.gov.scot/Topics/People/fairerscotland/scottishwelfarefund/howtoapplytothescottishwelfarefund>

²³ Around 87% of those aged 45-59 use the internet for work or personal use, compared to 96% of 25-44 year olds. This falls to 69% for those aged 60-74. The level of internet use also falls with an increase in deprivation. Internet engagement is 74% in the most deprived quintile compared to 90% in the least deprived quintile.

Scottish Household Survey 2015 <http://www.gov.scot/Publications/2016/09/7673/9> Around 52% of all DLA claimants are aged 50 to 74 and 56% of Carer Allowance recipients are aged 40 to 59. All Winter Fuel Payment recipients are over the female state pension age (currently 63). Recipients of disability benefits are also more likely to live in deprived areas.

4.3.2 Simplicity and support alignment

4.29. This criterion measures the extent to which the new Scottish social security system can help people understand their entitlement to devolved benefits and how this fits into their existing interaction with the reserved social security provision and public services.

4.30. A significant number of people who receive the devolved social security payment also receive the benefits that will remain reserved. For example, many recipients of Personal Independence Payments or Disability Living Allowance, which will be devolved, also receive Employment Support Allowance which will remain reserved. From claimant's perspective, advice and support on both devolved and reserved benefits would be aligned to provide a simple and accessible route for obtaining information about both.

4.31. Option 3 and 6 perform well against this criterion. Many Local Authorities already provide welfare rights advice and support and can expand this function to provide more comprehensive service for devolved benefits. A similar structure could operate with option 6. For example, there are welfare rights advisers already providing support in some GP surgeries. Hence it is possible to set up a system under option 3 or 6 where people visit their Local Authority offices or GP practices and receive advice and support on all benefits they are claiming rather than just devolved benefits. It may be that advice and support would be provided by different staff but being in the same premises or working for the same organisations would help align support.

4.32. Options 1, 2 and 4 perform weakly on this criterion. With all functions sitting with the central agency, there is a risk of complete separation of advice and support for devolved and reserved benefits. This could result in increased complexity for claimants, who would find it confusing to have to navigate the different structures to receive advice on different benefits they are claiming. This is offset to an extent by the agency taking on discretionary benefits under options 1, 2 and 4 and hence being able to provide support in relation to those benefits.

4.33. Under option 2, there is a possibility for co-location of local offices near Job Centre Plus, Local Authority and GP practice offices. This is not possible under option 1 and 4 because the advice and support are provided over the phone and online by the central agency.

4.34. Option 4 has the added complexity where claimants may need additional support to help them choose a cash or in-kind benefit. This is likely to complicate the advice and support landscape and cause confusion.

4.35. Option 5 is considered to be the weakest option. With a private sector organisation taking over the advice and support functions, there would be limited incentive to ensure that this is aligned with the services that are provided in relation to reserved benefits, unless this is specifically written into the contract. This could

be less of an issue, however, if the contract is awarded to a third sector organisation who already operate advice and support services.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
2	Simplicity and support alignment	3	6	2	1	4	5

4.3.3 Assessments

4.36. This options appraisal assumes that the assessments policy (the process by which eligibility for each of the benefits is determined) is the same under all options. A form of assessment is part of the process for claiming disability benefits for at least some of the claimants and the criteria against which the claimant is assessed are the same. This assumption is necessary to compare the different options against each other from the delivery perspective.

4.37. Under option 1 and 4, assessments are done by a mobile workforce, who assess people in their home or in a location of their choice (for example, local third sector organisation premises). Under option 2, assessments are mostly done in the agency's local offices, although outreach services are provided for people who have mobility difficulties. Under option 3, the assessments are done by Local Authorities' employees in their existing offices. Under option 6, assessments are done by the NHS in either GP surgery or hospital premises. Assessments in option 5 would depend on the organisation which is awarded the contract. If the organisation already had local offices, as some third sector organisations do for example, they are likely to take place there. A private sector organisation may lease local premises (as in option 2) or provide outreach workforce (as in options 1 and 4).

4.38. Under all options the agency is the final decision maker but under option 2 the decision makers are based in the local rather than central office.

4.39. Currently assessments for disability benefits are outsourced to private organisations by DWP and this part of the system is most similar to option 5. The public perception of these companies is generally negative, due to media reports of negative experiences of claimants, although some are in relation to Employment and Support Allowance "fit to work" assessments, which will remain reserved.

4.40. It should be acknowledged that when awarding the contract, the Scottish Government will have the freedom to specify how it wants the assessments to be conducted and the successful contractor would be in breach of contract if deviates from the contract's terms and conditions. For example, the consultation highlighted that a target based model is a large factor in driving the negative perceptions around the current system of assessment, hence a move away from targets could alleviate some of the concern around involvement of another organisation. A well specified contract could in theory achieve the Dignity and Respect objectives but ensuring this is more difficult under this option.

4.41. From the Dignity and Respect perspective, there is however also the issue of private organisations being awarded contracts to make profit from assessing disabled people, which can be perceived negatively by some claimants. It is worth considering, however, that option 5 also incorporates the option for awarding the contract to a third sector or another public organisation, where this dimension is not relevant.

4.42. Considering the points above, option 5 is the weakest in terms of the Dignity and Respect aspect of assessment.

4.43. Option 6 assumes that assessments are being done largely by the NHS. In the responses to the consultation a common theme was that assessment should be done by professionals who understand the conditions of the people they are assessing and some responses highlighted a need for the NHS to play a greater role. It should be noted that option 6 does not assume that the assessments would necessarily be done by the existing healthcare professionals employed by the NHS, such as doctors and nurses, but only that the assessors will be employed by the NHS. This option allows better alignment of the assessment process with the healthcare services and assumes much easier access to the claimant's existing healthcare record which should allow for better decision making on awards. The consultation highlighted that information about claimants' conditions that is already held should be used as much as possible in the process of assessments. Most claimants would be assessed on NHS premises, which has the potential to shift public perception about assessments, building on the existing trust in the NHS.²⁴ This option is the strongest in terms of the Dignity and Respect for the claimants in relation to assessments.

4.44. Among other options option 1 and 4 are considered weak because of the lack of permanent local premises where the assessments could be conducted. Some of the consultation responses have highlighted that home assessments may be preferable but it is likely that people would have different preferences and having the choice is the important factor. Also, travel requirements for a very mobile workforce without a fixed location could have a negative impact on the employee job satisfaction and morale which could have a knock-on impact on their interaction with the claimant (see criterion 20). However, on the other hand by not having local offices, more resource can be dedicated to training and recruiting assessors with appropriate medical expertise under these options.

4.45. Option 2 and 3 would both have most assessments taking place in fixed locations. Under option 2 however, the award decision would made by the staff in local offices, whilst under option 3 the central agency would retain the decision-making power. There is a risk of reduced consistency in terms of how the assessment criteria are applied in each Local Authority which could result in variations across local authorities. It is also deemed more advantageous to have decision-making and assessments done by the same organisation, which only

²⁴ Around 62% were satisfied with the NHS in 2015, Scottish Social Attitudes 2015: Attitudes to Government, the National Health Service, the Economy and Standard of Living <http://natcen.ac.uk/media/1123186/ssa-15-attitudes-to-government-nhs-economy-and-standard-of-living.pdf>

options 1, 2 and 4 provide. Decision making ‘on site’ as under option 2 would establish a clear link and quicker and more transparent decision making, with consistency ensured by the overarching governance provided by the central agency.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd (equal)</u>	<u>5th</u>	<u>Weakest</u>
3	Assessments	6	2	1	4	3

4.3.4 Governance and accountability

4.46. This criterion refers to the extent to which the governance of the social security system is made inclusive, accountable and responsive to change. This refers to the ease with which groups affected by the payments administered by the system could be involved in its decision-making processes, including the ease of ensuring that these groups are represented in the governance structures. It also refers to the ease and speed with which any system failures could be traced back through the system’s processes and the time it takes to change these processes in response.

4.47. Performance on this criterion is largely influenced by the simplicity and transparency of the system under each option and unsurprisingly the scoring of the options for this criterion is similar to criteria 11 (Efficiency and Flexibility) and 15 (Transparency). This criterion however sits in the Dignity and Respect dimension and looks at the advantages and disadvantages of simplicity, transparency and efficiency from the claimants’ rather than agency’s perspective.

4.48. Options 1 and 4 are the simplest in terms of the system structure, with most functions sitting within the central agency. This makes it easier to ensure diversity of its governance structures and makes the system more transparent, facilitating accountability. Option 2 would exhibit the same features but placing some of the functions and decision-making in the local offices would add a layer of complexity.

4.49. At the other end of the scale are options 6 and 3, where other public services and Local Authorities, with their own governance structures are part of the system. This can result in a much more complex system of governance and decision making and as a result dilute accountability. Any system failures and errors are likely to be more difficult to trace under these options and even more difficult to correct. This would have a knock on impact on claimants’ experience of the system, especially in the cases where a dispute arises. In terms of ensuring diversity and inclusiveness of governance, some of this would be outside of the control of the agency and more difficult to put in place.

4.50. Although the system structure of option 5 is less complex, it still incorporates an additional organisation in the system and the arguments above apply, although perhaps to a lesser extent assuming a well specified contract.

4.51. In the case of assessments, in options 3, 5 and 6 there is a separation between the organisation that conducts the assessments and the organisation that makes the decision on the claim (the agency). The same applies to option 5. From the claimants' perspective of transparency and accountability, this separation weakens the ability and speed with which decisions can be challenged, errors traced and processes changed.

	<u>Criteria</u>	<u>Strongest</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
4	Governance and accountability	1	4	2	5	3

4.3.5 Organisational Culture

4.52. This refers to the ease and the likelihood of success of incorporating a specific type of culture into the system of delivery for social security in Scotland. Although this refers to the process of establishing any culture, the desired culture is currently assumed to be in line with the principles set out in *Creating a Fairer Scotland, A New Future for Social Security in Scotland*. More specifically these are:

- Principle 1: Social security is an investment in the people of Scotland
- Principle 2: Respect for the dignity of individuals is at the heart of everything we do

4.53. Options 1 and 4 represent the most centralised systems, with the simplest structure of governance, followed by option 2. The simpler the organisation structure, the easier it is likely to be to implement cultural change and clear lines of management and responsibility allow messages from the executive team to travel across the organisation quicker and easier.

4.54. With options 1, 2 and 4, most of the social security system sits within the agency, which would be a new organisation with no pre-existing culture to be changed. Hence these options perform stronger on this criterion. There is unlikely to be any substantial difference between options 1 and 4. Option 2 represents an added complexity with some of the decision making sitting within local offices, hence making any messages around culture somewhat more difficult to be fed down to claimant-facing staff than for example the call centre workers or digital team in a central agency. Options 1 and 4 have the advantage of having most of the workforce in one or two locations, which could make training and team building exercises easier to implement, creating a better work environment and therefore culture.

4.55. Options 1 and 4 however, perform poorly on job satisfaction of the assessments workforce (see Criterion 20) because of its highly mobile nature and a significant level of travel involved. This could have a knock on effect on employee morale and therefore culture of the only agency employee that have face-to-face contact with claimants.

4.56. Because it is challenging to write in specific culture requirements into procurement contracts and SLAs, option 5 is considered to be the weakest against this criterion. This ranking is also influenced by the controversy around the current approach to assessments by private contractors (see Criterion 3). Whilst contracts and organisations differ, this option represents the highest risk in terms of delivering the Principles set out above.

4.57. Option 3 and 6 include existing local authorities and public services, with their own culture. If these needed to change to align better with the Principles for social security, it could represent an additional challenge. Under option 3, compared to option 6, there is an added complexity of variation across the various LAs.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd (equal)</u>		<u>4th</u>	<u>5th</u>	<u>Weakest</u>
5	Organisational culture	2	1	4	6	3	5

4.3.6 Public perception of claimants

4.58. This criterion assess how well the options perform on changing public attitudes toward social security payment recipients.

4.59. The Scottish Social Attitudes survey found that in 2013, 75% of people agreed that 'large numbers of people these days falsely claim benefits'. The British Social Attitudes Survey in 2012 suggest that between 35% and 37% thought 'claimants should be somewhat ashamed', and between 11% and 13% thought 'claimants should be very ashamed'.²⁵

4.60. A large part of Social Security Principles 1 and 2 is changing public attitudes to benefit claimants. Part of this is linked to the ability to introduce new organisational culture which would itself have a knock-on impact on public perception of benefit claimants. Hence option 5 and 3 perform as weakly against this option as they do against the criterion 5.

4.61. Unlike under criterion 5, option 1 ranks better than option 2 because resources could be better concentrated in the central agency to make a unified effort to change people's perceptions. This could also be easier to achieve without visible local offices, which could lead to stigma (see criterion 1). Option 4 performs better than option 1 because benefits in-kind will be perceived by the wider public as addressing a specific need. A more heavy reliance on in-kind provision would minimise the likelihood that benefits are perceived by the public to be used to meet needs other than what they are provided for.

²⁵ Public Attitudes to Poverty, Inequality and Welfare in Scotland and Britain
<http://www.gov.scot/Resource/0047/00473561.pdf>

4.62. Option 6 scores highly against this criterion because if a large part of the benefit system is delivered by the NHS, benefits would be more likely to be seen as part of the wider free healthcare service even if they are provided in cash. This argument may break down when we look at other public services that may be integrated into the system such as schools and prisons. However, because of the current composition of devolved benefit spend, which largely sits in disability benefit spending, it is right to focus on the NHS for this exercise.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
6	Public perception of claimants	4	6	1	2	3	5

4.3.7 Dignity and Respect – Summary Table

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
1	Flexibility, choice and communication	2	4	1	3	5	6
2	Simplicity and support alignment	3	6	1	4	2	5
3	Assessments	6	2	1	4	3	5
4	Governance and accountability	1	4	2	5	3	6
5	Organisational culture	2	1	4	6	3	5
6	Public perception of claimants	4	6	1	2	3	5

4.4 Equality and Poverty

4.63. The following outcomes set out in Creating a Fairer Scotland were used to create the Equality and Poverty criteria set

Outcomes:

Scottish benefits:

- target the right people and seek to **impact on poverty and inequality**
- make a **positive difference** to recipients
- are **paid to as many of those who are entitled to them as possible** whilst minimising fraud and errors

People in receipt of Scottish benefits and their families are enabled to have:

- an increased **sense of control and empowerment** over their lives
- an increased **sense of confidence and security**



6. Interaction with various groups

7. Take-up

8. Income and Poverty

9. Consistency and fairness

4.4.1 Interaction with various groups

4.64. This criterion looks at how well the social security system under each option would interact with groups who have specific needs as well as equality groups.

4.65. Groups with specific needs include for example, those who have physical or mental disabilities and hence require tailored assistance when interacting with the social security system. Given that the majority of spending on devolved benefits is accounted for by disability payments, there is likely to be a high proportion of people who would be best assisted by a specially trained professional.

4.66. Under option 1 and 4, resources could be concentrated on ensuring that the central agency meets these requirements, with specially trained staff who could assist people over the phone or provide online support. Doing most assessments through home visits under option 1 could be more suitable for those with specific needs. However, it should also be considered that for those who do not feel comfortable with home visits, the absence of permanent local premises where assessment can be undertaken is a substantial downside.

4.67. Option 2 implies less specialisation of staff in local offices to manage the vast number of different needs within the claimant population. Because of the emphasis on face-to-face interaction for everyone and the resources taken up by this, phone and online support under option 2 would be less tailored to individual's needs. The same argument can be applied to option 3, although this option could be weaker than option 2 because it may be more difficult to deliver consistency across Local Authorities and changes would have to be made to existing systems.

4.68. Inconsistencies could also arise under option 6, where there is an added complication that the nature of claimants' interaction with the social security system would depend on which public services they were using to access the system. On the one hand, option 6 has the advantages of many people accessing the system through public services they are already familiar with. However, ensuring consistency across different types of public services is likely to be more challenging than in options 1,2 and 4.

4.69. Under option 5, ensuring consistent and inclusive interaction with various groups would require a well-specified contract. The experience with the current system suggests that this would require a different approach to the way DWP awarded contracts for functions such as assessments are specified.

	<u>Criteria</u>	<u>Strongest</u>		<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
7	Interaction with various groups	1	4	2	6	3	5

4.4.2 Take up

4.70. This criterion looks at the ability of each option to increase the take up of devolved benefits, as set out in the outcomes for social security in *Creating a Fairer Scotland*. Take up of benefits is influenced by a number of factors, including stigma, ease of claiming, awareness of entitlement and the level of benefit. It is important to note that since this analysis is about the delivery of social security, the criterion is measuring how the take up would be influenced by the system itself, assuming that policy, such as the level of benefit paid, is the same under all options.

4.71. From the ease of claiming and awareness perspective, the discussion of options performance on criterion 1 (flexibility, choice and communication) provide some guidance, as more flexibility and choice and better communication should increase take up. From the point of view of stigma, the discussion under criterion 6 (public perception of claimants) can be expanded upon. Hence, the performance against the take up criterion is an amalgamation of the rankings of options against these two criteria.

4.72. Option 5 performs weakly against criteria 1 and 5 because providing consistency in choice and communication is more difficult with a large part of social security system sitting outside of the agency. Consistency is also an issue for option 3. From the perspective of take up, it can however, be envisaged that specific provisions could be made in the procurement contract or SLA in option 5 that specify the desirability of increased take up and shift the responsibility on the contracted organisation to pursue this objective through targets. This could however lead to perverse incentives where a profit-driven organisation, in pursuit of achieving the set targets, increases the number of benefit awards to those who are would not otherwise be entitled, for example through looser checks of eligibility. This would lead to increased caseloads, but not necessarily to an increased take-up in its stricter sense - take up *within the eligible population*. Because of the difficulties in measuring take up, especially for some of the benefits, it would be difficult to monitor the success of contracted organisation in achieving the targets. Therefore, both options 3 and 5 rank low against this criterion.

4.73. Option 6 comes out as the weakest against criterion 1 because of difficulties in ensuring consistency of access to the system. However, on the criterion 6, it is the strongest option because integration of the social security system into the wider public services reduces its visibility and hence the stigma that some people may perceive they are subject to when they claim benefits.

4.74. Applying the same arguments to the remaining options, option 2 has the potential for creating more awareness and those who prefer face-to-face contact would have that channel of accessing the system through local offices. On the other hand, the visibility of local offices and the lack of privacy in smaller communities could lead to greater stigma, which would not be the case under options 1 and 4. A centralised agency would allow more resources to be dedicated to devising strategies for increasing benefit take-up. Most third sector organisations have said that in-kind provision could increase stigma. However, where in-kind provision is optional the argument does not necessarily apply. Option 4 also performs better on

public perception of claimants. With so many factors at play, it is difficult to rank options 1, 2 and 4 on this criterion in relation to each other at this stage.

	<u>Criteria</u>	<u>Strongest</u>			<u>4th</u>	<u>5th</u>	<u>Weakest</u>
8	Take up	1	2	4	6	3	5

4.4.3 Income and poverty

4.75. Although the majority of the caseload and expenditure on the devolved benefits is on non-means tested benefits, there are several reasons why different ways in which the benefits are delivered could have an impact on those on low incomes and in poverty . Each are discussed in this criterion in turn.

4.76. Firstly, the Scotland Act (2016) includes powers to top up and create new benefits, which could in the future lead to more means-tested devolved benefits. If these powers are exercised in the future, they would require close alignment with DWP, because of their interaction with the reserved benefit system. Therefore, the easier it is for the system to interact with DWP, the easier it would be to top-up reserved benefits and design new benefits that would interact with the reserved system. Rankings against criteria 12 indicates that options 1, 4 and 2 perform better against this measure, whilst the more complex systems which involve other organisations perform worse, with option 6 being the weakest.

4.77. Secondly, the recipients of most existing devolved benefits are more likely to be on low incomes. Therefore, one of the factors involved is the cost of interaction with the system for the claimant. Making a phone call on a free phone line will be the cheapest way for the claimant to contact the agency, and Options 1 and 4 provide the best phone support service. They would also offer the most streamlined online service which would be a cost effective way for people to apply, but this assumes internet access or proximity to services such as a library or third sector organisation office. Under Options 2 and 3, where more resource is dedicated to face-to-face support, travel to and from the local office could incur costs for claimants, especially those living in remote areas. However, Option 3 has the advantage of minimising travel for people who are claiming other benefits administered by Local Authorities, such as Housing Benefit or Scottish Welfare Fund components, or are accessing other Local Authority delivered services. On Option 6 the argument is similar as the phone and online service would be smaller. Option 5 has the highest risk of costs of interaction being placed onto claimants.

4.78. Finally, administrative error, delay and communication channel failure are often the causes of income gaps and a system that minimised the chance of those occurring would have the potential to have a positive impact on poverty. From this perspective, Option 1 performs best, as it is the simplest and most efficient system (see criterion 11). Option 2, with an additional layer of local offices that manage their own caseload but also interact with the central agency is likely to slow processes down and create more scope for delay and error. The additional choice in the form of in-kind provision under Option 4 would also create room for error and

delay in relation to stock management. Options 3 and 6 are the more complex systems and is therefore considered to be weaker.

4.79. Although there are several different perspectives from which options' performance on this criterion can be assessed, the way that options perform against them is similar.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
9	Income and poverty	1	4	2	6	3	5

4.4.4 Consistency and fairness

4.80. This criterion measures the extent to which each option can ensure that people in the same situation can achieve the same outcomes. This includes consistency of advice, support, decision making and ability to challenge decisions made.

4.81. Options 1 performs best under this criterion, as all social security system functions, including decision-making, sit together within one centralised agency. Continuous training can be delivered to all staff who interact with claimants over the phone or online to ensure that all claimants receive the same service.

4.82. Under option 2, with caseload locally managed and decision-making made in local offices, ensuring consistency is more challenging. Different practices could develop in different locations over time, in response to the idiosyncrasies of each geographical area. This can be mitigated against through centralised training, but compared to options 1 and 4 is more difficult and costly to implement.

4.83. Under option 4, despite there being a centralised agency, some consistency may be compromised because of the option for in-kind payments. This increases the complexity of the system and it may be that people opting to receive physical goods instead of cash payments would have to liaise with a different part of the agency. It is also more difficult to ensure that all claimants that opt for the same type of good end up receiving exactly the same product, as it is likely that in some instances certain stock will run out. Ensuring that everyone received the same product over time, as new products develop and old ones are taken out of production could lead to dissatisfaction, especially in relation to durable goods such as aids and appliances for disability benefit claimants.

4.84. Under options where other organisations are involved in delivery, ensuring consistency is more challenging than under agency-based options. The most complex, and hence most challenging, in terms of consistency is option 6. As claimants access the social security system via different public services, the support they are provided with, the application channels that are available to them and the mechanism through which they can monitor the progress or status of their claim would vary to a great degree. To ensure consistency, and therefore fairness, would be a significant challenge and is likely to take a significant length of time under this option.

4.85. The same argument can be applied to option 3, with claimants more likely to face inconsistencies in how they access the system and the outcomes of assessments, as these would be done by different local authorities across the country. The separation between the responsibility for undertaking assessments and the decision-making on assessments could lead to further inconsistencies. There could also be some variation in terms of advice and support.

4.86. Under option 5, advice and support, as well as assessments, would be delivered by another organisation. This could deliver some consistency but there are many unknowns around how that organisation would choose to set up its operations and deliver the training. The procurement contract or the SLA could set out specific requirements in relation to consistency but specifying the exact requirements would be challenging. It is also likely that inconsistencies could arise at some stages of delivery and it is the ability of the organisation to monitor and respond to this that is a big factor in ensuring that any issues are identified and dealt with promptly. This would be difficult for the agency to enforce once a contract has been awarded.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
10	Consistency	1	2	4	5	3	6

4.4.5 Implementability and Risk – summary table

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
7	Interaction with various groups	1	4	2	6	3	5
8	Take up	1	2	4	6	3	5
9	Income and poverty	1	4	2	3	5	5
10	Consistency	1	2	4	5	3	6

4.5 Efficiency and Alignment

4.87. The following outcomes set out in *Creating a Fairer Scotland* were used to create the Efficiency and Alignment criteria set.

The Scottish social security system is:

- administered in a **swift and streamlined** manner which meets the needs of recipients
- accessible, user friendly and simple to access
- **aligned** effectively as possible **with the reserved benefit system**
- **aligned** effectively as possible **with other services** to help ensure recipients get the support they need

Scottish benefits:

- **target the right people** and seek to impact on poverty and inequality
- **are paid to as many of those who are entitled** to them as possible whilst **minimising fraud and errors**

People resident in Scotland:

- see Scottish benefits as providing **value for money**



- 11. System efficiency and flexibility
- 12. Alignment with reserved benefit system
- 13. Alignment with local and devolved public services
- 14. Control
- 15. Transparency

4.5.1 System efficiency and flexibility

4.88. This criterion comprises several components, which define the efficiency and flexibility of the social security system. These include; the speed and simplicity of processing a claim, the effectiveness of identity checking, the error and fraud prevention processes and the ability of the system to respond quickly to challenges and changes in priorities and direction.

4.89. Some of these elements are similar to those that are discussed under the Dignity and Respect criteria set. The key difference is that the rankings under this criteria set are from the system rather than claimant perspective.

4.90. Although options 1 and 4 are the most simple in terms of the set-up of the system, it may not deliver the most efficient and simple way of processing claims. There are several reasons for this. There are likely to be time savings and efficiency gains associated with limiting support to phone and online services only. However, if the level of support is more comprehensive than what can be provided in local offices, e.g. with specialist support to accommodate different requirements and needs of claimants, then these time savings may not be substantial. In a highly digitalised system, where all of the caseload is processed centrally, the processes in place are likely to be more efficient as local offices or other organisations are not involved.

4.91. However, identity checking may be more difficult in a setting where the face-to-face contact is limited to assessments. This may mean a slower service, as all documents and evidence have to be submitted digitally or by post, as opposed to directly to a local office. The level of attempted fraud may also be higher under options 1 and 4. In addition, there could be more scope for error if all information is submitted over the phone and claimants themselves may be more likely to make errors when filling in online forms, especially if they are not frequent users of the internet. These factors would complicate the system, potentially offsetting the time savings from limiting face-to-face contact.

4.92. Option 4 is likely to be marginally less efficient compared to option 1, simply due to the additional complexity of providing in-kind good and managing contracts.

4.93. Therefore, option 2 could have the right balance between central functions and availability of face-to-face support. Locally managed caseload management would complicate the ease and speed with which the system can respond to changing requirements and priorities, although with a unified IT system, this should not be a large obstacle to overcome. With local offices being part of the same organisation, it should be relatively easy to implement changes in processes should these be needed.

	Criteria	Strongest	2nd	3rd	4th	5th	Weakest
11	System efficiency and flexibility	2	1	4	5	3	6

4.5.2 Alignment with reserved benefit system

4.94. This criterion looks at how easy it would be to achieve alignment with the reserved benefit system currently delivered by DWP and HMRC. Means-tested benefits, such as Jobseekers Allowance, Employment and Support Allowance and Income Support will continue to be the responsibility of DWP. Working Tax Credit and Child Tax Credits remain the responsibility of HMRC. Housing Benefit policy is the responsibility of DWP but the administration of payments sits with Local Authorities. With the rollout of Universal Credit, these six main means-tested benefits, will be rolled into a single benefit and become the sole responsibility of DWP.

4.95. There are a number of reasons why there are benefits in ensuring that the Scottish Social Security system is aligned sufficiently well with the DWP system. The main reason involves the powers devolved to the Scottish Parliament to top up and create new benefits. To design and implement effective policy utilising these powers, information on a claimant's entitlement for reserved benefits may be useful. For example, if the Scottish Government was to consider creating a benefit that is means-tested through a taper²⁶. Careful policy design would be required to avoid the Scottish benefit taper overlapping with the Universal Credit taper in a way that leads to claimants losing more than £1 in benefit for every additional £1 they earn. Another significant issue is that of people moving from Scotland to other parts of the UK and how the systems could be aligned to ensure continuity of payments.

4.96. Where information needs to be exchanged between two systems, simplicity of structure is advantageous. Agency-based options rank stronger on this criterion compared to other options as DWP would interact with a single organisation rather than a system with many different organisations. This could facilitate data exchange, as agreements would need to be reached between two governance structures rather than several. Local caseload management may introduce an additional complication into the system but with local offices being part of the agency, the main implication of this is likely to be around the speed of information exchange rather than its feasibility.

4.97. Option 4 ranks lower than options 1, 2 and 3 on this criterion. This is because where a claimant chooses to receive a payment in kind, instead of a benefit, this would constitute a significant departure from the DWP policy where, apart from notable exceptions such as the Motability scheme, most benefits are paid in cash. This could create problems around information sharing with DWP if DWP systems do not allow for recording of such information. In general, the further the Scottish social security system diverges from the DWP model, the more difficult information sharing will become. Also, in the case of durable goods, this could create problems for example where people move from Scotland to the rest of the UK and what that means for their benefit entitlement from the DWP's perspective.

²⁶ Benefit tapering refers to a method of gradually withdrawing a benefit as income rises. For example, a 10% taper means that benefit level is reduced by 10p per £1 earned above a certain income threshold.

4.98. Data sharing agreements would be easier to reach when the data does not have to be shared any wider than the agency. This would not be the case with options 3, 5 and 6, where several organisations are in charge of administering benefits and therefore collecting and using information in relation to social security.

4.99. Option 6 has a large number of public sector organisations involved and this would complicated alignment with DWP. Different processes and systems in place would make it challenging to link to the DWP systems and significantly slow down any information exchange.

4.100. Because there would be only one additional organisation under option 5, it is likely that aligning with DWP would be easier. Option 3 ranks better than options 5 and 6 because Local Authorities already play a role in delivering some social security benefits and have the systems in place that interact with DWP already, for example in administering Housing Benefit. Option 3 also ranks higher than option 4, because the added complication of divergence from DWP as a result of paying benefits in-kind is not relevant of option 3.

	Criteria	Strongest	2nd	3rd	4th	5th	Weakest
12	Alignment with reserved benefit system	1	2	3	4	5	6

4.5.3 Alignment with local and devolved public services

4.101. This criterion considers several different dimensions in terms of alignment – with respect to assessments, Local Authority services and employability services devolved in the Scotland Act 2016.

4.102. Option 6 represents a large scale integration of social security system into services that are already provided by the wider public sector in Scotland. This means that the NHS, schools, colleges, prisons and police, among others, become the gateways into the system by growing to accommodate the additional responsibilities in relation to social security. This would allow for better alignment with the services that the social security payment recipients may already be using. For example, with respect to disability benefits, there is scope for alignment with the NHS which already holds health records that are relevant to the person's disability benefit claim. This information could be utilised when doing assessments, and the award decision would be made based on information that is held by the same organisation. Because of the large number of public organisations involved in the delivery, there is more scope for alignment and hence greater efficiency of the wider public service.

4.103. Local Authorities currently administer a number of social security payments, including Discretionary Housing Payments, Scottish Welfare Fund payments and Housing Benefit. Under option 3, local authorities can build on the processes that are already in place to expand their advice and support functions. Local Authorities

also provide other services such as assessments for social care, where there would be benefits from alignment.

4.104. At the other end of the scale, option 5 would provide very little room for alignment with a large part of the social security system being delivered by private or third sector organisations. The organisation that is awarded the contract is unlikely to have any substantial established links with the wider public sector. Also, contracts are time limited and any alignment to existing services that is established would be lost if the contract is subsequently awarded to a different organisation.

4.105. The agency-based options sit in the middle in terms of ranking. Under options 1, 2 and 4, most of the social security system would be delivered by the new agency. The agency would be a new addition to the public sector landscape and will not have any established links. However, being a permanent public sector organisation, alignment with existing services could be established. A simpler centralised structure for the agency is likely to facilitate that and hence options 1 and 4 rank higher than option 2. Creation of new local offices, each with their own caseload management functions, would make it more difficult to align to local authorities, who also have their own offices. Too much complexity in the system could lead to difficulties in establishing which layer of the agency is responsible for alignment with which public sector organisation. Option 4 ranks lower than 1 because of additional complexity of in-kind provision.

	Criteria	Strongest	2nd	3rd	4th	5th	Weakest
13	Alignment with local and devolved public services	6	3	1	4	2	5

4.5.4 Control

4.106. This criterion refers to the level of Ministerial control over the social security system, facilitating the ability to implement policy changes quickly. Regardless of the exact set-up of the agency structure, Ministers will play a role in setting out the remit for the agency and it is expected that this will be an ongoing process where the remit is subject to change in response to evolving priorities. It is expected that any changes in administration could lead to changes in remit.

4.107. The agency-based options 1, 2 and 4 allow the most control in terms of the delivery of social security. They rank highly on system efficiency and flexibility (criterion 11) which facilitates the relative ease of implementing changes. Option 1 and 2 are deemed to provide a similar level of control, however option 4 may provide less because of potential on-going contracts with organisations that provide in-kind goods, which may limit control over the contract periods.

4.108. Incorporating other organisations would limit the scope to change the remit of the agency quickly and efficiently should the need arise. Under option 3, any changes in delivery would have to be agreed across all Local Authorities, which

would slow down the process. Option 6 involves a great number of organisations, and many different governance structures would be involved if a change in remit or processes needs to be implemented. However, unlike under option 5, all organisations involved are part of the wider public sector. Where a substantial part of the delivery system is operated by a private or third sector organisation, ministerial control over the system would be minimal for the duration of contract. Option 5 is therefore the weakest against this criterion.

	<u>Criteria</u>	<u>Strongest</u>			<u>4th</u>	<u>5th</u>	<u>Weakest</u>
14	Control	1	2	4	3	6	5

4.5.5 Transparency

4.109. This criterion evaluates each option in terms of how easy systems of monitoring, evaluation, reporting and parliamentary / independent scrutiny can be delivered alongside the main functions of the social security system.

4.110. Option 6 performs poorly against this criterion. A clear theme in the evidence gathered as part of the Options Appraisal was that options where accountability is shared across a number of layers are problematic in a number of respects. Option 6 has, by some margin, the highest number of people responsible for running the social security system, mainly embedded in existing public sector organisations. The scope for human error, miscommunication and inconsistency in standards of service across organisations under option 6 is considerable, making monitoring of the system particularly difficult. These drawbacks to option 6 places it as the worst option.

4.111. At the other end of the scale, central agency models in options 1, 3 and 4 ranks strongly against this criterion, because accountability is concentrated in a single agency. Under these options, staff involved in processing applications, calculating eligibility, making payments to users and managing dispute resolutions/appeals are based in the same office. This makes monitoring of communications between staff and users, and evaluations of decision making processes, for example, much more manageable. It should be noted, however, that a culture of transparency is not simply a function of the form of the agency. Ensuring transparency is likely to be a challenge under any of the chosen options.

4.112. There is little distinction between how the agency operates under options 1 and 4, and so they are ranked equally the highest against the criterion. Under option 3, assessments are not carried out by the agency, but by local authorities, therefore potentially adding more complication in monitoring this key part of the system.

4.113. Option 2 ranks somewhat strongly against the criterion, however, because the many of the functions of the agency are dispersed across a number of local offices, this adds a layer of difficulty in monitoring and evaluating decision making that is not the present in options 1,3 and 4.

4.114. Option 5 ranks relatively poorly against the criterion. Evidence from the consultation found that, in general, respondents were in favour of public over private sector delivery, particularly due the scrutiny, transparency and accountability required of public sector services. Similar to option 6, accountability will be shared across a number of layers in the system and some of these will be private contractors. Currently assessments are carried out by private contractors. Evidence from the consultation shows respondents felt that the high number of successful appeals demonstrated the poor quality of decision making by assessors and a lack of transparency in how assessments are conducted.

	<u>Criteria</u>	<u>Strongest</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
15	Transparency	1	4	3	2	5

4.5.6 Efficiency and Alignment – Summary table

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
11	System efficiency and flexibility	2	1	4	5	3	6
12	Alignment with reserved benefit system	1	4	2	3	5	6
13	Alignment with local and devolved public services	6	3	1	4	2	5
14	Control	1	2	4	3	6	5
15	Transparency	1	4	3	2	5	6

4.6 Implementability and Risk

4.115. Assessing options against implementability (or feasibility) is a standard part of option appraisals. We have adapted the Scottish Transport Appraisal Guidance²⁷ on this issue to meet the requirements of this appraisal.

STAG Guidance

- Feasibility – a preliminary assessment of the feasibility of construction or **implementation** and operation (if relevant) of an option...as well as any cost, **timescale** or deliverability risks associated
- Affordability – the scale of the financing burden on the promoting authority and other possible funding organisations and the risks associated with these should be considered together with the level of **risk** associated with an option's on-going operating or maintenance costs
- **Public Acceptability** – the likely public response is of importance at this initial appraisal phase and reference to supporting evidence, for example results from a consultation exercise must be provided where appropriate



16. Scale of Change and Timescales

17. IT systems risk

18. Assessment system risk

19. Public Perception

²⁷ <https://www.transport.gov.scot/our-approach/industry-guidance/scottish-transport-analysis-guide-scotttag/>

4.6.1 Scale of change

4.116. This criterion is related to the complexity of each option and the relative extent of change that its implementation would entail in terms of new systems and infrastructure.

4.117. Options 6 ranks as the weakest option against this criterion. The scale of transformation of the existing public sector landscape under option 6 is comparable to that which is on-going as a result of the integration of Health and Social Care in Scotland. At an abstract level, this reform program is designed to bring together two existing services, which were previously delivered separately by the NHS and Local Authorities. Notwithstanding the challenges of replicating and potentially increasing the scale of this reform, an added difficulty in implementing option 6 is that apart from the benefits administered by Local Authorities, there is no existing system in Scotland which delivers social security payments. Therefore, option 6 presents a more significant change to Scotland's public sector landscape, by integrating existing services with delivery of payments which were previously reserved to the UK Government. The risk associated with this option is that it will face similar challenges that have been noted by Audit Scotland in delivering Health and Social care integration, such as funding negotiations between NHS, local authorities and Scottish government²⁸.

4.118. Option 5 ranked slightly higher than option 6. Certain private sector organisations are already contracted by DWP to carry out assessments for disability and incapacity benefits in Scotland, so option 5 eliminates the complexity of building capacity for assessments to be undertaken in the public sector. In addition, some third sector organisations have existing expertise and experience of advice and support, which could be built upon. Despite these advantages the extent of outsourcing proposed under this option goes beyond the experience of the DWP model, with many of the essential functions of social security being outsourced to any number of private or third sector parties.

4.119. Within the options where the agency delivers most of the functions of social security (options 1, 2 and 4), option 2 is the weakest because of the added complexity of setting up multiple local offices, which involves hiring staff to work in local areas, identifying and leasing premises and preparing them operationally. Under option 4 the complexity of setting up local offices is removed and therefore it is ranked higher than option 2. However, under option 4 there is still the added complexity of delivering in-kind benefits through setting up contracts with third party providers, which is not present in option 1. Option 4 represents a shift towards a different approach to providing social security to the existing one and is more likely to present additional challenges, which may not be known from the outset.

4.120. Option 3 ranked highly because of the elements of the new social security system which will be delivered by local authorities, who already deliver some social security functions such as one-off payments (Scottish Welfare Fund), benefit maximisation and assessments for social care. This means that local authorities are

²⁸ Audit Scotland http://audit-scotland.gov.uk/uploads/docs/report/2015/nr_151203_health_socialcare.pdf

well placed to deliver some of the social security system, than would be the case under options 1, 4 or 2, where these functions would sit with the central agency and would be required to be set-up from scratch.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
16	Scale of change	3	1	4	2	5	6

4.6.2 Timescale

4.121. This criterion is related to the likely timescales required to implement each option. The ranking of the options under this criterion aligns with the scale of change criterion 17, however there are some key differences.

4.122. Unlike in criterion 17, option 5 ranks highly because there are existing providers in the marketplace that could take on certain functions of the social security system relatively easily, efficiently and quickly. This is certainly the case for IT and payment systems, assessments and advice and support services. Contracts with third parties to deliver other aspects of the social security system will be more challenging from a procurement perspective and, as has been elaborated in other criteria, may fall short of delivering some of the medium and long-term outcomes. However, the likelihood that a service could be established relatively quickly is higher.

4.123. Options 6 ranks as the weakest option against this criterion. The scale of transformation of existing public services required under this option is likely to increase time to delivery. Option 6 requires a large number of existing staff to take on new responsibilities as opposed to recruiting fewer new staff dedicated to delivering social security. Option 2 does not rank strongly against this criterion because unlike other options, many of the functions will be replicated in offices across Scotland. Coordinating the activity of these local offices, identifying and leasing premises and preparing them operationally will extend the time to delivery compared to other options with a central agency.

4.124. Options 1 ,2 and 4 are all centred around a central agency delivering most of the functions of social security. Option 3 is marginally better in terms of timescale because existing discretionary benefits will continue to be delivered by local authorities and existing advice and support services will be built upon to deliver a 'front-door' for social security, all of which is likely to reduce time to delivery. Option 4 is marginally worse than option 1, because the added complexity in delivering in-kind benefits is likely to increase timescales.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
17	Timescale	5	3	1	4	2	6

4.6.3 Risk

4.125. This criterion refers to the likelihood that agency systems, such as IT, assessments and administrative systems, will fail or not deliver to specification. Failures under any option would cause significant disruption to users and reputational damage to the Scottish government.

4.126. Option 6 ranks as the weakest option against this criterion. As the option most likely to have a significant impact on existing public sector organisations, it is likely that a failure to deliver social security might also impact on these organisations. For example, if assessments are conducted in NHS premises using medically trained staff, an administrative failure might impact on the rest of the organisation. In terms of IT, the number of potential users of the system under this option will compound the scope for human error, increasing the likelihood of sensitive personal data being misused and cyber-attacks.

4.127. Option 5 also ranks as one of the weaker options against this criterion. In terms of assessments in particular, the reputational damage from these assessments failing to meet specification is likely to also be significant for the Scottish Government compared to other options where assessments are conducted 'in-house'. There is also scope for miscommunication between different parties that deliver social security functions, leading to gaps in the system for users, which would lead to further reputational damage.

4.128. Option 3 ranks strongly against this criterion which is driven, in part, by the lower risk around running assessments, advice and support, and the fact that local authorities will deliver discretionary benefits separately from the central agency. Local authorities already carry out assessments for social care, so existing practices and systems could be built upon to deliver assessments in a similar way. In addition, local authorities may have spare capacity in their estate portfolios to accommodate rooms for assessments to take place across their local area. An IT or administrative failure in the central agency could mean that delays in paying benefits could affect all benefit recipients across Scotland, however, under option 3 discretionary benefits will be protected as they are still administered separately by local authorities. Local Authority systems could provide a form of back up if problems arise in other areas of social security delivery.

4.129. Options 1 and 4 rank relatively weakly against this criterion, partly driven by the assessments system. Assessments under options 1 and 4, are carried out by a mobile workforce, who medically assess people in their home or in a location of their choice (e.g. third sector organisation premises). The logistical challenge of designing a system which can manage around 500 staff with no permanent base, and manage their workloads around the preferences of claimants in terms of home-based assessments or local premises based assessments, presents a greater risk of system failure than under any of the other options. The delivery of in-kind benefits under option 4 ranks this option as weaker than option 1.

4.130. In addition to assessments, administrative errors or processing backlogs in a central agency (options 1 and 4) will affect almost all recipients across the country. Under option 2 this is less likely to be the case, as caseload management is at a local level and these offices may be more flexible in responding to local pressures and challenges than a central agency.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
18	Risk	3	2	1	4	5	6

4.6.4 Public Perception of system

4.131. Whilst Criterion 6 assessed which option was best placed to shift public perceptions of social security users, this criterion assesses public perceptions of the Scottish Government's delivery of a social security system. Specifically, this criterion will assess each option against the likelihood that the public view of the delivery system and its efficiency positively or otherwise, across the six options.

4.132. Option 5 ranks worst against this criterion. There is significant public and political scepticism of private sector providers delivering aspects of social security in the UK, based on recent experiences. Concentrix, a private company used by DWP to review possible fraud and error in claims for tax credits by UK households has been heavily criticised by the UK Government's Work and Pensions Committee for a series of failings resulting in vulnerable people losing legitimate entitlement to tax credits. Although it is by no means a certainty that contractors working on behalf of the Scottish Government would have similar failings, it does not seem reasonable to dismiss the experience of UK Government contracts.

4.133. Options 1, 2 and 4 perform relatively well against the criteria because the social security agency will have a strong 'brand' and be more visible to the wider public than under options where the agency is more diffuse and embedded in existing organisations to a lesser or greater degree . This options are ranked equally strongly, as the presence of local offices or in-kind goods is not likely to impact of the branding. Option 3 also implies these qualities, but the association with local authorities, rightly or wrongly, could compromise public perceptions of the service provided in these offices.

Under option 6, rather than being delivered through a central agency, social security payments will be delivered by public organisations which are not primarily associated with the stigma of claiming benefits, such as the NHS, schools and local authorities.

	<u>Criteria</u>	<u>Strongest</u>			<u>4th</u>	<u>5th</u>	<u>Weakest</u>
19.	Public Perception	1	2	4	3	6	5

4.6.5 Implementability and Risk – summary table

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
16	Scale of change	3	1	4	2	5	6
17	Timescales	5	1	4	3	2	6
18	Risk	3	2	5	6	1	4
19.	Public Perception	1	2	4	3	6	5

4.7 Economy, Society and Environment

4.134. The following outcomes set out in *Creating a Fairer Scotland* were used to create the Economy, Society and Environment criteria set.

Outcomes:

People resident in Scotland:

- see Scottish benefits as providing **value for money**

Other **public and third sector** services:

- function better and experience less pressure due to the changes to social security in Scotland

4.135. In addition, this criteria set has been informed by wider Scottish Government objectives such as a delivering sustainable economic growth , which is characterised by a number of priorities in the *Scotland's Economic Strategy* and *Regeneration Strategy*²⁹:

Communities, local assets and housing

- We are acting to catalyse local level investment including **regeneration** in our most disadvantaged communities, bringing empty town centre properties

Business Investment

- Infrastructure investment attracts **business investment, stimulates economic activity** and deepens access to the **labour market**.



- 20. Employee job satisfaction - assessments**
- 21. Employee job satisfaction – non assessments**
- 22. Regeneration**
- 23. Business development**
- 24. Third sector organisations**
- 25. Public sector organisations**
- 26. Resource consumption**
- 27. Travel and transportation**

²⁹<http://www.gov.scot/Topics/Economy/EconomicStrategy>
<http://www.gov.scot/Resource/Doc/364595/0123891.pdf>

4.7.1 Employees job satisfaction - assessments

4.136. The ‘employee – assessments’ criteria refers to the level of job satisfaction amongst employees carrying out face-to-face assessments under each option. This includes aspects such as responsibilities, caseload per employee, quality of premises, morale and engagement.

4.137. Evidence gathered in the appraisal process pointed to the importance of favourable terms and conditions for staff carrying out assessments, as well as a safe environment for staff to conduct assessments. Against these factors, options 1 and 4 were ranked the as the weakest options, as staff would be remote from management, meaning potentially poor monitoring of wellbeing, lower morale and less cohesion across the workforce.

4.138. Although options 1 and 4 appear attractive in terms of flexibility of work patterns for some staff, the logistical necessity of timetabling assessments at multiple locations across a geographical area could lead to increased levels of anxiety and higher staff turnover. These options would also require a lot of travelling especially for staff in remote areas and greater variability in the quality of premises could make the job unappealing for professional staff³⁰. Finally, a mobile workforce does not necessarily mean one that is integrated with local services, or one that has knowledge of the local area. There is a greater possibility that this could be achieved under option 6 or options 2 and 3, with a network of local offices.

4.139. Under option 5, the potential for target driven practices even where these are not specified in the contract, and less ownership of the process by employees – with decision making sitting with the central agency – is also of some concern for staff morale under this option.

4.140. Options 2 and 3 were more highly ranked due to the fact that staff would have a permanent place of work compared to options 1, 4 and 5 (depending on the specifics of a contract). A permanent place of work is more likely to encourage a cohesive workforce, with higher morale. Option 2 was viewed as marginally weaker, as both those carrying out assessments and decision-makers would be based in the same local office, potentially increasing the stress involved for staff making the initial assessment.

4.141. On balance, option 6 was ranked as the best option in terms of employee job satisfaction. Under option 6, employees carrying out assessments would be embedded into the NHS. Medically qualified staff might prefer this model to one where staff sit outside of the NHS. They would also have more information at their disposal which could make their job easier and be viewed more positively by people they are assessing because of the affiliation to the NHS. All of these factors are likely to have a positive effect on staff morale and retention.

³⁰ There is some evidence that feelings of happiness, life satisfaction and the sense that one's activities are worthwhile all decrease with every successive minute of travel to work, Commuting and Personal Well-being, 2014, Office for National Statistics

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>Weakest</u>
20	Assessments - employees	6	3	2	5	1
						4

4.7.2 Employees job satisfaction – non assessment employees

4.142. This criteria refers to the level of job satisfaction of social security system employees, excluding those that carry out face-to-face assessments as discussed in criterion 20.

4.143. Evidence gathered in the appraisal process pointed to the importance of favourable terms and conditions, a good work-life balance, engaging work, a positive relationship with management, and general cohesion between different parts of the system. This meant that options which extended better terms and conditions to more staff, implied reduced travel time for staff, were more agile and joined-up in administrative set-up and meant management were more visible to all staff were ranked relatively highly.

4.144. Option 5 also performed poorly against the criteria. This was driven by the fact that employee terms and conditions would be outside of control of the public sector and hence bear more risk of being less favourable. Public perception of outsourcing of social security to the private sector is generally negative and this may have an impact on the nature of interaction with claimants. If the contract is with a third sector organisation, there would still be a challenge to communication between governance and delivery of social security functions, complicating the operational processes

4.145. Option 6 also was ranked as a weaker option. This was driven by the number of layers within the system, which was judged difficult for staff to navigate quickly, impeding the ability for staff to retain and relay information. This presents a particular problem in training new staff, particularly if their role in the social security system is secondary to their primary occupational role (i.e. GPs, teachers, prison staff). By its very nature option 6 would mean that communication between management in the central agency and a diffuse network of agencies delivering social security functions would be more challenging than under other options. However, because staff under option 6 will maintain employee conditions of the public sector, this is ranked higher than option 5.

4.146. Option 2 was ranked as the strongest option. A greater degree of managerial presence at local levels may be positive for workforce cohesion and morale. Also, the fact that social security will be delivered in many different locations in Scotland, means that jobs will be transferable between locations, which may be attractive to staff who need to be flexible in terms of their place of work. Key to the success of a the agency is that employees believe that the decisions they

make and the work they perform has a direct impact on the services the agency provides. Under options 1 and 4 where the vast majority of the interactions with claimants is via a call centre or online chat service, this will be harder to achieve than under option 2 where there will be more face-to-face interaction with claimants. The benefits to staff of transferring location are also not available under options 1 and 4.

4.147. Finally, option 3 performed poorly against this criteria because of the challenge local authority staff would have with the interactions between social security and other functions of local government. Unlike a single agency with local offices, option 3 opens up the possibility of different practices in both implementing policy and administering benefits, than would be the case under a single agency (with or without local offices).

	Criteria	Strongest	2nd	4th	5th	Weakest
21	Employee job satisfaction – Non-assessments	2	1 4	3	6	5

4.7.3 Regeneration

4.148. This criterion refers to the potential regeneration impact under each option. Regeneration refers to the holistic process of reversing the economic, physical and social decline of places where market forces alone won't suffice. The Scottish Government's vision, as set out in the Regeneration Strategy³¹, is of a Scotland where Scotland's most disadvantaged communities are supported and where all places are sustainable and promote well-being. In a strategic context, regeneration also supports sustainable economic growth through promoting cohesion (reducing the disparity between regions of Scotland) and solidarity (reducing the inequalities across all individuals).

4.149. Ranking options against the regeneration criteria involves a trade-off between the potential transformational impact of regeneration concentrated in a single area (for example under options 1 and 4), and a number of smaller impacts which are distributed across many areas in Scotland (for example under option 2 and 3). Given that a relatively small number of staff will be employed in local offices under options 2 and 3, it is likely that any wider regeneration impacts will be small, and that additional impacts on local economies may be marginal. Option 1 and 4 will employ a significant number of staff in a single area, which could support the regeneration of a deprived area and have a tangible positive impact on the local economy, although the potential for displacement of alternative business activity is also a greater risk under these options.

4.150. Options 1 and 4 perform strongly against the regeneration criteria, because a central agency could employ a large number of staff in one geographical area with significant regeneration potential, and provide additional economic benefits to

³¹ <http://www.gov.scot/Resource/Doc/364595/0123891.pdf>

the local economy. Locating a large office development in a deprived area will potentially increase footfall for local businesses and attract new businesses to the area. Option 4 ranks slightly better because more staff are employed in the central agency.

4.151. Options 2 and 3 perform relatively strongly against the regeneration criterion. Under option 2, a network of local offices will be established with a similar footprint to DWP jobcentres (some local offices may be co-located with these jobcentres). Therefore, option 2 could potentially deliver some regeneration benefits to town centres by occupying empty business premises in high-streets across Scotland and the displacement effect is likely to be smaller. Although, local authorities are well placed to coordinate economic development and regeneration activity, under this option 3 it is likely that more existing premises will be used to accommodate additional staff than under option 2 .

4.152. Options 5 and 6 rank poorly against the regeneration criteria. Option 6 would involve using pre-existing estate within the NHS or other public agencies to deliver aspects of the social security system, this would reduce the additional regeneration impact of this activity. Option 5 could potentially deliver some regeneration impact, if contracts were written to ensure that companies leased buildings in particular areas. However, the impact may be transitory compared to other options, as the business contracts come under review. Staff turnover may also be higher in this model, reducing some of the potential impact of regeneration.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
22	Regeneration	4	1	2	3	5	6

4.7.4 Business development

4.153. This criterion measures the impact on employment and business activity in wider economy under each option.

4.154. Similar to the regeneration criterion, option 6 ranks the worst in relation to the business development criterion. Option 6 involves using pre-existing premises within the NHS or other public sector organisations. It also implies recruiting fewer additional staff, as this option involves extending the responsibilities of existing staff within public sector organisations. The additional spending power of any new employees to support business development under this option is therefore limited.

4.155. Option 5 ranks particularly well against the business development criteria. By definition, under option 5, the impact on business development will be positive as most of the functions of social security will sit with private contractors (notwithstanding the possibility that this option will bring in not-for-profit third sector providers to take-on some functions such as assessments). Adopting option 5 will mean that more people in Scotland will be employed in the private sector, rather than the public sector – as is the case with all other options.

4.156. It is assumed that a central agency model (options 1 and 4) will be better for business development than a local office model (options 2 and 3), because the benefits to businesses under options 2 and 3 will be marginal, more difficult to identify and diffuse in nature. However, locating a central agency in a relatively deprived area, and in a location with a high local multiplier on investment, means that the additional spending power of employees located in the area will boost local business activity and employment.

4.157. The ranking of options 1,2, 3 and 4 are similar to the ranking under the regeneration criterion, however, there are some key differences. Option 1 is ranked higher than option 4 because paying benefits in cash under option 1 (rather than in-kind) will impact local communities, as the funding could be spent in local businesses and community assets. Option 2 is ranked higher than option 3 because more staff will be employed under this model of local offices, potentially giving a greater boost to local economies.

	Criteria	Strongest	2nd	3rd	4th	5th	Weakest
23	Business Development	5	1	4	2	3	6

4.7.5 Impact on the Third Sector

4.158. This criterion refers to the extent to which demand on third sector organisations in areas such as advice, information provision and application assistance, can be mitigated under each option. Broadly, options which have the potential to reduce demand on the third sector are ranked highly.

4.159. We assume that third sector organisations receive the same level of public funding, regardless of the chosen option, except option 5 where third sector organisations could take on contracts to administer certain functions of the social security agency.

4.160. Evidence from the consultation showed that delivery responsibilities might pose a conflict of interest, impacting on the independence of advisors and potentially undermining the relationship between third sector organisations and users of the social security system.

4.161. If the contract is awarded to a private sector organisation, option 5 still ranks poorly against this criteria. Except in circumstances where an exceptionally well-specified series of contracts can be agreed upon with contractors, it is likely that the social security system will become more confusing for users to navigate than the current status quo. Separate companies managing different functions of the social security system will not necessarily have effective, joined-up communication arrangements with the public, and intra-organisational communication may also be poor, especially if there is no contractual obligation or commercial incentive to do so. Given these circumstances, option 5 is more likely to

increase the current demand on third sector advice services that guide users through the complexities of the social security system.

4.162. For similar reasons, option 6 also ranks poorly against this criteria, because separate organisations (rather than a single agency) will be responsible for administering social security. Increasing the number of layers in the system ultimately makes it more difficult for a user to navigate, as there is no obvious ‘front door’ for social security. Options 2 and 3 rank highly against this criteria. Under both of these options, there is a clear ‘front door’ for social security, and a network of local offices providing advice and support for users. Therefore, the pressure on the third sector’s role in offering advice and support under this options may be reduced compared to the status quo.

4.163. In option 1 and 4 the agency will be centrally located, and the majority of claims will be made online or over the phone. Given this, the role of the third sector will be relatively high compared to options 2 and 3, because some clients may need additional assistance face-to-face support to begin a claim, or get information about social security which not would be available at a local office under option 1. Under option 4 users may wish to seek advice from the third sector on whether to choose cash or in-kind goods, which would create additional demand for their services under this option. Also, evidence from the consultation suggests that in-kind goods could be provided through local third sector or social enterprises. In this scenario this would increase demands on the third sector.

4.164. The option that perform best under this criterion is option 3. Under this option, there is less confusion for the claimants that could result from the creation of a new agency, especially in the case of option 2 with local offices. Many claimants already communicate with Local Authorities who currently administer and provide advice and support on a number of benefits.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
24	Third Sector	3	2	1	4	6	5

4.7.6 Impact on Public Sector Organisations

4.165. As reflected in the consultation, there are benefits to delivering social security through existing public sector services and organisations from claimants’ perspectives and social security delivery. However, these benefits are captured under other criteria. Under the Public Sector Organisations criterion the impact on organisations such as the NHS, schools, colleges and local authorities of alignment with the social security system under each option is considered. Therefore, this criteria will rank each option on the best outcome from the perspective of existing public sector organisations, which implies minimising change and disruption to existing organisations.

4.166. Options 3 and 6 performed poorly against this criterion. This is because these options imply a significant degree of alignment with existing organisations, such as the NHS (option 6) and Local Authorities (option 3). Although it is assumed

that these organisations will scale up to take on additional responsibilities, there would be an increase in responsibilities for the existing staff, which under option 6 could include GPs, doctors, nurses and midwives.

4.167. Although less transformational, option 3 will mean local authorities would provide a ‘front door’ service for social security, alongside the existing services they already provide in this area. Alignment of assessments for some benefits with existing assessments for social care, would mean additional responsibilities for local authorities. It is likely that different Local Authorities will have varying degrees of ability to take this on within their existing capacity.

4.168. The agency-based options 1, 2 and 4 performed best against the criteria. Under these options, the bulk of social security functions will be administered by a new agency. Whilst this agency will interact with existing public sector organisations, the impact on their existing functions and their staff will be minimal compared to options 3 and 6. Option 2 is marginally better than option 1 and 4 because it provides for face-to-face support in local offices. Under option 1 and 4, those who require face-to-face assistance may seek it in Local Authority offices or during visits to their GPs.

4.169. Option 5 performed relatively poorly against this criteria. Although this is the only option where the bulk of the social security is delivered by others, because option 5 ranked poorly for impact on the third sector (criterion 24), it is likely that for similar reasons, public sector organisations might face higher demand under this option. Whether option 5 involves bringing in private contractors to run parts of the system, or not-for-profit third sector organisations, the likelihood that users will end up requiring assistance from other public sector organisations to navigate the system.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>		<u>4th</u>	<u>5th</u>	<u>Weakest</u>
25	Public Sector Organisations	2	1	4	5	3	6

4.7.7 Resource Consumption

4.170. This criterion examines the extent to which the Scottish Government will have to procure new resources to deliver social security in terms of new capital requirements such as new premises (office space), specialist equipment, human resources and other resources required to run the social security system. Therefore, options which score strongly will require less in terms of procuring these resources.

4.171. The agency based options perform worse than other options on this criterion as a new organisation that is larger and has less capacity to utilise existing resources. Options 1 and 4 are likely to require large new office space, as it unlikely that existing space within the public sector estate will meet the scale of resource

requirement to undertake the agency functions at a single site. Option 4 is marginally worse than option 1 because, in addition to these requirements there could be an expansion of warehouses storage facilities across the country. It is difficult to judge how much more the demand for these goods would increase as a result of in-kind provision compared to cash payments and the net effect could be marginal.

4.172. Option 3 and 6 perform strongly against this criterion. Both of these options imply that the social security agency will be able to utilise existing human and capital resources in the NHS, other public sector organisations and local authorities. For example, assessments under option 6 will be conducted on NHS premises, and all administration could be split between different public sector organisations utilising the existing premises where possible and, potentially involving existing staff, therefore reducing capital and human capital costs under this option. Option 3 achieves a similar resource saving, but on a smaller scale as local authorities will provide the 'front-door' for users, but benefit administration would still be carried out by a central agency, requiring new staff and premises.

4.173. Option 2 performs relatively poorly because under this option because the resources required are similar to the requirements in options 1 and 4. However, option 2 incorporates additional space for assessments and face-to-face support services. It is also likely to have higher consumption of office equipment and heating in the aggregate compared to option 1 and 4. Option 5 performs relatively also ranks poorly against this criterion because it is likely to have occupy a number of offices and use resources that displace other potential business activity.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
26	Resource Consumption	6	3	1	4	5	2

4.7.8 Travel and Transportation

4.174. This criteria assesses the number of travel hours (for staff and claimants) and associated costs of travelling (such as carbon emissions) associated with each option at a high level. At this stage, we are using staff numbers as a proxy for the number of journeys required under each option.

4.175. Options 3 and 6 have the lowest number of staff in the central agency compared to other options. Therefore the cumulative travel time and costs of travelling for central agency staff will be low under this option. Additional staff would need to be recruited by local authorities other public sector organisations to take on social security functions, but there is scope for some functions to be carried out by existing staff . Although there is a level of uncertainty about the extent of this, on balance 3 and 6 are considered to be the strongest options.

4.176. Under option 1 and 4, assessments are provided by a mobile workforce with no base, implying a large amount of travelling for staff carrying out assessments. However, travel time for those who are being assessed minimal compared to options with local offices. There are two opposing effects at work that

would determine the environmental impacts of travel. On one hand, travel by the agency assessors is more likely to have a more negative environmental impact due to the use of private vehicles compared to travel for those being assessed which is expected to be using a mix of private and public transport. On the other hand, permanent office locations would require travel for both assessors and people being assessed which may bring the environmental impact of travel of options 1 (and 4) and options with offices closer. Assuming that assessment staff can reside closely to the area they are covering, it is more likely that these options would involve less travel. Option 4 could be marginally weaker than option 1 if it leads to a high demand for in-kind goods and generates less direct routes of transportation of goods to the end user.

4.177. In terms of travel for other staff, this would depend greatly on the office location for option 1 and 4. Locating in an area with good public transport links and cycle routes could reduce the environmental impact of commuting. This could however, also have impacts on congestion.

4.178. Under option 5, most staff will not be working for the agency, but for private sector / third sector organisations. It is not really clear how this will effect travel and transportation costs at a high level compared to other options. It is more likely that these organisations will have fewer offices in larger urban area, with more convenient public transport systems for staff that travel into offices. It may, however, involve more travel for users.

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
27	Travel and Transportation	6	3	1	4	5	2

4.7.9 Economy and Environment – Summary table

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
20	Assessment employees	6	2	3	5	1	4
21	Non-assessment employees	2	1	4	3	6	5
22	Regeneration	4	1	2	3	5	6
23	Impact on private sector	5	1	4	2	3	6
24	Impact on third sector	3	2	1	4	6	5
25	Impact on public sector	2	1	4	5	3	6
26	Resource consumption	6	3	1	4	5	2
27	Travel and transportation	6	3	1	4	5	2

4.7.10 Summary of the scoring

4.179. Table 5 provides a summary of the scoring against all the criteria.

Table 5 - Option performance against all individual criteria

	<u>Criteria</u>	<u>Strongest</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>5th</u>	<u>Weakest</u>
1	Flexibility, choice and communication	2	4	1	3	5	6
2	Simplicity and support alignment	3	6	2	1	4	5
3	Assessments	6	2	1	4	3	5
4	Governance and accountability	1	4	2	5	3	6
5	Organisational culture	2	1	4	6	3	5
6	Public perception of claimants	4	6	1	2	3	5
7	Interaction with various groups	1	4	2	6	3	5
8	Take up	1	2	4	6	3	5
9	Income and poverty	1	4	2	3	5	5
10	Consistency and fairness	1	2	4	5	3	6
11	System efficiency and flexibility	2	1	4	5	3	6
12	Alignment with reserved benefit system	1	2	3	4	5	6
13	Alignment with other public services	6	3	1	4	2	5
14	Control	1	2	4	3	6	5
15	Transparency	1	4	3	2	5	6
16	Scale of change	3	1	4	2	5	6
17	Timescales	5	3	1	4	2	6
18	Risk	3	2	1	4	5	6
19	Public perception of system	1	2	4	3	6	5
20	Assessment employees	6	3	2	5	1	4
21	Non-assessment employees	2	1	4	3	6	5
22	Regeneration	4	1	2	3	5	6
23	Impact on private sector	5	1	4	2	3	6
24	Impact on third sector	3	2	1	4	6	5
25	Impact on public sector	2	1	4	5	3	6
26	Resource consumption	6	3	1	4	5	2
27	Travel and transportation	6	3	1	4	5	2

4.8 Assigning option scores against each broad criteria set

4.180. The tables in this section assign the rank to each option for each individual criterion. The ranks are added up for each option and the scores are used to rank options within each of the 5 broad criteria sets.

4.181. For example, option 3 is ranked third against *Flexibility, choice and communication*, which means it was assigned a score of 3 for that criteria. Option 2 ranked first against the same criteria and hence was assigned a score of 1. Following this logic, options that ranked high received lower scores in total, which is indicated in the following tables in colour green. Options that ranked low were assigned high scores, indicated by colour red. Adding up all scores for the 6 *Dignity and Respect* criteria, option 1 is assigned the third lowest score, which makes it rank third against this broad criteria set.

	Dignity and Respect					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Flexibility, choice and communication	3	1	4	2	5	6
Simplicity and support alignment	4	3	1	5	6	2
Assessments	3	2	5	3	6	1
Governance and accountability	1	3	5	1	4	6
Organisational culture	2	1	5	2	6	4
Public perception of claimants	3	4	5	1	6	2
Total score	16	14	25	14	33	21

	Dignity and Respect					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Overall Rank	3	1	5	1	6	4

Equality and Poverty						
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Interaction with various groups	1	3	5	1	6	4
Take up	1	1	5	1	6	4
Income and poverty	1	3	4	2	6	5
Consistency and fairness	1	2	6	3	4	5
Total score	4	9	20	7	22	18

	Equality and Poverty					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Rank	1	3	5	2	6	4

	Efficiency and Alignment					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
System efficiency and flexibility	2	1	5	3	4	6
Alignment with reserved benefit system	1	2	3	4	5	6
Alignment with other public services	3	5	2	4	6	1
Control	1	1	4	1	6	5
Transparency	1	4	3	1	5	6
Total score	8	13	17	13	26	24

	Efficiency and Alignment					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Overall Rank	1	2	4	2	6	5

	Implementability and Risk					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Scale of change	2	4	1	3	5	6
Timescales	3	5	2	4	1	6
Risk	3	2	1	4	5	6
Public perception of system	1	1	4	1	6	5
Total score	9	12	8	12	17	23

	Implementability and Risk					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Overall Rank	2	3	1	3	5	6

	Economy and Environment					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Assessment employees	5	3	2	5	4	1
Non-assessment employees	2	1	4	2	6	5
Regeneration	2	3	4	1	5	6
Impact on private sector	2	4	5	3	1	6
Impact on third sector	3	2	1	4	6	5
Impact on public sector	3	2	5	3	1	6
Resource consumption	3	6	2	4	5	1
Travel and transportation	3	6	2	4	5	1
Total score	23	27	25	26	33	31

	Economy and Environment					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Overall Rank	1	4	2	3	6	5

This overall rank is used in conjunction with costs information from the Financial Case (see following section) to examine the VFM of possible choices in Section D of this OBC.

4.182. The overall results are presented in Table 6.

Table 6 - Overall rank by each main criteria in MCA

	Overall Rank					
	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Dignity and Respect	3	1	5	1	6	4
Equality and Poverty	1	3	5	2	6	4
Efficiency and Alignment	1	2	4	2	6	5
Implementability and Risk	2	3	1	3	5	6
Economy and Environment	1	4	2	3	6	5

4.183. This overall rank is used in conjunction with costs information from the Financial Case (see following section) to examine the VFM of possible choices in Section D of this OBC.

5. Financial Case

5. Each of the six options outlined in section B provide the functions needed to administer social security in Scotland under different delivery methods in terms of who delivers and how. This is designed to provide the scope to answer the questions in 0 to describe how the social security system operates.

5.1. It is important to remain aware of distinction between the Agency and the System: the agency is the means by which the Scottish Social Security system will be delivered in Scotland. How the overall system will operate is under development after the Public Consultation and the agency, in whichever form it takes, will administer the system.

5.2. This financial case does not contain information on implementation costs nor on transition to full operation. This is because these costs depend on detailed design work that has yet to be undertaken and is so complex it cannot be undertaken until the form of the Agency is determined. However, section 5.7 considers how implementation costs will vary across the options.

5.3. Instead the question that this part of the Outline Business Case addresses is what the on-going commitment that the Scottish Government would be placing on the Scottish Budget under each of the options. However, as demonstrated by Section 5.6, these “steady-state” costs are sensitive to many policy decisions that have not yet been made. As such this OBC does not represent a bid for future budgets but is the evidence base for making a choice between options that represents value for money.

5.4. In terms of the steady state costs, the approach to IT and Digital is different to that used to cost other aspects and is subject to greater variation and uncertainty. The costs are presented on a consistent basis in terms of being point estimates with ranges but the treatment of risk and uncertainty for IT and Digital cost is different and there is a separate analysis in section 5.5 of this. It is crucial to note that the IT and Digital costs should be specifically considered only in terms of the ranges discussed in this analysis.

5.5. The preferred option that forms the value-for-money solution taking into account the advantages and disadvantages of the different options is discussed in section D.

5.6. This part of the OBC contains sensitive information that could negatively impact the value for money achievable through the subsequent procurement processes be they for buildings or IT systems. As discussed in the Foreword, for this reason some financial information, particularly around the breakdown of costs is not included in this document.

5.1 Key assumptions

5.7. In order to provide an informed body of evidence to support the decision of what form the agency will take despite the inherent strategic uncertainty, and to allow a meaningful comparison of the different options, certain assumptions underpinning the presentation of the agency costs have been made:

- A level of activity in 2021-22 which is all benefits administered, and a forecast level of caseload (both new cases per year, maintenance of existing cases). See Annex C for further detail
- The modelling approach has been to analyse the relevant parts of the DWP operational costs structure and use that as a basis to construct an estimate of the costs of administering the Scottish system

5.1.1 Funding

5.8. The establishment and running costs of the agency will be funded from the Scottish Budget. As a result of the Report of the Smith Commission in 2014, HM Treasury provided the Scottish government with funding to implement the newly-devolved powers.

5.9. The Fiscal Framework explains how resources for social security will be transferred³² from UKG: See Figure 12 below.

Figure 12 - Fiscal framework box-out

30. There are administration and implementation costs associated with the powers being devolved. In line with the Smith Commission recommendations the UK government will transfer funding to support a share of the associated implementation and running costs for the functions being devolved.

31. Both Governments have agreed that the UK government will provide £200m to the Scottish Government to support the implementation of new powers. This will represent a one-off (non-baselined) transfer, supplementing the block grant, to support the functions being transferred. The profile of this transfer is to be agreed by the JEC.

32. The Governments have agreed a baseline transfer of £66m to cover the on-going administration costs associated with the new powers. This figure includes the marginal savings realised by the UK government as a result of no longer administering the powers in Scotland devolved under the current Scotland Bill, plus a share of the Scottish Government's running costs. This baseline transfer will be indexed through the normal application of the Barnett formula.

³² The agreement between the Scottish Government and the United Kingdom Government on the Scottish Government's fiscal framework. Note that Figure 12 is a direct quote (some detail now outdated)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503481/fiscal_framework_agreement_25_feb_16_2.pdf

5.10. The steady state running costs presented later in this section show a draw on the Scottish Budget that is greater than the amount being transferred under the Fiscal Framework. The amount to be transferred for administration costs represents a share of administration costs rather than the full value of administering the devolved benefits in Scotland. Management of the total funding required for the steady state running costs will be the subject of future decisions through the Scottish Budget.

5.1.2 Capital Requirement

5.11. The costs involved in setting up the agency will be scored as Capital and Resource DEL. The split will broadly be determined by the nature of the implementation costs and the procurement route.

5.12. The establishment of the agency is not a large capital project compared to others such as those in the infrastructure or health sectors, but there will be capital expenditure on fixed assets such as IT and buildings. These decisions will be made at a later stage.

5.1.3 Net Effect on Prices

5.13. There is no effect on prices (no inflation as a result of the spend) because the scale of the capital and on-going expenditure on non-staff costs is relatively small compared to the wider Scottish Economy. The exception is the potential impact on specialist staff costs around assessments. The impact will be dependent on the model of assessment that is chosen. This is discussed in Section D.

5.1.4 Impact on balance sheet

5.14. The impact on the public sector's balance sheet of setting up the agency will depend on the procurement route selected for the acquisition of assets and services – for example are buildings rented or purchased. These decisions will be made before the Final Business Case is complete.

5.1.5 Impact on Income and Expenditure Account

5.15. As described earlier, this financial case does not contain information on implementation costs nor on transition to full operation. This is because these costs depend on detailed design work that has yet to be undertaken and is so complex it cannot be undertaken until the form of the agency is determined. Therefore, the net revenue costs of the implementation phase, through to reaching steady-state is currently unknown and will be determined when plans are drawn up for the implementation of the preferred option. The Financial case compares the estimated

steady-state agency running costs from 2020-21 onwards for each of the options to allow a meaningful comparison to be made, as described in section 5.2 below.

5.1.6 Value Added Tax

5.16. While all costs at this stage are exclusive of VAT, the potential differences between the options in VAT arrangements and in net cost to the public purse due to VAT have been considered. It is anticipated that options 5 and 6 have the potential to be more expensive than the other options in terms of net cost to the public purse from VAT due to the potential involvement of other bodies who may not share the ability to recover VAT for some services in the same manner that an Executive Agency and many other parts of the public sector can. It is anticipated that the net cost to the public purse due to VAT for options 1 through 4 will be broadly similar. We will continue to keep VAT under review as we progress the preferred option to the final business case.

5.17. The analysis undertaken in section 5.6 suggests that whatever the resultant VAT treatment it would not have a material bearing on the choice between options.

5.2 Estimation of Costs

5.18. This section of this report looks in turn at each option estimating how much it would cost to administer social security in this way under 'steady state'. It also looks at the estimated number of full time equivalent staff (FTE) needed within the social security agency under each option. The costings work is undertaken primarily using the Current Activity Based model (CAB-M) developed by Communities Analysis.

5.19. CAB-M is an Excel based model which uses detailed activity based information from DWP on the administration (based on Departmental Expenditure Limits - DEL) of the benefits we are receiving as part of further devolution for 2014/15. This activity based information includes both financial resource and full time equivalent (FTE) resource for that year. It also includes 'fully loaded' costs for the overheads which administering those benefits incurs i.e. use of central functions such as HR. These are then scaled to apply only to Scotland not the rest of the UK. This activity based information from DWP is then used to estimate the activity needed for Scotland to administer these benefits going forward by applying initial caseload forecasts for devolved benefits in Scotland in 2020-21 to estimate steady state costs.

5.20. In addition to this the CAB-M model adjusts the activities needed, constant capabilities and system costs, and the estate costs to fit the administration of the benefits by Scottish Government rather than DWP. This is done for each option within the business case based on how the activities will be undertaken e.g. by local authorities in option 3. More information on the detailed assumptions and

specification for the model, and for each of the options, is provided in technical annex B of this OBC.

5.21. This section then goes on to compare each option in terms of the recurrent costs and agency FTE with option 0, which is the status quo of DWP continuing to administer benefits, to show what the additional cost and staffing requirement of devolving social security to Scotland is estimated to be under each option.

5.22. In order to undertake this estimation of the costs of each option, a range of modelling assumptions have been made for each option. These are summarised alongside the costs and FTE for each option in the sections below. FTEs are (in this section) for both the Agency and Scottish Government. Full details can be found in the associated annex.

5.23. In addition to these modelled assumptions, in a number of places a case study approach has been taken to illustrate the resource implications around some of the options rather than providing cost estimates at this stage of the appraisal process, in order to provide further evidence for decision making. When a full business case is developed following a Ministerial decision on the final configuration of the social security system, full costings will be provided including any case study elements which are to be taken forward.

5.24. For each option a similar methodology has been used to estimate digital costs of the enabling systems but as discussed in the introduction to this chapter the approach is different to that taken with other costs.

5.25. In the DWP data, there are costs for “Costs Only IT lines”. Those costs relate to the maintenance of existing DWP systems. Given the very varied IT landscape within DWP – and the connectedness of systems that relate to the benefits being devolved to other systems within DWP that relate to reserved benefits – the DWP costs for IT are not a useful comparator for the future on-going IT costs for the social security agency. Because of this, we have removed the DWP IT costs. We have done some early discovery work to understand at high level the type of modern, IT architecture that would be required to support the administration of the devolved benefits. Cost estimates for the on-going operation of these systems have been used instead of the DWP costs. These costs are higher than the DWP costs but are subject to different variance and uncertainty compared with other costs.

5.26. The costs for the above are dependent on the number of staff and number of central offices and further locations, as those have a significant impact on some areas of IT cost (e.g. numbers of licenses to access systems, or security costs for additional locations). In the point estimates below, VAT, and inflation have been excluded as well as any contingency or optimism bias. This is to provide a consistent approach across all costs. However, given the differences in uncertainty the Digital and IT costs, if considered alone, should be considered in terms of the range of contingency and optimism bias discussed in section 5.5.

5.27. In addition to the above costs, estimates from the CAB-M model of IT Costs that include staff costs are included in the enabling systems costs. This includes staff IT support.

5.28. The CAB-M model will be augmented going forward with a suite of detailed models for each benefit - the Future Activity Based model (FABM) – that will allow the impact of detailed policy and design changes on costs to be assessed as specific Scottish processes are developed. These models will be an important part of future design development work for both the Agency as a whole and for individual benefits.

5.29. The models initially generate central estimates but ranges of costs are reported in this document. The use of ranges here explore the likely variation of possible costs for each option, taking into uncertainty such as a) the extent to which unit costs derived from the DWP model accurately reflect unit costs in the Scottish delivery system (which is still being designed) and b) uncertainty in the costs for digital systems; these costs could be considerably greater than the point estimate in the model, which includes no contingency cost. The non-digital costs are varied using a normal distribution which is symmetric (and allows costs to be lower or higher). The digital costs are examined with a Weibull distribution which is asymmetric (and only allows costs to be higher).

5.30. It is essential to note that there are still some factors, such as policy decisions on PIP (e.g., face to face assessments at award review, award durations), whose uncertainty are *not* reflected in the ranges presented in the table and which will impact the actual realised cost. Further analysis is undertaken in the following sections. This is particularly relevant to digital costs.

5.2.1 Estimating the overall costs of the social security system under the status quo (option 0)

5.31. The costs of option 0 which is the *status quo* of DWP continuing to administer benefits in Scotland is outlined below. This is based on DWP performing all of the functions set out in Figure 21 above, except those currently undertaken by others either in the 3rd, public or private sector e.g. in the area of pre claim and support services or assessment (known as medical evidence by DWP).

5.32. Based on these parameters and assumptions the annual cost for DWP under option 0 in 2020/21 would be in the region of £150 million. It is not possible/appropriate to estimate the FTE under option 0 as DWP currently does not in the main have separate operations for Scotland with its staff working across the UK on a lot of the functions below.

5.2.2 Estimated costs of option 1 - The agency centrally delivers social security in Scotland

5.33. Based on these parameters and assumptions the annual cost of option 1 in 2020/21 would be in the region of £145 to £180 million with the agency employing around 2,500 FTE staff including around 500 staff administering assessments.

5.2.3 Estimated costs of option 2 - The agency delivers social security in Scotland through local offices

5.34. For cost purposes there are two versions of option 2 with one having some local elements but with a large head office and the other very local with a smaller head office. These are 2a is where some Queries, General Enquiries and Claim Progress; Pre Claim, Support Services and all face-to-face assessment would be spread across the local offices, with all other functions being located at the headquarters and 2b, where administration of the benefits is spread across local offices with only Corporate Functions remaining at the headquarters. In addition 2a has the telephony function by central staff, 2b has the telephony function by local staff. Therefore 2a and 2b can be seen as extremes in terms of the balance of staff located locally and staff located centrally to explore the impact that this has.

5.35. Based on these parameters and assumptions, the annual cost for option 2a in 2020/21 would be in the region of £170 to £210 million, with the agency employing around 3000 FTE staff including around 500 staff undertaking assessments (Administration – assessments). Estates costs for these assessments (within the Estates cost line) are additional and higher under option 2a than option 1 (which had no physical space for assessments). Some functions (within Centralised Functions) would be undertaken by Scottish Government using their existing IT systems, with nearly 100 staff providing strategic and policy development as well as management information.

5.36. Further Costs specific to option 2a include costs for local building staff (building manager, front of house, reception/post, local IT support) and additional local face to face advisors.

5.37. Based on these parameters and assumptions, the annual cost for option 2b in 2020/21 would be in the region of £165 to £205 million, with the agency again employing around 3,000 FTE staff including around 500 staff undertaking assessments (Administration – assessments) at a cost of just over £25 million. Estates costs for these assessments (within the Estates cost line) are additional and higher under option 2b than option 1 (which had no physical space for assessments). Some functions (within Centralised Functions) would be undertaken by Scottish Government using their existing IT systems, with nearly 100 staff providing strategic and policy development as well as management information.

5.2.4 Estimated costs of option 3 - The agency delivers most benefits, but local authorities provide the face-to-face contact for the social security system and additional benefits based on local need

5.38. Based on these parameters and assumptions the annual cost for the agency and Scottish Government under option 3 in 2020/21 would be in the region of £145 to £180 million, with the agency employing around 1,800 FTE staff . Some functions (within Centralised Functions) would be undertaken by Scottish Government using their existing IT systems, with nearly 100 staff providing strategic and policy development as well as management information. The costs which would fall to local authorities under this option are included in this.

5.2.5 Estimated costs of option 4 - The agency delivers cash and benefits in kind as goods, services or concessions.

5.39. Based on these parameters and assumptions the annual cost of option 4 in 2020/21 would be in the region of £150 to £190 million with the agency employing around 2600 FTE staff including around 500 staff undertaking assessments (Administration – assessments) at a cost of just over £25 million. In addition the cost of providing ‘in kind’ benefits would be in the region of £4 million including 25 staff – this only includes costs for concession cards for those receiving disability and ill health or carer’s benefits. Other in-kind costs are described in the case study section below. Some functions (within Centralised Functions) would be undertaken by Scottish Government using their existing IT systems, with nearly 100 staff providing strategic and policy development as well as management information.

5.40. These costs are shown with in-kind options as a “bolt-on” to the option 1 model. A further variant has been developed, which adds in-kind options as a bolt on to option 2b, but costs are not shown below.

5.2.5.1 Option 4 case storage, distribution and fitting of goods

5.41. In addition to the in-kind costs that form part of the estimate above, it is possible under option 4 to look at the costs of existing ‘in kind’ benefits provided by the Scottish Welfare Fund and other areas. There is a discussion of this in annex B.

5.2.6 Estimated costs of option 5 - The agency provides governance but the delivery of social security is done by others e.g. via procurement or a Service Level Agreement

5.42. Based on these parameters and assumptions the annual cost of option 5 in 2020/21 would be in the region of £165 to £200 million with the agency employing

around 1,300 FTE staff . Assessments (Administration – assessments) are undertaken by others at a cost of nearly £38 million (including costs for IT systems, accommodation and estimated contractor profit). Some functions would be undertaken by Scottish Government using their existing IT systems with nearly 100 staff providing strategic and policy development as well as management information.

5.2.7 Estimated costs of option 6 - Social security is embedded in a range of existing public services with the agency providing governance.

5.43. Based on these parameters and assumptions the annual cost for the option 6 in 2020/21 would be in the region of £225 to £275 million with the agency employing around 600 FTE staff). Some functions would be undertaken by Scottish Government using their existing IT systems with 150 staff providing strategic and policy development as well as management information at an estimate cost of £35m.

5.44. The costs which would fall to the wider public sector under this option are included here in this as an estimate and are explored in the case study in the Annex.

5.3 Summary of cost ranges

5.45. The range of probable costs for option 1- 6 are set out in Table 7 below.

Table 7 - Comparison of costs

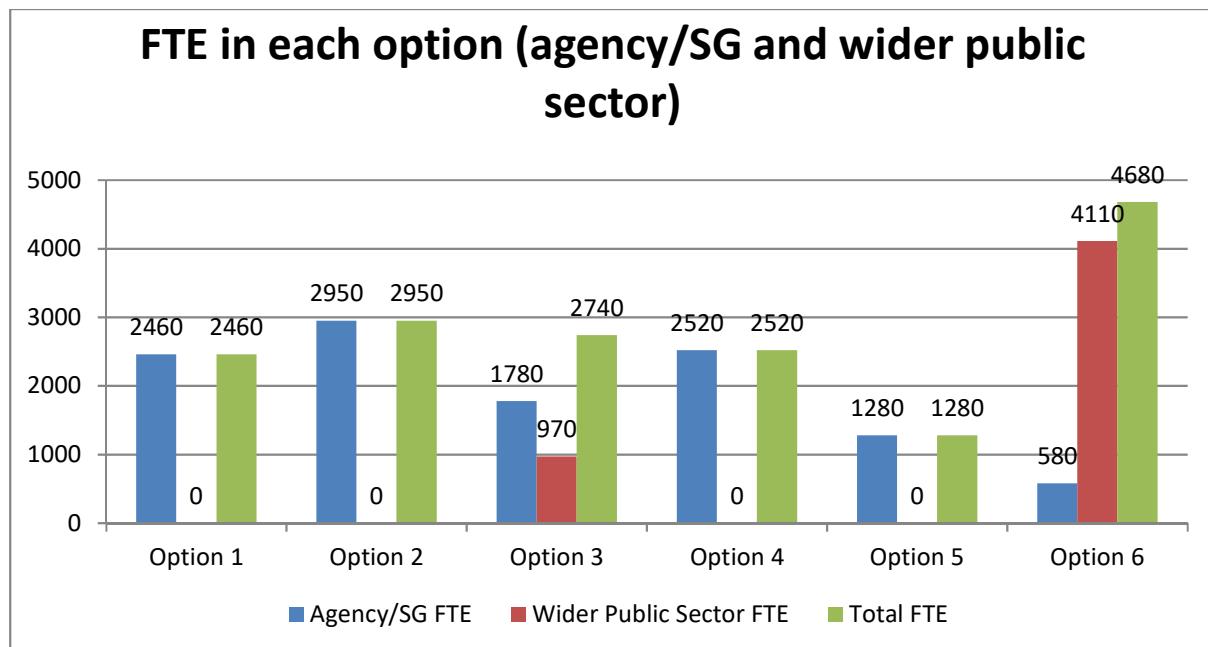
Cost Estimate			
Option 0	£155m		Represents an SG estimate of the costs of the DWP calculated on an equivalent basis to the costings of the other options.
Range of Cost Estimates			
Option 1 £145m to £180m			
Option 2a	£170m	to	£210m
Option 2b	£165m	to	£205m
Option 3	£145m	to	£180m
Option 4	£150m	to	£190m
Option 5	£165m	to	£200m
Option 6	£225m	to	£275m

5.46. Based on the **range** of costs for options 1, 2, 4 and 5, a reasonable estimate of the annual cost of running the social security agency under a number of

configurations is between £145-£275 million. Option 1 and option 3 are likely to be the cheapest options when compared to options 2, 4, 5, and 6, at an estimated annual cost of between £145-£180 million. Note that costs for option 6 (the most expensive option) are particularly difficult to assess – for a full discussion, see Annex B, Section 11.6 “Agency and Scottish Government Costs under option 6”.

5.47. Point estimates of the FTE employees in the agency or Scottish Government are shown in Figure 13 - FTEs in each option (Agency/SG and public sector). For option 6, wider public sector figures relate to all those with a social security role.

Figure 13 - FTEs in each option (Agency/SG and public sector)



5.4 Formal presentation of present value of costs for each option, NPV and BCR

5.48. Table 7 above shows the steady state on-going costs for the options.

5.49. In order to present the costs of each option in a standard format, a 30-year time horizon is used from the point (2020-21) that the agency is in place. The core assumption is that on-going costs rise in line with population growth (of the average order, as projected by National Records of Scotland³³) of 0.3% per annum. Two sensitivity tests are made to the calculation by using a constant population and the projected growth in the over 65 population (which may be a better proxy for caseload of disability benefits) which is significantly higher at around 3%.

³³ See <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections/population-projections-scotland/2014-based/list-of-tables>

5.50. Note that, in accordance with standard methodology, the analysis is conducted in current prices i.e. no inflation. Applying a discount rate of 3.5% in line with HMT Green Book methodology gives the following results for the Present Value of Costs (PVC) shown in Table 8.

Table 8 – Present Value of costs (PVC) and Present Value of Benefits (PVB)

Option	PV of costs (£m)						PVB (£m)
	1	2a	2b	3	4	5	
Population growth (0.3%)	2,630	3,020	2,950	2,620	2,740	2,870	4,000 8,300
Constant population (0% growth)	2,530	2,910	2,850	2,520	2,640	2,770	3,860 8,010
O65 population (3% growth)	3,720	4,280	4,190	3,710	3,880	4,070	5,670 11,170

5.51. A similar approach is undertaken for the monetised benefits estimated in section 4.1. The present value of the benefits (PVB) (of the benefit expenditure) is shown in the last column of Table 8. The Net Present Value (NPV) for each option under each scenario and the overall Benefit Cost Ratio (BCR) are shown in Table 9. The Benefit Cost Ratio is calculated by dividing the PVB by the PVC. An alternative formulation is $BCR = (NPV+PVC)/PVC$. Note it is also assumed that the distribution of income remains constant over time.

Table 9- Net present value (NPV) and Benefit Cost ratio (BCR)

Option	Overall NPV and BCR						
	Overall NPV (£million) BCR(=PVB/PVC)						
	1	2a	2b	3	4	5	6
Population growth (0.3%)	5,680	5,290	5,360	5,690	5,570	5,440	4,310
	3.16	2.75	2.81	3.17	3.03	2.89	2.08
Constant population (0% growth)	5,480	5,100	5,160	5,490	5,370	5,240	4,150
	3.16	2.75	2.81	3.17	3.03	2.89	2.08
O65 population (3% growth)	8,050	7,490	7,580	8,060	7,890	7,700	6,100
	3.00	2.61	2.67	3.01	2.87	2.74	1.97

5.52. This analysis, whilst limited in its power to choose between options as it is unable (as discussed in the socio-economic case) to capture the differences between options, is a strong demonstration of the overall value of the system. In terms of the BCR, in pure monetary terms any of the options represents strong technical value for money. By way of comparison, a BCR of greater than one demonstrates that the benefits are greater than the costs and a BCR greater than around 1.3 does so whilst taking into account (in a similar manner to the distributional analysis used to generate the PVB) that government expenditure needs (to a greater or lesser extent at the UK level) to be funded by tax receipts. The worst case – option 6 assuming expenditure rises with O65 population growth -

has a benefit cost ratio of 1.97 which is still very good value. Option 1 and 3 achieve BCR of above 3.

5.53. Section D of this OBC considers the implications of the costs of each option along with the remaining four cases and derives a preferred option.

5.5 Optimism Bias and contingency for Digital

5.54. The NPV of costs in the preceding section took the point estimates of the steady state costs. This section considers the steady-state costs in terms of wider guidance on optimism bias. The key factor driving this section is the accepted variability and sensitivity of the estimates of IT costs.

5.55. HMT guidance on Optimism bias³⁴ states:

Project appraisers have the tendency to be over optimistic. Explicit adjustments should therefore be made to the estimates of a project's costs, benefits and duration, which should be based on data from past or similar projects, and adjusted for the unique characteristics of the project in hand.

This guidance provides cost and time uplift percentages for generic project categories which should be used in the absence of more robust primary data.

5.56. The sensitivity analysis provided in section 5.6 and the Monte Carlo analysis that generates a range of costs should be thought of as replacing more generic analysis (as described above). However, there remains the issue of potential optimism bias around the IT costs. HMT suggested initial optimism bias uplifts for a range of project types are detailed in Table 10 below.

³⁴ <https://www.gov.uk/government/publications/green-book-supplementary-guidance-optimism-bias>

Table 10 - Standard OB uplifts

Project Type	Optimism Bias (%)			
	Works Duration		Capital Expenditure	
	Upper	Lower	Upper	Lower
Standard Buildings	4	1	24	2
Non-standard Buildings	39	2	51	4
Standard Civil Engineering	20	1	44	3
Non-standard Civil Engineering	25	3	66	6
Equipment/Development	54	10	200	10
Outsourcing	N/A	N/A	41*	0*

* The optimism bias for outsourcing projects is measured for operating expenditure.

5.57. It is also worth noting that analysis of the variation of costs within categories shows extensive variance. For instance the 66% uplift for Non-standard civil engineering projects is an average cost overrun across a large number of capital projects but this average is considerably influenced by very, very large variations in a few large scale projects. See Mott MacDonald (2002), *Review of Large Public Procurement in the UK*.

5.58. The Equipment/Development category:

Equipment & development projects: Projects that are concerned with the provision of equipment and/or development of software and systems (i.e. manufactured equipment, Information and Communication Technology (ICT) development projects) or leading edge projects.

is clearly the appropriate one to use.

5.59. Given the early stage of the Digital cost estimates this suggests a 200% uplift (a cost level 3 times the initial estimate) would be appropriate as an illustration of potential levels of optimism bias at this stage. An alternative approach would be to consider a 100% contingency on the digital costs at this stage. Both have been undertaken but for reasons discussed in the foreword are not reported in detail here. However, it is possible to show the impact of the OB assumption without directly revealing commercially sensitive information that could have an impact on future value for money.

5.60. Significant detailed design is on-going and will form a key part of the final business case material. In line with the discussion in the Strategic case, this design will include co-production with users and the final costs will be dependent on design

specifications that have yet to be determined. Part of the reassurance around this aspect of the costs is the analysis presented in section 0 that demonstrated a strong NPV and BCR in pure economic terms. Updating the analysis to include OB for the population growth scenario gives the following as shown in Table 11. This continues to give strong evidence of overall VFM.

Table 11 - BCR including 200% digital Optimism Bias

BCR (£million) with 200% digital OB (£m)							
Option	Overall NPV						
	1	2a	2b	3	4	5	6
BCR Population growth (0.3%)	2.58	2.16	2.19	2.62	2.46	2.44	1.68

5.6 Sensitivity of costs to other factors

5.61. As a way of assessing the sensitivity of the costs to other factors, Table 12 shows the percentage changes in the costs of individual capabilities, across all the options, that are required to change the ranking of options by cost. As option 1 and option 3 are quite close in costs, the table shows the changes required for 1 change in ranks (two options switch places) and for more than 1 change in ranks (more than 2 options switch places). This is a way of assessing the potential impact of bias in the costings of any of the capabilities on the overall performance of the options.

Table 12 - Sensitivity of cost rankings to changes in costs of individual capabilities

Capability	%age change in costs of capability required to change rank of costs	%age change in costs of capability required to change rank of costs of more than 2 options
Queries / General Enquiries / Claim Progress chase etc.	35%	68%
Pre Claim / Support Services	36%	236%
Administration - assessments	21%	32%
Administration - Other	100%	101%
Dispute Resolution	N/A	N/A
Error Management / Investigation	150%	350%
Centralised Functions	100%	234%
Management Information	N/A	N/A
Enabling Systems & Constant Capabilities (Digital)	401%	801%
Other - Estates	219%	241%

5.62. The results confirm that the costs are not particularly sensitive to changes in the costs of specific capabilities. This is particularly the case for digital. It takes a 800% increase (significantly greater than the OB and contingency levels in the previous section combined to change the rank more than 1 pair of options).

5.63. Of the other capabilities, Administration – assessments is the most sensitive to changes. This suggests (as is discussed elsewhere) that assessments are a key driver of costs. Dispute resolution and management information are so similar across options that no change in the costs of the capability change any of the option ranks.

5.7 Potential impact of implementation

5.64. UKG agreed that a total of £200m will be available through the Fiscal Framework to cover implementation of the devolved powers. SG has always been aware that implementation costs are likely to be higher than this amount but of a similar order of magnitude. As discussed above, this OBC is for the agency at steady state.

5.65. There are some areas where implementation costs for any option are likely to be significant – particularly on estates and on IT. Work has been undertaken to begin to cost the implementation of information technology through initial discovery and alpha work. While many of the IT implementation costs would be similar across all of the options considered here, there is some variance – primarily associated with additional security costs associated with larger numbers of separate locations, or greater levels of interaction with systems elsewhere.

5.66. Other implementation costs will depend on decisions yet to be taken about the detailed form of the agency, the procurement route chosen and the nature of the assets to be procured. As section 5.5 demonstrates, the impact of long-run steady state costs is of a significantly greater order than the likely range of implementation costs. For the purposes of this OBC, what is of prime importance is how implementation costs might affect the choice of option. Given the discussion above they are likely to be broadly of the form:

Option 5 < Option 1 or 4 < Option 3 < Option 2 < Option 6

5.67. In words, option 5 will be cheaper than option 1 or 4 which will be cheaper than option 3 etc. However, the differences will be small compared to the differences in NPV shown in Table 9. Option 5 is likely to be the lowest cost implementation wise and option 6 the most expensive. The differences between the other options will be smaller.

6. Commercial case

6.= This section contains the commercial case for the agency. It focuses on the= commercial risks of each of the options in order to help decision making. As the= procurement path will be significantly different depending on the option chosen it= does not go into significant detail on the potential procurement strategy for each= option.

6.1 Overview

6.1. An initial piece of work was undertaken to examine the existing delivery landscape in Scotland in order to better understand what is already delivered in Scotland. This work is detailed in section 6.2. Section 6.3 examines the commercial risks of the options in detail.

6.2 Summary of comparator agencies work

6.2. The full report can be found in Annex C. The focused upon public bodies' operating costs (staff costs and other operating costs, excluding depreciation) ranged from £12.7m to £630.4m. This illustrates the wide ranging scale of operations across even a small sample of Scottish public bodies.

6.2.1 Staff

6.3. Staff numbers reported throughout the study are for FTE in 2014/15 or 2015/16. Comparing these shows the wide variety of employment sizes within these bodies which range from under 300 to over 4,000. See Table 13.

Table 13 - Size of comparator bodies

Body	Staff (FTE) including both permanent and non-permanent staff groups
Disclosure Scotland	477
SAAS	266
SPPA	304
NSS (total)	3,232
NSS Practitioner Services	545
SLAB	261
NI SSA	4,253

6.4. Most of the bodies in the study use temporary and agency staff. One of the reasons for using temporary staff was to provide a continuous service within a landscape of highly variable demands (such as peak times in the year of applications being received).

6.5. Some, but not all, of the organisations provide an out of hours service. In the case of SAAS, this service is primarily during the peak application period. Disclosure Scotland currently operate 24/7 for virtually the whole year using shift patterns, though it is anticipated that this will end in 2017 (as discussed above). SLAB provides a contact centre help line 24/7.

6.6. Disclosure Scotland is the only one of the examined organisations in Scotland to have some of its key operations provided by others, in their case through their agreement with BT to provide a range of core operational services. NI SSA however has a range of its key functions supported by DWP and services for Health Care assessments are provided by CAPITA / ATOS.

6.2.2 How the organisations are structured

6.7. Although delivering very different services, the three Executive Agencies (Disclosure Scotland, SAAS, SPPA) have similar functional structures comprising a Chief Executive Office and four or five directorates, such as "Operations" and "Corporate Services". As might be expected of agencies making large volumes and values of payments, SAAS and SPPA each have a significant Finance Directorate, while Disclosure Scotland does not have a separate Finance Directorate.

6.8. The location of IT services varies across the bodies, with some but not all of these associating IT services with Corporate Services.

6.9. NSS – a much larger body – separates its diverse array of shared service functions into six Strategic Business Units (one of which is IT services, another Practitioner and Counter Fraud Services) as well as five Supporting Business Units / Corporate Directorates, including HR and Workforce Development.

6.2.3 How the organisations are set up geographically

6.10. The public bodies have very different footprints across Scotland, varying from one central location (like Disclosure Scotland and SAAS) to the hub and spoke model of NSS (7 key sites and other sites throughout Scotland).

6.2.4 Volume of work

6.11. The volume of work of the comparator agencies is shown in Table 14.

Table 14 - Volume of work of comparator agencies

Name	Transaction or Number of Clients Served	Number of transactions (approx.)
1. DS	Applications	1,720,000
2. SAAS	Award Applications	Over 250,000
3. SPPA	Clients	540,000
4. NSS Practitioner Services	Clients	8,500
5. SLAB	Applications	400,000
6. NI SSA	Transactions	2,720,000

6.2.5 Conclusions of comparator agencies work

6.12. The comparator agencies work provides comfort that the scale of the challenge faced by the formation of a social security agency in Scotland is manageable in that other areas perform functions of broadly similar scale.

6.3 Commercial risks

6.13. This section of the outline business case compares the commercial risks for each of the 6 options and the Do-Minimum or option 0. Input to the commercial case is based on what is currently known of the options under consideration. The commercial case does not validate the costings attributed to each of the options within the financial case detailed at part 5 of section c.

6.14. The commercial case does not specifically address all of the commercial risks relating to the future arrangements for delivery of assessments currently provided under DWP contracts by Atos and Maximus. A further analysis of these risks will be required following confirmation of policy intentions for the future delivery assessments.

The overall risk rating for each of the options is shown in Table 15 below.

Table 15 - Overall risk rating for each of the options

Option	Commercial Risk Rating
Option 0 – DWP continues/Do nothing.	HIGH
Option 1 - The Agency centrally delivers social security in Scotland.	MEDIUM
Option 2 – The agency delivers social security in Scotland through local offices.	MEDIUM - HIGH
Option 3 – The agency delivers most benefits, but local authorities provide the face to face contact for the social security system and additional benefits based on local need.	MEDIUM - HIGH
Option 4 – The agency delivers cash and benefits in kind as goods, services or concessions.	MEDIUM
Option 5 – The agency provides governance but the delivery of social security is done by others e.g. via procurement or a service level agreement.	VERY HIGH
Option 6 – Social security is embedded in a range of existing public services with the agency providing governance.	MEDIUM - HIGH

6.3.1 Option 0 – DWP continues / Do nothing / Do minimum.

6.15. Doing nothing to commence the devolution changes would disrespect the political agreement reached and endorsed by the Parliaments. A “do nothing” option would therefore require Scottish Ministers to assume devolved responsibilities for benefits but seek to negotiate agency agreements with the Secretary of State for Work & Pensions to continue to deliver them as per current arrangements for their delivery.

6.16. This would be complex, time-consuming and require extensive resource input. This option presents significant political, reputational, financial and delivery risks presented by a continuing reliance on DWP systems and processes which would place significant constraints on the Scottish Parliament’s ability to vary benefits without incurring substantial commercial costs for changes to DWP systems.

6.17. Under this option Scottish Ministers would have no control over commercial risks e.g. financial / pricing, award of contracts, contract variations, strategic contract management, and performance of contractors all of which would continue to be owned by DWP as the contracting authority.

6.18. Specifically, with the Scottish Ministers being tied to an agency-based delivery, and a single agent would could provide that delivery, it is unlikely that Scottish Ministers would be able significantly to influence or leverage strategic commercial decision making by DWP in development of its systems which may present politically challenging commercial outcomes for Scottish Ministers particularly in relation to decisions on any future out-sourced delivery of medical assessments.

Overall Commercial Risk rating: High.

6.3.1 Option 1 - The Agency centrally delivers social security in Scotland.

6.19. Central control and commercial governance will reduce commercial risks relative to the other options under consideration. The most significant commercial risk would be financial / budgetary presented by the need to ensure that the commercial costs, including set –up, implementation and potential staff TUPE costs could be met within the allocated funding.

6.20. The procurement of business critical IT / systems is likely to be commercially complex, time-consuming & costly with significant delivery, reputational and political risks if the specification is not robust or there is a delay in finalising commercial agreements.

6.21. Delivery of assessments by a mobile workforce would be low risk if the Agency is the employer of health care professionals. This risk would increase if the health care professionals are employees of a third party e.g. contractor, health board/trust.

6.22. The agency would be able to access support from Scottish Procurement & Commercial Directorate via the Central Government Procurement Shared Service and the Collaborative & Scottish Government Capability team which would further reduce commercial risks.

Overall Commercial Risk rating: Medium.

6.3.2 Option 2 – The agency delivers social security in Scotland through local offices.

6.23. Commercial risks are identical to option 1, local delivery would not impact significantly on the business critical IT contracts which the agency would require, though may increase delivery costs. There is potential for some increased commercial costs relating to set up/implementation though these would not be significant

Overall Commercial Risk rating: Medium-High.

6.3.3 Option 3 – The agency delivers most benefits, but local authorities provide the face to face contact for the social security system and additional benefits based on local need.

6.24. The most significant commercial risk would be financial / budgetary issues presented by the need to ensure that the commercial agreements with local authorities would provide a comprehensive, consistently high quality of service and support across 32 local authority areas. Central control and commercial governance will reduce commercial risks relative to this option, however, is likely to be a consequential impact on commercial costs, including setup, and implementation.

6.25. Face to face contact across 32 Local Authorities will further complicate the procurement of business critical IT / systems with significant implementation, service commencement, delivery, reputational and political risks.

6.26. This option would require robust commercial governance and performance management of overarching service level agreements with 32 local authorities which would be time-consuming and potentially difficult to negotiate.

Overall Commercial Risk rating: Medium-High.

6.3.4 Option 4 – The agency delivers cash and benefits in kind as goods, services or concessions.

6.27. Option 4 would require procurement of contracts to provide goods and services and concessions; the value of these contracts may be significant. The commercial strategy would require detailed consideration of the cost / benefits of the various delivery models including private, third and voluntary sectors.

6.28. Management / overhead / IT costs included in the contracts could be significant thus reducing the spend on front line delivery. This may be mitigated by seeking a just in time model for delivery of goods to avoid warehousing costs and utilisation of contractors existing IT systems

6.29. There are potential risks of political leverage presented by media comparisons of high street v contractual price for goods and services. The contracts would require ongoing performance and commercial management to minimise political, reputational and delivery risks.

Overall Commercial Risk rating: Medium.

6.3.5 Option 5 – The agency provides governance but the delivery of social security is done by others e.g. via procurement or a service level agreement.

6.30. Commercial agreements for outsourced services tend to be for a longer duration (up to 20 years) to spread the significant costs associated with set-up, TUPE etc. there are very significant pricing / value for money risks associated with this approach which may not be affordable in the long term.

6.31. The level of understanding of the current delivery model & future delivery options present significant scoping issues e.g. Information sharing IT etc. which would not support any decision to outsource at this stage or in the medium term.

6.32. Allocation of risk is critical in pricing out-sourced services, currently it would not be possible to make any determination on the risk allocation underpinning a decision to outsource until the delivery challenges & current commercial arrangements underpinning delivery are known & understood. Private sector providers would accept these risks but will seek to mitigate perceived financial, delivery and reputational risks through the inclusion of risk premia, the costs of which would be met by Scottish Ministers and would be commercially difficult to negotiate.

6.33. There is a significant risk that any outsourced delivery model would constrain any changes required to the delivery of social security (scope of services) during the contract term as these would be prohibitive in terms of cost. The financial cost of contract variations resulting from future changes to social security delivery during the term of the contract would effectively constrain Scottish Ministers ability to vary benefits.

6.34. Commercial costs resulting from early exit on the grounds of performance could be prohibitive and further constrained by the absence of an alternative delivery model.

6.35. This option is very high risk financially and would be extremely difficult to demonstrate value for money in the absence of current commercial costs on which to base any benchmark.

6.36. Commercial challenges presented by this option would include significant political constraints and presentational issues on the social security budget supporting private sector profit margins.

Overall Commercial Risk rating: **Very High**.

6.3.6 Option 6 – Social security is embedded in a range of existing public services with the agency providing governance.

6.37. This option would require robust effective governance with strong strategic decision making. Commercial governance would remain with the agency with delivery spread across the agencies / public bodies providing the service.

6.38. Effective commercial governance over a number of public bodies may be challenging to secure and maintain and would require a high degree of transparency of commercial decision making. This option may present otherwise avoidable political risks resulting from commercial decisions made by the public bodies i.e. partial or complete outsourcing of commercial agreements.

6.39. Commercial costs may be difficult to attribute, monitor, forecast or control in the medium / long term. Commercial costs for systems / IT for this option are likely to be higher depending on the number and range of public bodies operating under this option.

6.40. Commercial impact of a devolved delivery model across Scotland may be significant with variations in the quality of service experienced by service users.

6.41. Under option 6 assessments will be delivered by the NHS which is low risk commercially; consideration would be required in relation to the strategic approach i.e. national, board/trust level commercial arrangements.

Overall Commercial Risk rating: Medium - High.

7. The Management case

7.1 Introduction

7. The purpose of the Management Case is to provide confidence that recognised project management methods and robust governance arrangements are planned or in place in order to deliver to time, cost and quality. The management arrangements articulated in this case are appropriately generic and high level to reflect the early stage of the process. The focus in this document is on a discussion on the structure of the project and the methodologies and governance in place. Other aspects of the management case that are not a key driver of the current decision include:

- Project planning;
- Project milestones;
- Change and issue management;
- Tolerances and contingency;
- Benefits, risk and opportunity management and
- Contract management.

7.2 Background

7.1. The scope of this project to deliver an enabling capability, the social security agency, which will govern the new social security system in Scotland is defined as:

7.2. In Scope

- Personnel requirements for operations, governance and assurance
- Corporate services, IT Systems and operation
- Devolved powers
- Migration of early/interim delivery arrangements to the Agency (if appropriate)
- Advice to stakeholders on UK reserved benefits

7.3. Out of Scope

- Administration of UK reserved benefits

7.3 Methodologies

7.4. The Social Security Programme will use Managing Successful Programmes (MSP) for programme governance, and PRINCE2 / PRINCE2 Agile for project-level governance. Delivery methodologies will be appropriate to the nature of each project.

7.5. A dedicated HR Partner Manager has been embedded into the programme, as well as actively recruiting for a fulltime Resource and Asset Manager. Also, early recruitment of the Agency's senior management team will help ensure appropriate sponsorship and ownership.

7.6. The programme has initiated a significant 'Lessons Learned' activity where individuals with project and programme experience within the public sector in Scotland can share their (relevant) 'Gone Well' and 'Not Gone Well' experiences. Furthermore, the programme will place all of its arrangements under continual improvement, and will seek to regularly learn from and share any new lessons.

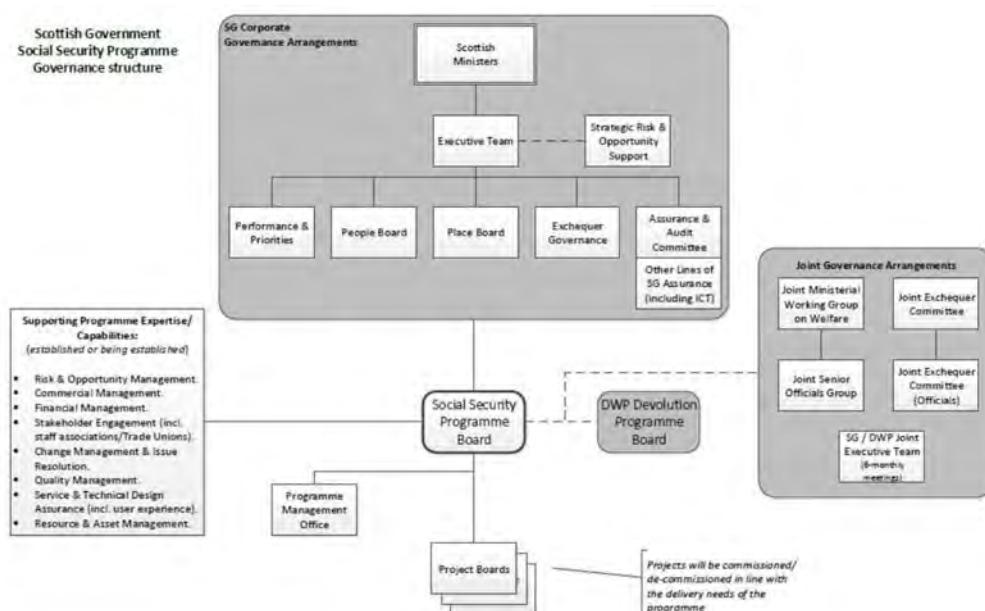
7.7. Whilst the scale of the task to create a fully capable and compliant agency should not be underestimated, there is no known 'show stopper'.

7.4 Organisational Structure

7.4.1 Programme Governance

7.8. The scale and nature of the Social Security Programme necessitates robust governance arrangements that are able to adapt as the programme progresses and evolves. See Figure 14 below.

Figure 14- Governance Structure

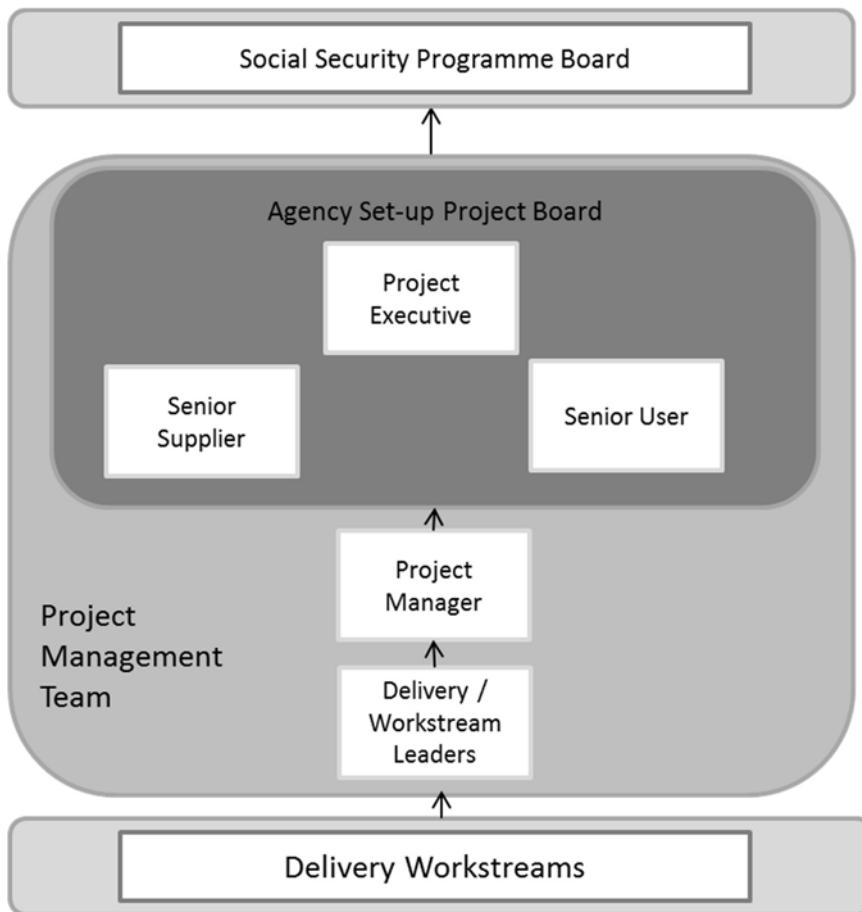


Revision: 1 (November 2016)
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7.4.2 Project Governance

7.9. The project governance structure below is aligned to ensure efficiencies and effectiveness of communication and MI. The Project Board shall report to the Programme Board. See Figure 15.

Figure 15 - Project governance



7.5 Post project evaluation

7.10. Post Implementation Reviews (PIRs) and ex-post evaluation will be undertaken as part of both the Lessons Learned and Gateway review process.

7.11. Evaluation of the Business Case will follow HMT Green Book guidance. The Agency Implementation Division will take forward Go live lessons learned and any programme of continuous development.

SECTION D: MOVING TOWARDS THE PREFERRED OPTION

8. Selecting the best options

8. This section pulls together the results of the MCA in terms of the socio-economic case and the Financial case to consider the value for money of the different options. As discussed elsewhere, the complexity of the delivery framework for social security means that it is appropriate to consider hybrids or blends of the 6 options in order to maximise value.

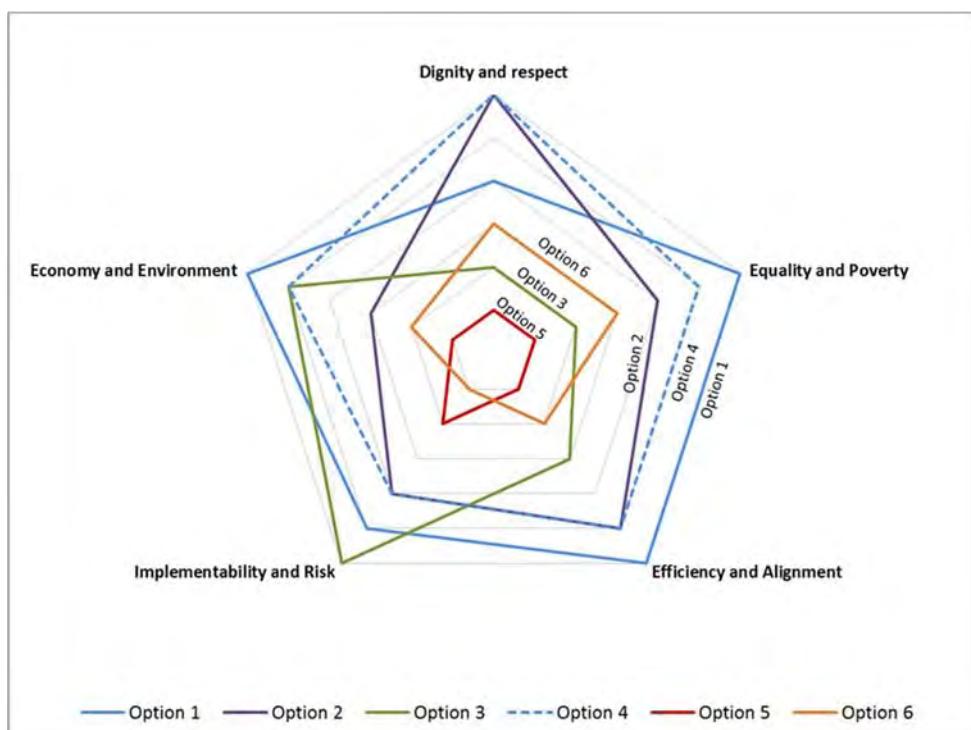
8.1. The analysis proceeds as follows. Section 8.1 looks at the outcomes of the MCA analysis and section 8.2 takes into account the financial case in terms of the costs of the options. Phrases in *italics* relate specifically to one of the 27 criteria used within the MCA. The analysis is brought together in 8.3 in conjunction with the other 3 cases to produce overall conclusions on ways that value-for-money can be maximised.

8.2. This results in the creation of a number of hybrid options that are discussed and assessed in section 8.4.

8.1 Results of the MCA

8.3. The overall ranks of each option from the tables in section 4.8 are plotted against each of the 5 criteria sets to create a radar chart show in Figure 16. Figure 16 is interpreted such that points are preferred the further away from the centre they lie. Thus, in the diagram option 3 – LAs, is the best option in terms of implementability and risk.

Figure 16 - Results of the MCA



8.4. Option 1 came out as the strongest on 3 out of 5 criteria – *Equality and Poverty*, *Efficiency and Alignment* and *Economy and Environment*. On *Dignity and Respect* it ranks third, with options 2 and 4 both ranking higher than option 1. On *Implementability and Risk*, option 3 ranks highest and option 1 the second highest. Options 2 and 4 ranked lower than option 1 on all criteria apart from *Dignity and Respect*. Both ranked higher than options 5 and 6 on all five criteria.

8.5. Options 5 and 6 had the lowest scores against the criteria in the aggregate. Option 3 also performed relatively weakly against the criteria overall but ranked high against *Implementability and Risk* and *Economy and Environment*. All three of options 3, 5 and 6 were considered to be too weak to form the basis of the operating system for Social Security. However, on some specific criteria these options ranked as being stronger than options 1, 2 and 4. The specific delivery functions that led to these strong rankings are incorporated in the hybrid options.

8.6. The MCA suggested that option 1, 2 or 4 should be the basis of the social security system in Scotland. Option 1 was stronger than 2 and 4 on all criteria sets other than *Dignity and Respect*.

8.7. Because options 1 and 4 are identical in terms of all of their functions apart from the In-Kind function, it is precisely the inclusion of the In-Kind function that makes option 4 score worse than option 1 on four of the criteria. Hence, option 4 is not considered further in the context of the hybrid construction. In-kind provision may be considered in relation to individual benefits as part of social security policy but was found to be inferior as an operating principle for social security delivery as a whole.

8.8. Performances of options 1 and 2 against the criteria are discussed in turn.

8.1.1 Option 1

8.9. MCA showed that whilst being the strongest, option 1 could be improved in terms of its performance on *Dignity and Respect* and *Implementability and Risk* criteria by combining elements from other options.

8.10. There are several reasons why option 1 was weak on *Dignity and Respect*:

8.11. Because of the absence of face-to-face pre-claim advice and support function, in terms of *Flexibility, Choice and Communication*, option 1 ranked lower than options 2 and 4. Option 2 which incorporates local offices has the face-to-face support function. Option 4 ranks better for a different reason – the fact that the claimant gets the choice of receiving a benefit in kind as opposed to cash, which some people may prefer. It is acknowledged that option 4 would be weaker if the in-kind benefit was imposed.

8.12. Option 1 also ranked lower than options 3, 6 and 2 in terms of *Simplicity and Support Alignment*, because of the creation of a parallel advice service on devolved benefits and difficulties in aligning this support with that on reserved

benefits. Options 3 and 6 would build on existing functions in Local Authorities and the NHS that already provide a range of advice of services for reserved, devolved and locally administered benefits. Options 1 and 2 would create a separate service for the devolved system and create difficulties for those who receive reserved benefits. Under option 2, co-location of office could address this in some local areas but this would not be possible under option 1.

8.13. On *assessments*, option 1 ranked worse than option 6 and 2 because of the absence of permanent local premises to conduct assessments for those who prefer not to have them at home. It was also considered that a mobile assessment workforce without a permanent workplace would lead to low job satisfaction and hence affect the quality of assessments.

8.14. On *Public perception of claimants*, options 4 and 6 ranked highly for different reasons. Under option 4, provision of benefits in-kind would show that social security is addressing specific needs of recipients and help address perceptions around benefit misuse and fraud. Under option 6, social security would be integrated into the wider public service provision, which would help shift attitudes towards seeing social security as an entitlement similar to how healthcare and education are currently perceived.

8.15. There are several reasons why option 1 ranked lower on *Implementability and Risk*:

8.16. Option 1 (as well as options 2 and 4) involve setting up a completely new organisation to take on all functions of social security benefits. Under option 3 the *Scale of Change* is smaller compared to the status quo because Local Authorities already deliver some social security functions such as discretionary payments, benefit maximisation and assessments for social care.

8.17. In terms of *Timescales*, option 1 ranks lower than option 3 for similar reasons as outlined above. Option 5 ranks highly under this criterion because there are existing providers in the marketplace that could take on certain functions (such as payment systems, assessments and advice and support services) of the social security system relatively easily, efficiently and quickly.

8.18. In terms of *Risk*, under option 1 (and 4) the consequences of administrative errors, IT system failures or processing backlogs in a central agency could be large affecting all claimants. Also, a mobile assessment workforce presents a greater risk of system failure than assessments done in fixed local premises. Option 3 ranks highest against this criterion which is driven, in part, by the lower risk around assessments and advice and support functions, and the fact that local authorities would deliver discretionary benefits separately from the central agency.

8.1.2 Option 2

8.19. Option 2 in both forms ranked lower than option 1 on four out of five criteria. It is weaker on *Implementability and Risk* because creating a large number of offices across Scotland is more complex and represents a larger *Scale of Change*.

and is likely to require longer *Timescales*. Decision making in local offices adds to complexity of *Governance and Accountability* and reduces *Transparency*, which leads to option 2 ranking lower on *Efficiency and Alignment* criteria set. Option 2 was also particularly weak on *Economy and Environment* because of the additional resource consumption that creation of local offices would entail. Unlike other options, option 2 is neither primarily digital nor utilising existing infrastructure.

8.20. On *Equality and Poverty* option 2 may not have sufficient resource to tailor services to a wide range of specific requirements that claimants may have in the same way that option 1 could. It may also be more costly for claimants to travel to local offices rather than call the free phone line or use online services.

8.21. Option 2, however, does provide more *Flexibility and Choice* and better *Communication* because of the face-to-face advice and support function in local offices. It also allows for *assessments* to be done in fixed locations and both assessments and decision-making to be done in the agency's local offices, improving the experience for claimants.

8.2 Taking costs into account

8.22. The assessment in the previous section is borne out by an examination of the steady state costs of the options. Table 7 from the financial case, reproduced below, shows that option 1 and 3 have the lowest costs. Option 5 and 6, which scored poorly on the MCA analysis, have the highest costs. Option 4 is a little more expensive than option 1 and 3.

Cost Estimate		
Option 0	£155m	Represents an SG estimate of the costs of the DWP calculated on an equivalent basis to the costings of the other options.

Range of Cost Estimates			
Option 1	£145m	to	£180m
Option 2a	£170m	to	£210m
Option 2b	£165m	to	£205m
Option 3	£145m	to	£180m
Option 4	£150m	to	£190m
Option 5	£165m	to	£200m
Option 6	£225m	to	£275m

8.23. On costs alone option 2 is more expensive than option 1 but the difference is relatively small. Given that both forms of option 2 have a large local footprint of circa 90 offices (matching Job Centre Plus), there would seem to be potential to explore the impact on both costs and outcomes of a smaller number of local offices. Option 5 is more expensive than option 1 but slightly cheaper than option 2 whilst

option 6 is the most expensive by a considerable margin. Option 6 would need to show considerable advantages over the other options in order for its cost disadvantage to be outweighed.

8.24. Of the remaining options although option 1 is the least expensive along with option 3, the differences in cost are not large and should be considered in the context of the full five case model.

8.3 Overall conclusions on VFM and drawing in the other cases

8.25. The multi-criteria analysis strongly suggests that option 1 or option 2 represent the best scoring options across the 5 criteria overall. Option 4 – the addition of in-kind distribution to option 1 – can be explored further as a potential bolt-on to any preferred option but does not make a strong case to be considered on its own. Option 6 has some advantages around medical or face-to-face assessments. This was of particular importance to many of the respondents to the social security consultation.

8.26. In terms of costs option 1 and option 3 are very similar but option 3 scores considerably lower on all of the criteria except Implementability and risk.

8.27. The strategic case has demonstrated the importance placed by Scottish Ministers on the dignity and respect criteria but also the importance of a smooth transition from the existing system. Option 1 scores somewhat weaker than option 2 on the first of these and weaker than option 3 on the second. This suggests that it will be worth exploring these aspects in the construction of hybrids.

8.28. The commercial case rates option 1 as the lowest (medium) risk along with option 3 with option 2 being rated as medium high. The commercial case confirms the ruling out of options 5 and 6 via the MCA or on costs grounds due to high commercial risks. Whilst the management case does not specifically rule out any option it does suggest the scale of the task and reinforces the strategic case around the importance of Implementability.

8.29. In conclusion, out of the 6 options it is clear that option 1 represents the best value. It is the joint lowest cost and scores overall best in both the socio-economic and commercial cases. However, aspects of the strategic case suggests some areas where option 1 does less well are important. Specifically, these are some aspects of Dignity and Respect around the availability of local support (from option 2), easier Implementability (in some respects) of option 3 and the importance of a high quality system of assessments that could draw on existing public sector professionals as in option 6.

8.30. The following section explores these issues and constructs 3 hybrids to explore them further.

8.4 Constructing hybrid options

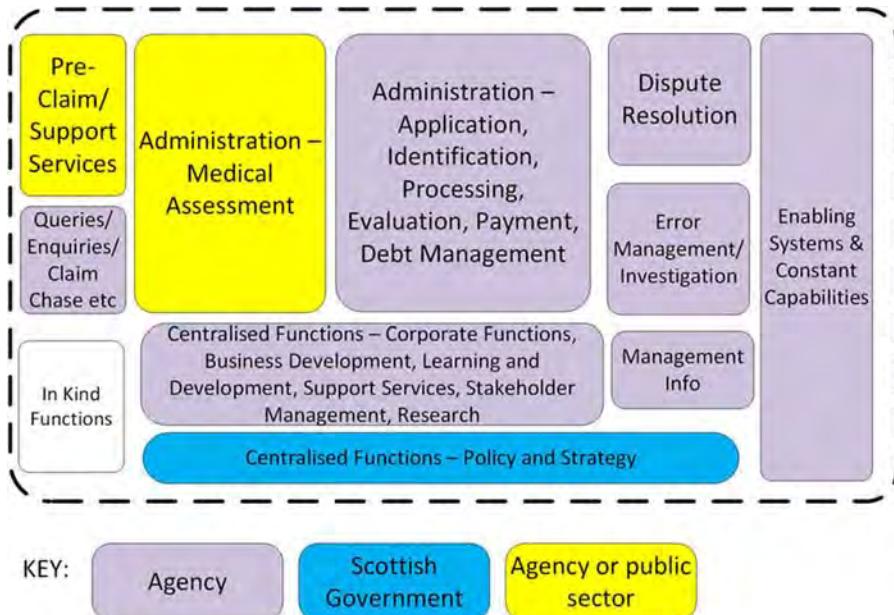
8.31. Looking at the detailed MCA of rankings against individual criteria suggests that whilst most functions of social security are best delivered by the central agency as in option 1, some functions such as *Pre-claims advice and support* and *assessments* (highlighted in Figure 17 below) could be improved by bringing in elements from other options.

8.32. These two functions of delivery may sit better outside of the central agency and with other public sector organisations (such as under option 3 or 6 or a mix of both) or with local offices as in option 2. Another alternative is for the agency workers performing certain functions to be physically located in other public sector organisation premises, whilst still being employed by the agency. This would have the advantages of greater consistency and fairness and would provide a more coherent system overall.

8.33. If option 2 structure is chosen, it could be improved by giving more consideration to the number of offices. As discussed above, some functions may sit better in local offices but option 2 in the form that it was considered is weakened by the element of complexity and inefficiency associated with a large number of local offices. A reduced number of local offices would also reduce the cost. However, there may be trade-off in terms of the positive aspects of local offices with a reduced footprint.

8.34. In terms of Implemetability and risk, a balance can be struck between the advantages and other disadvantages of option 3 by combining those aspects of option 3 that are currently implemented with the structure of option 1 and 2. A simple solution here would be to allow the administration of the Scottish Welfare Fund (and Discretionary Housing Payments) to remain with local authorities. This means there is some reduction in risk as these systems are already in place.

Figure 17– Main Social Security System Functions



8.35. Based on above the following three Hybrid options have been constructed for both the system and for assessments. The three hybrid options for the delivery system considered are:

- *Hybrid X* - a central agency with enhanced phone and online support, which incorporates face-to-face pre-claims and support services locally in existing public sector locations (a variant of option 1);
- *Hybrid Y* - a local agency model with one central and 8 local offices providing face-to face pre-claims and support and local caseload processing (a variant of option 2) and
- *Hybrid Z* - a local agency model with one central and 32 local offices providing face-to face pre-claims and support and local caseload processing (a variant of option 2).

8.36. The three models of assessment are:

- *Model MA1* – Mobile agency staff conduct face-to-face assessments in people's homes and document-based assessments remotely;
- *Model MA2* - Agency staff conduct assessments in fixed office locations, which are existing health and social care settings (under Hybrid X) or agency's local offices (under Hybrids Y and Z) and
- *Model MA3* – Existing NHS professionals sign up to be part of an assessment pool and are paid hourly by the agency for both face-to-face and document-based assessments.

9. Assessment of the hybrids and the preferred option

9. This section examines the two pairs of three hybrids discussed in section 8.4. Section 9.1 considers the 3 delivery hybrids under the MCA lens and section 9.2 does the same for the 3 assessment models. Section 9.3 considers the costs of the hybrids including sensitivity analysis and, finally, section 9.4 considers the preferred option that should be taken forward to Final Business Case.

9.1 MCA assessment of Hybrids

9.1. Hybrids X and Z are more likely to successfully deliver **Dignity and Respect** outcomes than Hybrid Y. Hybrid X offers greater flexibility of the type of advice and support and better alignment with the existing advice and support around other public services. Hybrid Z provides a greater local presence and more comprehensive face-to-face advice and support, which together with local case management and decision-making may be more preferable for some people. Hybrid Y is the weakest of the three hybrids, as people would be required to travel greater distances to access advice and support services. Both Hybrids Y and Z have advantages in terms of offering more scope to set and maintain a certain organisational culture and provide a more transparent system from the accountability perspective.

9.2. Hybrid X is considered the strongest option in terms of **Equality and Poverty**, largely because more comprehensive phone and online support would allow more tailored interaction with specific groups. Accessing support online or over the phone may be a better option for those on low incomes than travelling to local offices. Hybrid Y is the weakest option because of travel that may be required for some people to access face-to-face support, with Hybrid Z providing a more accessible system in comparison. Hybrid Z could provide more consistent advice and support service as it would be delivered from agency's own offices.

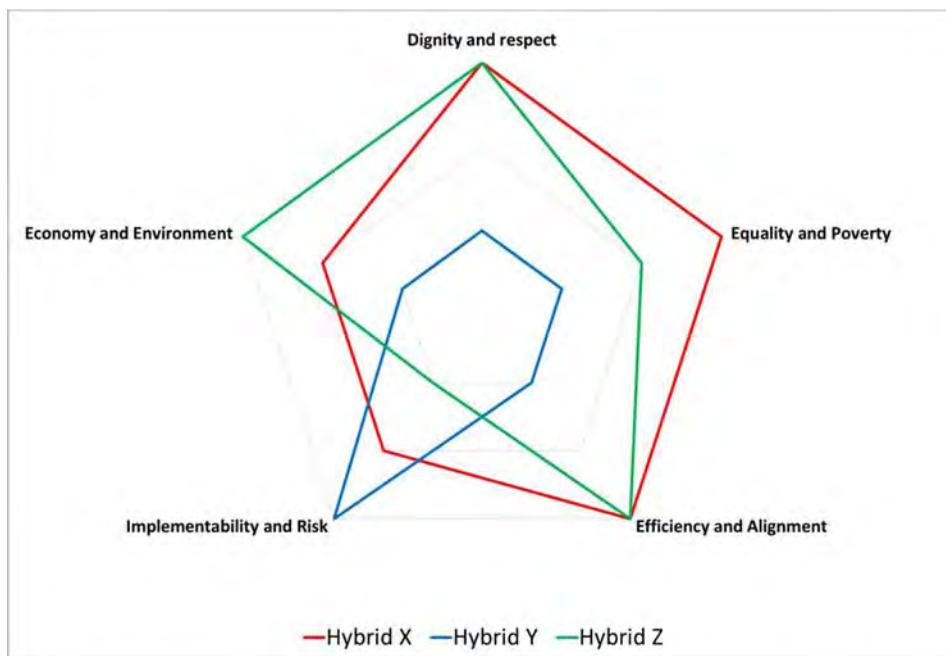
9.3. Hybrid X and Hybrid Z both have strengths and weaknesses in relation to different aspects of **Efficiency and Alignment**, but on balance are expected to be similar in how they perform on this measure and are considered to be somewhat stronger than Hybrid Y. Hybrid X allows for more scope to explore efficiencies within existing public services by co-locating advice and support functions and potentially delivering the same services with fewer resources. With Hybrid Z, local case management could speed up certain functions and create a more streamlined model and with one local office per Local Authority, some efficiencies could be explored through co-location, which cannot be achieved to the same extent with Hybrid Y.

9.4. In terms of **Implementability and Risk**, Hybrid Y ranks higher than the other two hybrids, although the differences in the delivery challenges presented make comparisons difficult. Hybrid X presents a greater implementability challenge because of risks around ensuring effective co-location and co-production and functional phone and online support. However, Hybrid X could be delivered quicker, as it does not require local office estate procurement. Hybrid Z is expected to take the longest to become operational because of the number of local offices.

9.5. On balance, it is deemed that Hybrid Z is marginally stronger than other hybrids on **Economy and Environment**, despite poorer performance against resource consumption related criteria. This is because it less likely to have a direct impact on existing public sector services, which could be negative due to capacity issues in some areas under Hybrid X. Hybrid Y is considered to be the weakest, partly because it could increase the burden on existing third sector advice services if advice and support is limited to 8 local offices.

9.6. The results are summed up in Figure 18 below.

Figure 18 - MCA for hybrid delivery structures



9.2 MCA assessment of assessment models

9.7. Overall, model MA2 is considered to be the best model when ranked against the **Dignity and Respect** criteria. Conducting face-to-face assessments from fixed locations, with outreach services for certain cases and most assessors being solely employed by the agency provides the most flexibility and choice. Model MA3 has the advantage of NHS professionals with the right level of knowledge providing the evidence for assessments which could improve decision-making, as

well as wider public perception about benefit claimants. However, this model may not be sufficiently flexible in terms of timing and location of assessments and accountability lines may become blurred between the agency and the NHS from the perspective of those being assessed. Model MA1 is considered the weakest model of the three because of the lack of flexibility it offers. Home-based face-to-face assessments may suit some people, especially those living in remote rural areas, as well as those who cannot travel because of their disability. However, default home-based assessment is unlikely to suit everyone's needs because of differences in suitability of people's homes for assessment and could result in assessments being of lower quality and consistency.

9.8. On balance, models MA1 and MA3 are considered to be somewhat more favourable in terms of **Equality and Poverty**, although on balance the differences between the three models are likely to be small. Model MA3 could encourage greater take-up of benefits by reducing stigma and fear of the assessment process. Model MA1 eliminates the requirement to travel to face-to-face assessment location which can be a considerable upfront cost for those on low income even if expenses are reimbursed. Although weaker on this criteria set than the other two options, model MA2 is most likely to deliver better outcomes in terms of the fairness element, as the process of assessment and skills of assessors are more likely to be consistent across cases.

9.9. There was found to be little difference between models MA1 and MA2 in terms of **Efficiency and Alignment**. Both are likely to be more efficient models from the process perspective than model MA3. It is likely that the assessment process would be less simple and streamlined with model MA3, not least because the NHS professionals could only work on cases on a part-time basis. Model MA3 may also present difficulties around Ministerial ability to implement policy changes around assessments.

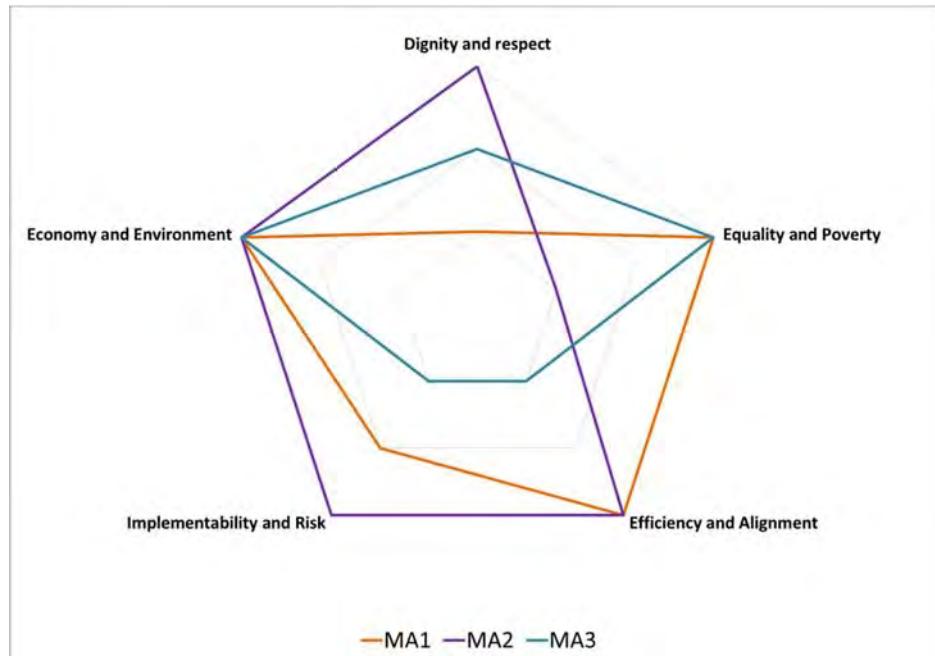
9.10. Model MA2 performs best against the **Implementability and Risk** criteria, as it most closely resembles the model that is in place at the moment, without the element of private sector involvement. The biggest challenge in model MA2 is finding suitable premises for conducting assessments, which is considered to be of smaller difficulty than those presented by models MA1 and MA3, which are largely around recruiting and retaining a sufficient number of assessors. The mobile worker model in MA1 may not be sufficiently attractive as an employment opportunity and there is an additional risk associated with assessments being done through home visits not being implementable because of unsuitability of some people's homes for such a purpose. Despite potentially positive public perception at the outset, model MA3 is considered to be the weakest in terms of Implementability and Risk, as the existing NHS workforce may not have a sufficient level of inclination and/or capacity to meet the assessment requirements and any incentives that displace existing resource away from healthcare to social security may prove difficult.

9.11. On balance, there is not a substantial difference in how the three models of assessment perform against the **Economy and Environment** criteria, although the models differ in their performance on individual aspects of this criteria set. Model MA1 is the weakest in terms of employee satisfaction as the mobile worker model could involve a lot of travel for the assessors and current public attitudes to the

benefits assessment process may make home visits a stressful element of the job. Model MA2 requires both parties to travel to the assessment location and requires more resource consumption because of the use of fixed locations for assessments. Model MA3 has the potential to have a detrimental impact on the performance of the NHS.

9.12. The results are summed up in Figure 19 below.

Figure 19 - MCA results for assessments



9.3 Costs of the hybrids

9.13. The majority of the social security system does not alter between the hybrids, with the agency undertaking the functions around administration, dispute resolution, error management / investigation and management information in the same way for all the hybrids.

9.14. Where the functions differ is around pre-claims support and advice and assessment. Varying the approach to these functions does however have knock-on effects on the constant capabilities and enabling systems required, the services that support these functions, and the estates footprint needed to deliver them. This means that the overall estimates of steady-state running costs vary not only between the three hybrid options, but also for each hybrid and assessment variant.

9.15. There are therefore separate estimates of cost for each of 9 scenarios – each of the three hybrids X, Y and Z with each of the assessment models MA1, MA2 and MA3.

9.3.1 Point estimates and Average estimates

9.16. The cost model is built up by estimating the expenditure required for each individual function, combined with assumptions about how that function will be delivered under each hybrid, and assumptions about the work required to manage that function. For each benefit, we have assumed that the caseload remains the same as it currently stands, that the number of new claims (in-flows) and the number of claims ending (out-flows) are similar to current patterns, and that the associated administrative requirements remain the same as they are now.

9.17. For each function, we can estimate not only a point estimate of costs, but also a likely distribution of costs, based around likely ranges. Monte Carlo simulation methods are then used to sample costs from these distributions, which are then combined to give an empirical distribution of total costs.

9.18. For most of the cost components the distributions are relatively symmetric. But it is worth noting that for the purposes of this modelling exercise, the uncertainty associated with the steady-state costs of IT and Digital infrastructure is greater than for the other cost components, spanning a range up to three times the central estimate. This is in line with HMT guidance on ‘optimism bias’ for IT procurement costs. This results in an overall estimated range of costs that are asymmetric – the uncertainty is greater on the high side than on the low side. The practical effect of this is that when average costs across the whole distribution are calculated, they are higher than the original point estimates.

9.19. This is a subtle analytical point, but from the point of view of presenting realistic, cost estimates before detailed design has taken place, we have used the average costs rather than the point estimates as the primary figures, as these capture a greater degree of the uncertainty inherent in the modelling.

9.3.2 Results

9.20. Costs for the hybrids are laid out in the tables below, as average values (Table 16) and as point estimates (Table 17).

9.21. For the average costs estimates, these range from a low of around £145m to a high of about £170m. and show that the different models for assessment lead to much greater variation in costs than the difference between the three hybrids. The increased expenditure on a more dispersed estate in non-prime locations for Hybrids Y and Z is somewhat offset by the saving made by requiring a smaller ‘head office’.

Table 16 – Costs of the hybrids (average cost)

	MA1	MA2	MA3
X	£145.0m	£146.6m	£157.0m
Y	£149.3m	£149.8m	£167.1m
Z	£159.4m	£159.7m	£170.5m

Table 17 - Costs of the hybrids (point estimates)

	MA1	MA2	MA3
X	£140.4m	£141.9m	£152.1m
Y	£144.4m	£144.9m	£161.8m
Z	£153.9m	£154.3m	£164.7m

9.22. Figure 20 captures the uncertainty in these estimates, showing graphically that the distribution ranges from a low of around £130m to a high of about £190m. Again, these are not budget figures, they simply represent our best estimates of the likely costs of different delivery models, and exist as an aid to decision-making, where the difference between the estimates is more important than their absolute level.

Figure 20 - Costs of the hybrids (point estimate from CAB model, with 5th percentile, mean and 95th percentile costs from Monte Carlo simulation)



Table 18 – Breakdown of costs (point estimates) in the hybrid options.

Function		XMA1	XMA2	XMA3		YMA1	YMA2	YMA3		ZMA1	ZMA2	ZMA3
Core Costs Across Hybrids		£63.0m	£63.0m	£63.0m		£63.0m	£63.0m	£63.0m		£63.0m	£63.0m	£63.0m
Total		£140.4m	£141.9m	£152.1m		£144.4m	£144.9m	£161.8m		£153.9m	£154.3m	£164.7m

Colours show the variation in costs within rows from blue (low) to white (medium) to red (high).

9.23. Table 18 above shows a breakdown of the cost components. A significant element of the costs are fixed across all hybrids and assessment models. This figure of £63m, which represents between 38% and 45% of the total costs is associated with core central and corporate functions that would be carried out in the same way (and in the same location) regardless of the Hybrid option. So a useful working assumption is that about 40% of the estimated costs are fixed across all the options. The rest, which represents pre-claims advice and support staff, assessments, the estate footprint and IT/digital costs are essentially the variable costs. As noted above digital/IT costs are highly uncertain at this stage.

9.24. It is sensible to consider the impact of applying standard and appropriate assumptions (as in section 5.5) around digital costs. This would again be a contingency of 100% and discussion of optimism bias of 200% if applying the standard rate at this stage of the project. This analysis suggests that when taking into account the variability of the IT cost estimates, the 95% sensitivity levels reported in Figure 20 are a suitably prudent estimate. It should be noted that whilst at this stage, the additional variation on the digital costs does not have a bearing on the choice of preferred option, it will be important that careful and appropriate mitigation is put in place as digital implementation thinking is developed.

9.3.3 Costs discussion

9.25. There are three key messages from the above analysis;

9.26. The assessment option featuring the NHS pool (MA3) is more expensive than other options for assessment. The two key reasons for MA3 being more expensive than MA1/MA2 are:

- A. The NHS staff pool includes specialists with in-depth knowledge of particular conditions – these specialists are more expensive than trained medical staff from within the agency.
- B. The resource required for the administration of assessments (scheduling, liaising with assessors on reports) is assumed to be much higher in this option (double that of MA1 and MA2), on account of there being a much higher headcount of professionals in the pool than agency employees in the other options.

9.27. The cost of the assessment option is very sensitive to the exact mix of health professionals in any option, due to the very wide variety in hourly rates for different professionals. Notably, MA3 cost currently includes medical consultants but **not** GPs; including GPs would make MA3 even more costly (by replacing lower paid medical practitioners).

9.28. Hybrids Y and Z are more expensive than Hybrid X. A key driver of higher costs in Hybrids Y and Z is additional face-to-face advisers; while all Hybrids feature both remote support and face-to-face advice, Hybrid X features enhanced remote support while Hybrids Y and Z feature enhanced face-to-face advice, with the net effect being a greater resource on pre claims / support in Hybrids Y and Z.

9.29. Hybrid Z (32 offices) is more expensive than Hybrid Y (8 offices). This is primarily due to the additional front of house staff (manager, receptionist / post, house staff) and the expensive “retail” like space that they require. There is also some effect from whether offices happen to be in prime, secondary or tertiary rental rate locations. Under assessment option MA3, Hybrid Y is nearly as expensive as Hybrid Z. This is because the travel time of health professionals from their place of work to the 8 offices is deemed to be significant, which makes overall assessment time (including travel) higher, with associated costs for staff time

9.4 The preferred option

9.30. The analysis above is conclusive for the choice of delivery hybrid. It is worth noting that the three delivery hybrids already reflect the evidence within the strategic, commercial and management cases so the focus in moving to the preferred option is based on the MCA (or socio-economic case) results and the financial implications.

9.31. As such, hybrid X stands clear from the other two options. It is the best overall in terms of the MCA analysis and it has the lowest cost. As such hybrid X should be considered the preferred option for the delivery structure of the agency. That is to say the basic form of the structure should be:

Hybrid X - a central agency with enhanced phone and online support, which incorporates face-to-face pre-claims and support services locally in existing public sector locations

9.32. Given the complex nature of the delivery landscape across Scotland, the choice of hybrid X as the preferred option for the basic form of the structure should not preclude adaptation to specific local needs. For instance, existing public sector locations may be limited in some areas so the agency could explore alternative options such as a mobile workforce or mobile offices or consider the use of a limited amount of its own offices if there would be strong local value.

9.33. The situation with assessments is much more complicated. Each of the three hybrids have advantages and disadvantages. Although the use of NHS professionals in hybrid MA3 is more expensive and is harder to implement when faced with the current situation it has advantages that could be developed in the context of wider change.

9.34. For assessment, on current scoring, a model based on Agency staff carrying out assessments in Agency or other public sector locations appears most viable. This is very similar to how assessments are carried out at the moment, but with the crucial difference that private sector contractors would no longer be involved. With the choice of hybrid X, this would clearly involve the use of other public sector locations. However, a model which uses the existing expertise and workforce of the NHS is still being explored. Many of the potential drawbacks of this model which have been identified through this analysis can now be examined and addressed directly.

9.35. The optimum choice of assessment process will be dependent on decisions that are yet to be made around policy and practice. As such it is too early at this OBC level to reach a preferred option for assessments. All three assessments models examined as part of this section and indeed other variants which could include contracting with an external organisation could be implemented with any of the three hybrid options and with the preferred hybrid x in particular. As such this refines the preferred option overall, at this stage, to:

Preferred option - a central agency with enhanced phone and online support, which incorporates face-to-face pre-claims and support services locally in existing public sector locations and with assessments undertaken in a manner that is appropriate for policy choices that will be made as the final business case is progressed.

9.36. The job requirements are subject to considerable variation based on detailed decisions yet to be made but it is reasonable to suggest that the central agency will be directly responsible for at least 1500 jobs (Full Time Equivalents) with a number of additional staff in other locations.

ANNEX A

10. Development of the options

10. This annex contains full detail (as specified in section 2.3) of the development of the 6 options.

10.1 Option 0 - DWP continues Do nothing/ status quo

What the agency does

10.1. As option 0 is the *status quo* the agency does not exist and performs none of the functions listed above.

What the agency does not do

10.2. As option 0 is the *status quo* DWP performs all of the functions except the ones listed below.

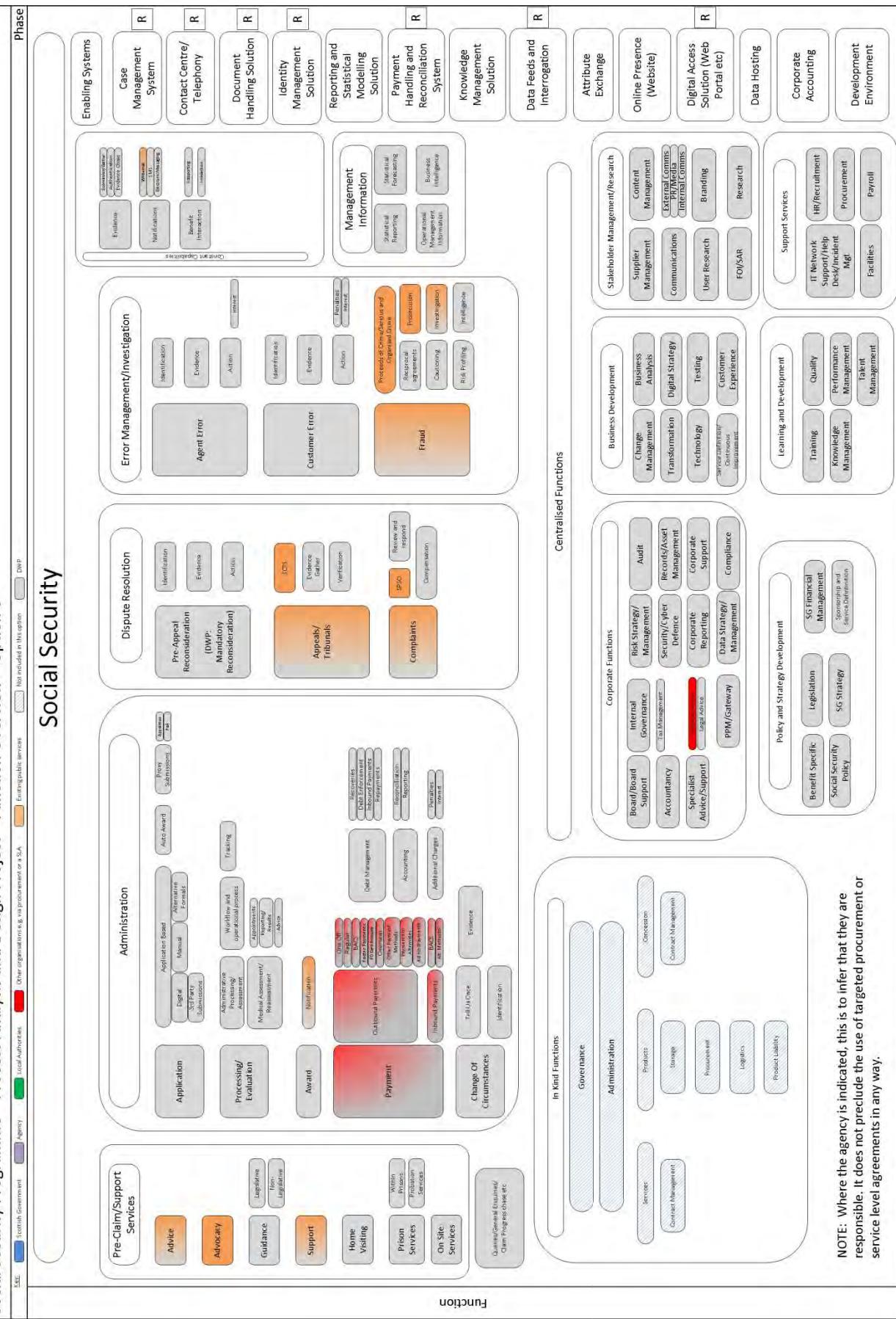
10.3. The only functions that DWP currently do not undertake in their entirety in Scotland are in the area of **pre claim and support services** where existing advice and support services in Scotland provide independent advice, support and advocacy alongside advice and support given by DWP this will continue under all future options. This is also the case for **dispute resolution** where some functions are undertaken by others such as tribunals and **investigations** where this leads to prosecutions undertaken by the procurator fiscal. In addition DWP uses others to perform functions on their behalf (see figure below) including:

- Assessment (known as medical evidence by DWP)
- Accommodation & Estates
- Some aspects of IS/IT
- Banking and POCA Contracts
- Some aspects of Office Services
- Some aspects of expense in General Office
- Postage & Courier
- Special Payments and Write Offs
- Staff Pensions

What changes occur to the status quo

10.4. Under option 0 there are no changes to the *status quo*.

Social Security Programme – Process Analysis and Design Project – Function Overview – Option 0



10.2 Option 1 - The agency centrally delivers social security in Scotland

What the agency does

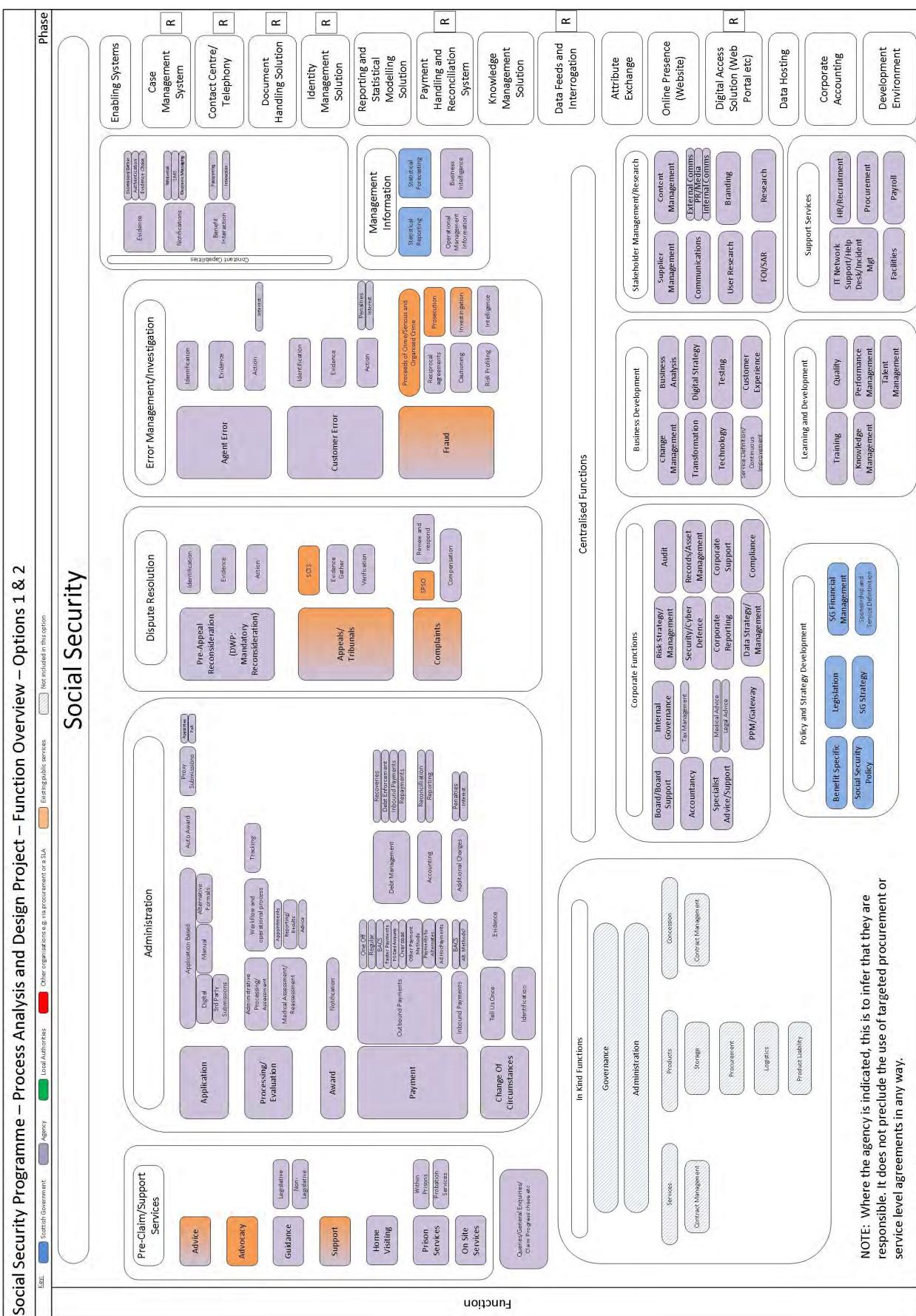
10.5. Under option 1 most aspects of the eight functions outlined above would be undertaken by the social security agency. The agency would receive and answer **queries and general enquiries**. They would also **administer benefits** (**Application, processing/evaluation (including assessment), award, payment and change of circumstances**). This would mean assessment being undertaken by staff directly employed by the agency with no external involvement. The agency would undertake most **error management and investigations**. It would provide a range of **centralised functions** (Corporate Functions, Business Development, Stakeholder Management/ Research/ Support Services, Learning and Development). It would also produce a range of **management Information** for Scottish Government. It would also run a range of **continuous capabilities** (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government (see Figure x below).

What the agency does not do

10.6. Functions the agency would not undertake in their entirety under option 1 include **pre claim and support services**, where existing advice and support services in Scotland would continue to provide independent advice, support and advocacy alongside advice and support given by the agency. The agency would, however, provide some aspects such as home and prison visits. This would also be the case for **dispute resolution** where some functions would continue to be undertaken by others such as tribunals and ombudsman and **investigations** where this would lead to prosecutions would be undertaken by the procurator fiscal. In addition policy and **strategic development** and some aspects of **management information** would be provided by Scottish Government (see figure below).

Social Security Programme – Process Analysis and Design Project – Function Overview – Options 1 & 2

Local Authorities	Other organisations & via procurement on a SLA	Evaluating public services	Not included in this option
Scottish Government	Agency		



NOTE: Where the agency is indicated, this is to infer that they are responsible. It does not preclude the use of targeted procurement or service level agreements in any way.

What changes occur to the status quo?

10.7. Under option 1, the agency would take over responsibility for administering the social security benefits currently administered by others such as Local Authorities e.g. Scottish Welfare Fund. These would be paid as cash payments without the option of in kind as now (option 4 explores these being given as in-kind). Universal Credit Flexibilities (these are where the timing and payee elements can be varied by Scotland) would be administered by DWP and the agency would provide appropriate support. It would take over control of the benefits being devolved to Scotland and work with DWP where Scottish benefits interact with reserved benefits.

What would this look like practically?

10.8. Under option 1 devolved social security in Scotland would be provided by a recognisable, branded agency. The agency would be housed in centralised headquarters (possibly in one or only a few locations), with a centralised caseload, IT capability and staff resource. As well as general corporate, HR and IT staff, there would be operational staff working to administer benefits and specialist staff for particular demographics (e.g. carers) and benefit related support (e.g. bereavement). In this option the agency would be accessed across Scotland in a largely remote way: mainly online, over the phone or by post. Assessments, where needed, would be undertaken across Scotland but not at fixed office locations with agency staff travelling out to these locations from their home or office base. Within the digital space the user interface would be consistent across all benefits administered by the agency and all access from a staff perspective will be familiar and similar. The user experience would be standardised and made as accessible as practical (see below).

Option 1 - From the perspective of the person receiving the service

I saw an advert on the side of a bus about knowing what benefits people were entitled to. I went into the local Citizens Advice Bureau / disability rights org / housing support office and they explained I might be able to claim a disability benefit so I rang the Scottish social security agency on their phone line to find out. I have Tourette's and anxiety and don't really like speaking to people that I don't know and that don't understand my condition. Someone answered the phone quickly. The person asked if I had any particular communication needs and was friendly and supportive.

The agency staff talked me through applying for the benefit and what I needed to do over the phone. They said they could help me fill in the application over the phone and then send it to me to check or amend or I could fill it in online. I decided to fill it in online and set up an account to do this. Luckily I have my own laptop otherwise this would have been difficult and inconvenient. The online application system was easy to use and accessible, but I still found a few bits of it tricky. I phoned up the agency again and went over the tricky bits of my application with them over the phone. They helped me understand what the questions were trying to find out and what material I should include in my responses.

I gave permission for them to contact my doctor, consultant and mental health community nurse about my condition and verified my identity online.

I got an email back saying the agency was processing my application and how long this would take.

Soon after that I had a call from the agency office explaining that I would need a face-to-face assessment and when the date was for this. The agency staff member talked to me about any concerns I had about the assessment and explained that they had useful information about my condition and circumstances but that someone with expertise in my condition would meet with me to understand how it impacted on my life and what could help. I also got a text message to confirm the date and time. The assessment was undertaken by a member of staff from the agency in my home. I was quite worried about it but was encouraged to bring someone with me and given written information about what would happen and why. The assessor wrote notes on his computer at the assessment but told me what he was writing and made sure that I was comfortable with it. I was told when I would receive a decision.

Once this had happened the agency informed me in an email and by letter that I would receive the benefit and that I could give some of this up to have access to a car from the Motability scheme. I liked having the choice but decided not to do this and wrote back to confirm this and my bank details.

They informed me of the date for my first payment in an email they sent confirming payment arrangements. The payment was paid promptly after this into my bank account on a day I expected.

Six months later, I moved house. I phoned the social security agency about it and they said that I could log in to my account on the social security agency's website to update my address, but that I could phone them if I needed help with it. I found that it was straightforward and didn't need more help.

10.3 Option 2 - The agency locally delivers social security in Scotland through local offices

What the agency does

10.9. Under option 2 what the agency does would be **identical to option 1**, the difference is how it will do this (see below).

What the agency does not do

10.10. The only functions the agency would not undertake in their entirety under option 2 would be **identical to those in option 1**, see figure above.

What changes occur to the status quo

10.11. Under option 2, the agency would take over responsibility for the same things **as in option 1**.

What would this look like practically

10.12. Under option 2 social security in Scotland would be provided by a recognisable, branded agency. The agency would have a central headquarters, as well as a network of local offices, ‘hubs’ or mobile units managing local caseload and providing the face-to-face user interface with those applying for and in receipt of benefits. These offices would provide outreach to more remote areas, caseload management would be done locally as would assessment, along with some decisions, advice and support.

10.13. The agency would have a staff resource divided into central ‘headquarter’ staff who would not provide face-to-face contact and ‘local’ staff providing face-to-face contact. The agency HQ would provide governance and management over centralised functions (such as IT and HR), but local offices would administer the benefits. The agency would be accessed across Scotland in a number of ways: online, over the phone, by post and face-to-face. Assessments, where needed, would be undertaken across Scotland at local office locations by local office staff or by these local staff travelling out to people’s homes, prisons or more remote locations.

10.14. **The digital landscape** for option 2 would involve local caseloads managed in local offices by agency employees. Local telephony to support local caseload management with centralised telephony for centralised administrative functions. Secure connectivity from local offices to a centralised IT capability administering all benefits will be in place to support localised working. Flexibility to access workload from any connected location subject to permissions and security rules with the ability to operationally flex the priorities and routing of the caseload for local access. Notifications and Payments will be made by a central system with automated reconciliation. The user interface would be consistent across all benefits administered by the agency and all access from a staff perspective will be familiar

and similar. These user interfaces would be designed to ensure that accessibility standards are met and exceeded where possible.

Option 2 - The agency locally delivers social security in Scotland through local offices

I went into the local Citizens Advice Bureau / disability rights org / housing support office and they explained I might be able to claim a disability benefit so I rang my local Scottish social security office to find out.

The local office staff talked to me about my needs and told me that I could apply for a disability benefit. They asked me if I'd prefer to apply online on my own at home, or at one of the computers in the office with their help. I said I'd prefer to have help, so set up an appointment to go in.

The local social security office was easy to get to, and when I got there a member of staff took me to a room with a computer and filled in an online application form with me. Although she entered most of the details into the computer, the staff member showed me how to do simple things like find the website and log in to my account if I needed to at home. She also said that my case would be processed in her team and I could speak to them directly on a number she gave me. I told my story and she listened and filled in the answers to the questions. She read them back to me to make sure I was happy with what was being written.

I gave permission for them to contact my doctor , consultant and mental health community nurse about my condition and the member of staff helped me verify my identity online.

They then told me that the local office would process my application and how long this would take. They asked how I'd like to be contacted, and I said telephone and text message.

Soon after that I had a call from her team explaining that I would need a face to face medical assessment at the social security office in my area and when this would be. They talked to me about any concerns I had about the assessment. I also got a text message to confirm the date and time. When I went to the social security office on that day, the staff member I'd met before said hello and introduced me to her colleague who did the assessment.

A couple of days later, the local social security office informed me over the phone and by letter that I would receive the benefit. They also said that, if I wanted to, I could give some of this up to have access to a car from the Motability scheme. I liked having the choice but I decided not to do this and wrote back to the local office to confirm this and my bank details.

They informed me of the date for my first payment in an email they sent confirming payment arrangements. The payment was paid promptly after this into my bank account on the day I expected.

Six months later, I moved house. I phoned the local social security agency office about it and they said that I could log in to my account on the social security agency's website to update my address, but that I could phone them if I needed help with it. I found that it was straightforward and didn't need more help.

10.4 Option 3 The agency delivers most benefits

What the agency does

10.15. Under option 3 a dual landscape would operate with most aspects of the 8 functions outlined above being undertaken by the social security agency. The agency would receive and answer **queries and general enquiries** as well as centralised advice and support online and over the telephone. They would also **administer** the bulk of benefits at a national level (**Application, processing/evaluation (but not assessment), award, payment and change of circumstances**). The agency would undertake most **error management and investigations**. It would provide a range of **centralised functions** (Corporate Functions, Business Development, Stakeholder Management/ Research/ Support Services, Learning and Development, Policy and Strategy Development). Under option 3 this would however also include the development of nationally consistent guidance on social security to avoid a postcode lottery and providing funding to local authorities. It would also produce a range of **management information** with Local Authorities and Scottish Government. It would also run a range of **continuous capabilities** (Evidence, Notification and Benefit Interaction) particularly between local authorities, DWP and Scottish Government.

What the agency does not do

10.16. Under option 3 Local authorities would, alongside the agency, receive and answer **queries and general enquiries**. Local Authorities would also **administer** one off and crisis benefits at a local level (**application, processing/evaluation, award and payment**) via their existing systems. They would produce a range of **Management Information** for the agency and Scottish Government. They would also run a range of **continuous capabilities** (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government, see figure below.

10.17. Under option 3 **pre-claim and support services** would be provided via existing advice and support services in Scotland who would continue to provide independent advice, support and advocacy alongside advice and support included in a face-to-face setting given by local authorities. With Local Authorities providing face to face support for applications, agency resources for telephone support are smaller in this option than in option 1.

10.18. Local authorities would provide assessments, with the agency providing administrative support and decision making. Local Authorities would provide home and prison visits. The agency and Local Authorities would provide most, but not all of, **dispute resolution** (some functions would continue to be undertaken by others such as tribunals and ombudsman) and **investigations** (where this would lead to prosecutions, these would be undertaken by the procurator fiscal). In addition policy and **strategic development** and some aspects of **management information** would be provided by Scottish Government, see figure below.

What changes occur to the status quo

10.19. Under option 3 the agency would govern the system but the delivery of benefits would be split between the Scottish social security agency and 32 local authorities. The agency will provide the bulk of benefits at a national level across Scotland. Additional benefits based on local need and for rapid response (short-term, one-off or occasional assistance based on local need) would be provided by local authorities (this would build on their current benefit administration e.g. SWF and DHP's). As in option 1 and 2 Universal Credit Flexibilities would be administered by DWP and the agency would provide appropriate governance over this arrangement. The agency and local authorities would take over control of the benefits being devolved to Scotland and work with DWP where Scottish benefits interact with reserved benefits.

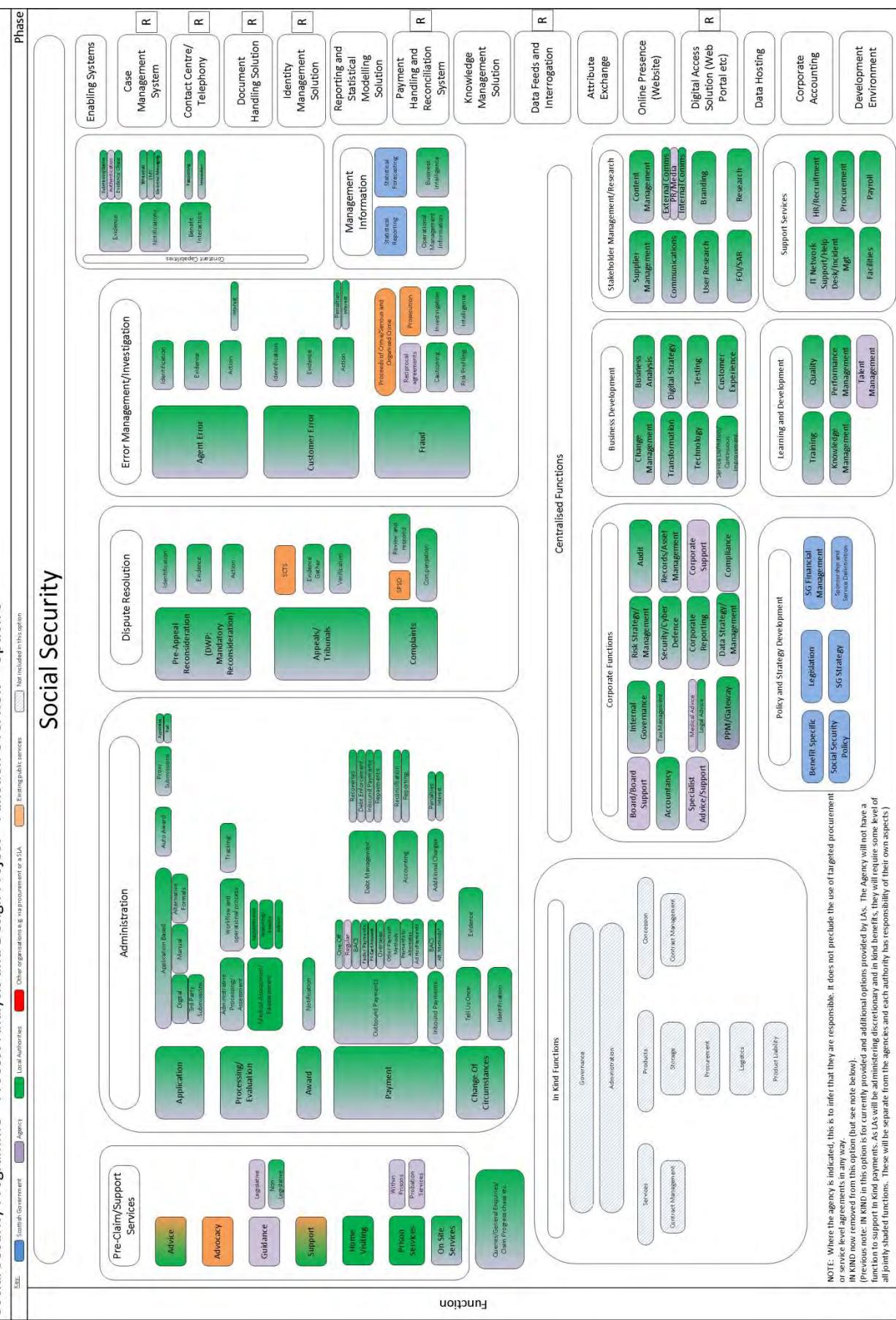
What would this look like practically

10.20. Under option 3 a dual landscape would exist with both a social security branded agency and 32 local authorities providing a service.

10.21. The agency would be housed in centralised headquarters (possible in one or only a few locations), with a centralised caseload, IT capability and staff resource, employed by the agency housed within it. As well as general corporate, HR and IT staff, there would be operational staff working to administer benefits and specialist staff for particular demographics (e.g. carers) and benefit related support (e.g. bereavement). In this option the agency would be accessed across Scotland in a largely remote way: mainly online, over the phone or by post. Within the **digital** space the user interface would be consistent across the benefits administered by the agency and all access from a staff perspective will be familiar and similar.

10.22. Local authorities would provide the 'front door' service for social security giving advice and support and helping with additional application needs alongside the existing services they already provide in this area. They would also provide **assessments** locally alongside the existing services and assessments they already provide around social care. Within the **digital** space local authorities could use their existing systems to administer benefits in a similar way to the existing Scottish Welfare Fund. These systems would need to link to the agency's systems. Alternatively, if agreed during negotiation they could use the agency's digital systems.

Social Security Programme – Process Analysis and Design Project – Function Overview – Option 3



NOTE: Where the agency is indicated, this is to infer that they are responsible. It does not preclude the use of targeted procurement or service level agreements in any way.
 IN KIND in this option is for currently provided and additional options provided by LAS. The Agency will not have a previous note. IN KIND in this option is for currently provided and additional options provided by LAS. The Agency will not have a function to support In Kind payments. As LAS will be administering discretionary and in kind benefits, they will require some level of all jointly shaded functions. These will be separate from the agencies and each authority has responsibility of their own aspects.]

Option 3 - The agency delivers most benefits, but local authorities provide the face-to-face contact for the social security system and additional benefits based on local need

I spoke to my local council's Welfare Rights Team as part of the wider support they gave me. They explained that I might be able to claim a disability benefit.

They asked me if I'd prefer to apply online on my own at home, or at one of the computers in the office with their help. I said I'd prefer to have help, so set up an appointment to go in. The office was easy to get to, and when I got there a friendly member of staff took me to a room with a computer and filled in an online application form with me. Although she entered most of the details into the computer, the staff member showed me how to do simple things like find the website and log in to my account if I needed to at home.

I gave permission for them to contact my doctor and my occupational therapist about my condition and verified my identity online.

They then told me that the social security agency would process my application and how long this would take. They asked how I'd like to be contacted, and I said telephone and text message. Soon after that I had a call from the Council office explaining that I would need a face to face medical assessment and when this would be. The Council staff member talked to me about any concerns I had about the assessment. I also got a text message to confirm the date and time. When I went to the office on that day, the staff member I'd met before said hello and introduced me to the social worker who did the assessment.

A couple of days later, the agency informed me over the phone and by letter that I would receive the benefit. They also said that, if I wanted to, I could give some of this up to have access to a car from the Motability scheme. I liked having the choice but I decided not to do this and wrote back to confirm this and my bank details.

The social security agency wrote and informed me of the date for my first payment in an email they sent confirming payment arrangements. The payment was paid promptly after this into my bank account on the day I expected.

Six months later, I moved house. I phoned the Council about it and they said that I could log in to my account on the social security agency's website to update my address, but that I could phone them or come to their office if I needed help with it. I found that it was straightforward and didn't need more help.

10.5 Option 4 The agency delivers cash and benefits in kind as goods, services or concessions.

What the agency does

10.23. Under option 4 what the agency does would be the same as **option 1 and 2** the difference is that it would also be providing benefits 'in kind' as well as in cash in the form of good, services and concessions (see figure below).

What the agency does not do

10.24. The only functions the agency would not undertake in their entirety under option 4 would be **identical to those in option 1 or 2**, see figure below.

What changes occur to the status quo

10.25. Under option 4, the agency would take over responsibility for the same things **as in option 1 and 2**.

What would this look like practically

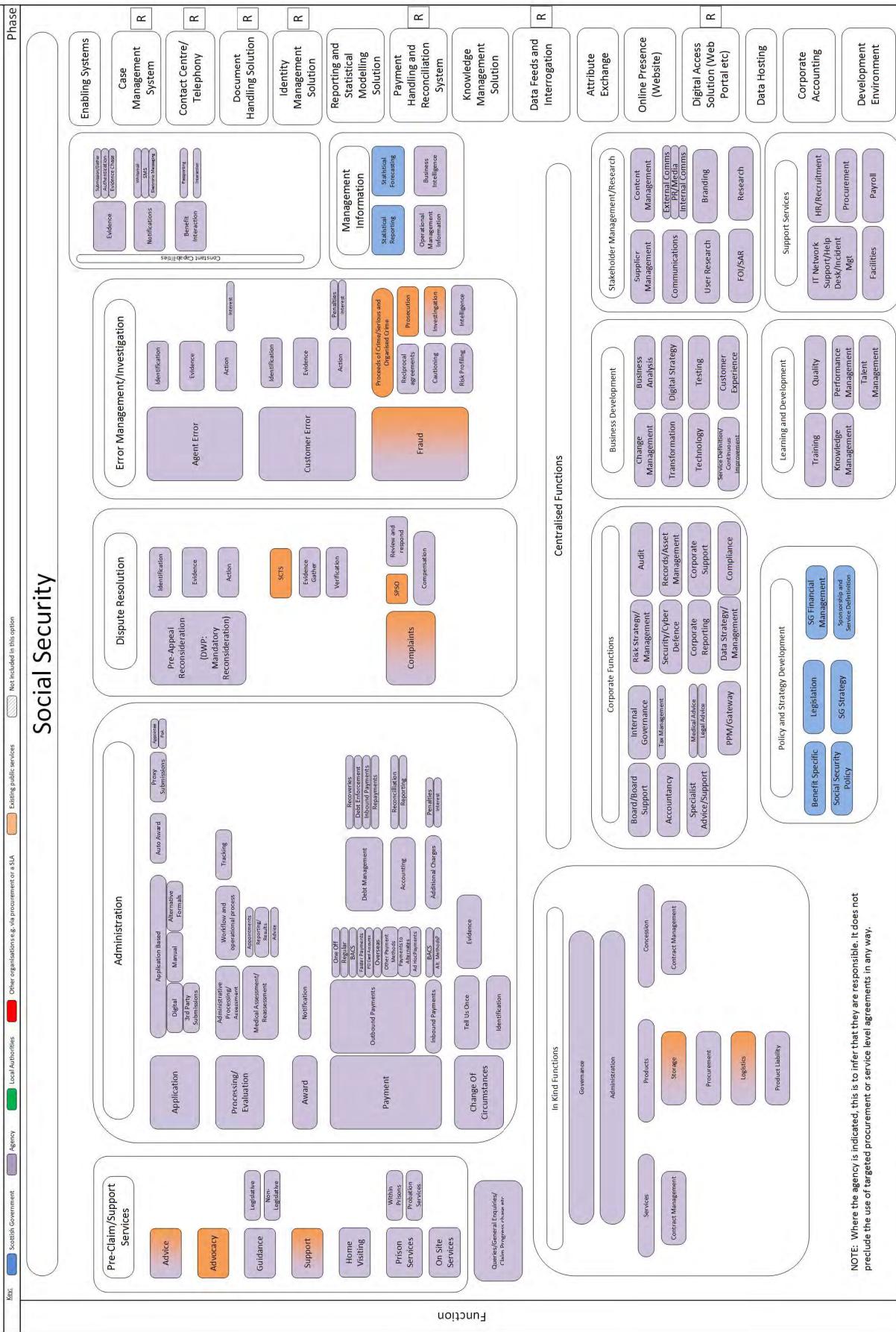
10.26. Under option 4 social security in Scotland would be provided in the same way as in option 1 or option 2 either centrally or via local offices. The difference with this option is that as well as delivering cash benefits, the agency also delivers an array of benefits in kind. Under option 0 the *status quo* 'in kind' benefits include Healthy Start vouchers, the Motability scheme and items under the Scottish Welfare Fund. Under this option benefits in kind would cover these existing 'in kind' benefits and new ones covering 'goods' (e.g. carpets or fridges), 'services' (e.g. legal aid or caring/respite) and 'concessions' (e.g. discounts or travel cards). As well as the social security agency staff outlined in option 1 and 2, an additional staff resource would be brought in (either as permanent staff or by procurement contract) to procure and in some cases store and deliver the various types of benefits in kind and an IT system to cover inventory, stock control and delivery. The Motability scheme would remain as it is under the *status quo* under this option as well as all others.

10.27. If this options is a bolt on to option 1, **pre-claim and support services** would rely heavily on digital and phone routes for the user interface. If it was a bolt on to option 2, pre-claim and support services would be delivered through these routes as well as local offices. Therefore as a bolt on to option 2 face-to-face contact would also be available.

10.28. In terms of **decision and receipt**, under option 4 receipt would take different forms, depending on whether the recipient is receiving a cash payment, benefits in kind or a mixture. Recipients could also be provided with a 'benefits smart card', which works in the same way as a credit card which would be

preloaded with money. Where recipients receive benefits in kind, these would be delivered to their home address and in some cases fitted.

Social Security Programme – Process Analysis and Design Project – Function Overview – Option 4



NOTE: Where the agency is indicated, this is to infer that they are responsible. It does not preclude the use of targeted procurement or service level agreements in any way.

10.6 Option 5 The agency provides governance but the delivery of social security is done by others

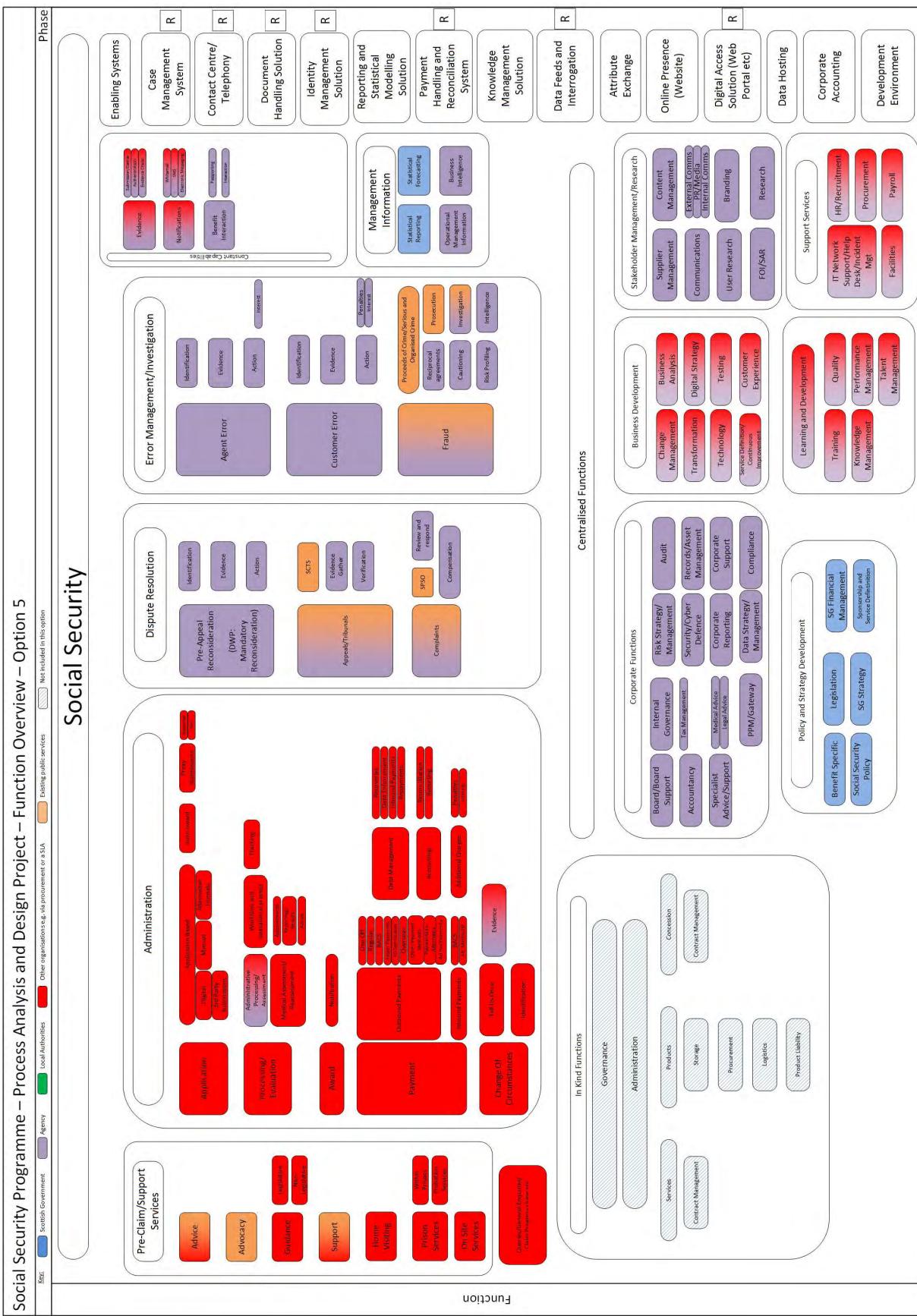
10.29. Under option 5 a range of operational functions around **pre claims support, enquiries, benefit processing and assessment** would be undertaken by others via procurement or an SLA rather than by the social security agency. This would mean that the agency would be much smaller than under other options like in option 6.

10.30. The agency would however undertake **decision making, dispute resolution** and some **error management and investigations**. It would provide a range of **centralised functions** (Corporate Functions, Business Development, Stakeholder Management/ Research/ Support Services, Learning and Development) with much larger procurement and audit divisions. It would also produce a range of **management information** with Scottish Government. It would also coordinate a range of **continuous capabilities** (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government, see Figure below.

What the agency does not do

10.31. Others via procurement or an SLA would receive and answer queries and general enquiries. They would also administer benefits (application, processing (including assessment), payment and change of circumstances). This would mean assessment being undertaken by others not directly employed by the agency with the potential for private sector involvement, as is the case under the current *status quo*.

10.32. In addition in the area of **pre claim and support services** existing advice and support services in Scotland would continue to provide independent advice, support and advocacy alongside advice and support given by others via procurement or an SLA. Under **dispute resolution** some functions would continue to be undertaken by other existing providers such as tribunals and ombudsman and **investigations** where this would lead to prosecutions would be undertaken by the procurator fiscal. In addition, policy and **strategic development** and some aspects of **management information** would be provided by Scottish Government, see Figure A below.



What changes occur to the status quo

10.33. Under option 5, the agency would take over responsibility for governance of the social security benefits currently administered by local authorities e.g. Scottish Welfare Fund. These would be paid as cash payments (option 4 explores these being given as ‘in kind’). Universal Credit Flexibilities would be administered by DWP and the agency would provide appropriate governance over this arrangement. It would take over governance of the benefits being devolved to Scotland and work with DWP where Scottish benefits interact with reserved benefits. Others via procurement or an SLA would administer the benefits on behalf of the agency.

What would this look like practically

10.34. Under option 5 the governance of social security in Scotland would be provided by a recognisable, branded agency. The agency would be housed in centralised headquarters (probably in one location), with a centralised IT capability and staff resource, employed by the agency housed within it. In this option the agency staff would be general corporate, procurement, audit, HR and IT staff employed by the agency. There would be additional operational staff working on specific aspects of benefits administration (disputes, appeals, error management /investigation, and decision making), with specialist staff for particular demographics (e.g. carers) and benefit related support (e.g. bereavement). Other administration functions (application processing, advice and support) would be undertaken by others on the agency’s behalf. Contracted providers would be responsible for their own staff, estate, IT and telephony arrangements. How this would be specified would be up to the Scottish Government / agency and could include or not include face-to-face contact being available across Scotland as outlined in option 1 and option 2. Under this option there could either be a number of providers providing functions or only one or two - this would to some extent be determined by the way functions were procured or SLAs set up.

1.1. Option 5 - The agency provides governance but delivery of social security is done by others e.g. via procurement or SLA's

When I went into the Citizens Advice Bureau, they explained that I might be able to claim a disability benefit. They explained that they were contracted by the social security agency to provide advice and support.

They asked me if I'd prefer to apply online on my own at home, or at one of the computers in the office with their help. I said I'd prefer to have help, so a friendly member of CAB staff took me to a room with a computer and filled in an online application form with me. Although she entered most of the details into the computer, the staff member showed me how to do simple things like find the website and log in to my account if I needed to at home.

I gave permission for the company processing my application to contact my doctor about my condition and verified my identity online.

The company processing my application wrote to me to say how long this would take. They asked how I'd like to be contacted, and I said telephone and text message.

Soon after that I had a call from company undertaking assessments for my application saying that I would need a face to face medical assessment and when this would be. They said that I would need to go to their assessment centre in my local area. I also got a text message to confirm the date and time. I was worried and confused by this and went back to the CAB. They arranged for an advocate to meet with me to discuss my application and condition and they accompanied me to the assessment. When I went to the assessment company on that day, the friendly assessment centre staff introduced me to the person who did the assessment. The advocate provided support just by being there but also helped and prompted me a few times when it was clear that I was becoming tired or forgetful.

A couple of days later, the company processing my application contacted me by letter and via text message explaining I would receive the benefit. They also said that, if I wanted to, I could give some of this up to have access to a car from the Motability scheme. The advocate came to my house to discuss the options with me and help me think through what I wanted. I liked having the choice but. I decided not to do this and wrote back to confirm this and my bank details.

The letter informed me of the date for my first payment and in an email confirming payment arrangements. The payment was paid promptly after this into my bank account on the day I expected.

Six months later, I moved house. I phoned Citizens Advice Bureau about it and they said that I could log in to my account on the social security agency's website to update my address, but that I could phone them or come to their office if I needed help with it. I found that it was straightforward and didn't need more help.

10.7 Option 6 Social security is embedded in a range of existing public services

10.35. Under option 6 a range of existing public services in Scotland rather than the social security agency would process benefits. This would mean that the agency would be much smaller than under other options.

10.36. The agency would however undertake some **error management and investigations**. It would provide a range of **centralised functions** (Corporate Functions, Business Development, Stakeholder Management/ Research/ Support Services, Learning and Development, Policy) with much larger procurement and audit divisions. It would also produce a range of **management information** with Scottish Government. It would also coordinate a range of **continuous capabilities** (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government, see Figure below.

What the agency does not do

10.37. Other public sector organisations would receive and answer queries and general enquiries. They would also administer benefits (Application, processing/evaluation (including assessment), award, payment and change of circumstances). This would mean assessment being undertaken by others not directly employed by the agency with the potential, for example, for this to be done by the NHS or Local Authorities.

10.38. In addition in the area of **pre claim and support services** existing advice and support services in Scotland would continue to provide independent advice, support and advocacy alongside advice and support given by the agency. Under **dispute resolution** some functions would continue to be undertaken by other existing partners such as tribunals and ombudsman and **investigations** where this would lead to prosecutions would be undertaken by the procurator fiscal. In addition policy and **strategic development** and some aspects of **management information** would be provided by Scottish Government, see Figure B below.

What changes occur to the status quo

10.39. Under option 6, the agency would take over responsibility for governance of the social security benefits. Local authorities would continue to administer the Scottish Welfare Fund. Universal Credit Flexibilities would be administered by DWP and the agency would provide appropriate governance over this arrangement. It would take over governance of the benefits being devolved to Scotland and work with DWP where Scottish benefits interact with reserved benefits. Other public sector organisations would however administer the benefits with the agency providing guidance, monitoring and oversight.

What would this look like practically

10.40. Under option 6 the governance of social security in Scotland would be provided by a recognisable, branded agency. The agency would be housed in centralised headquarters (probably in one location), with a centralised IT capability and staff resource, employed by the agency housed within it. In this option the agency staff would be general corporate, HR and IT staff employed by the agency, there would be no operational staff working to administer benefits, which would be undertaken by other organisations. There would, however, be specialist staff for particular demographics (e.g. carers) and benefit related support (e.g. bereavement).

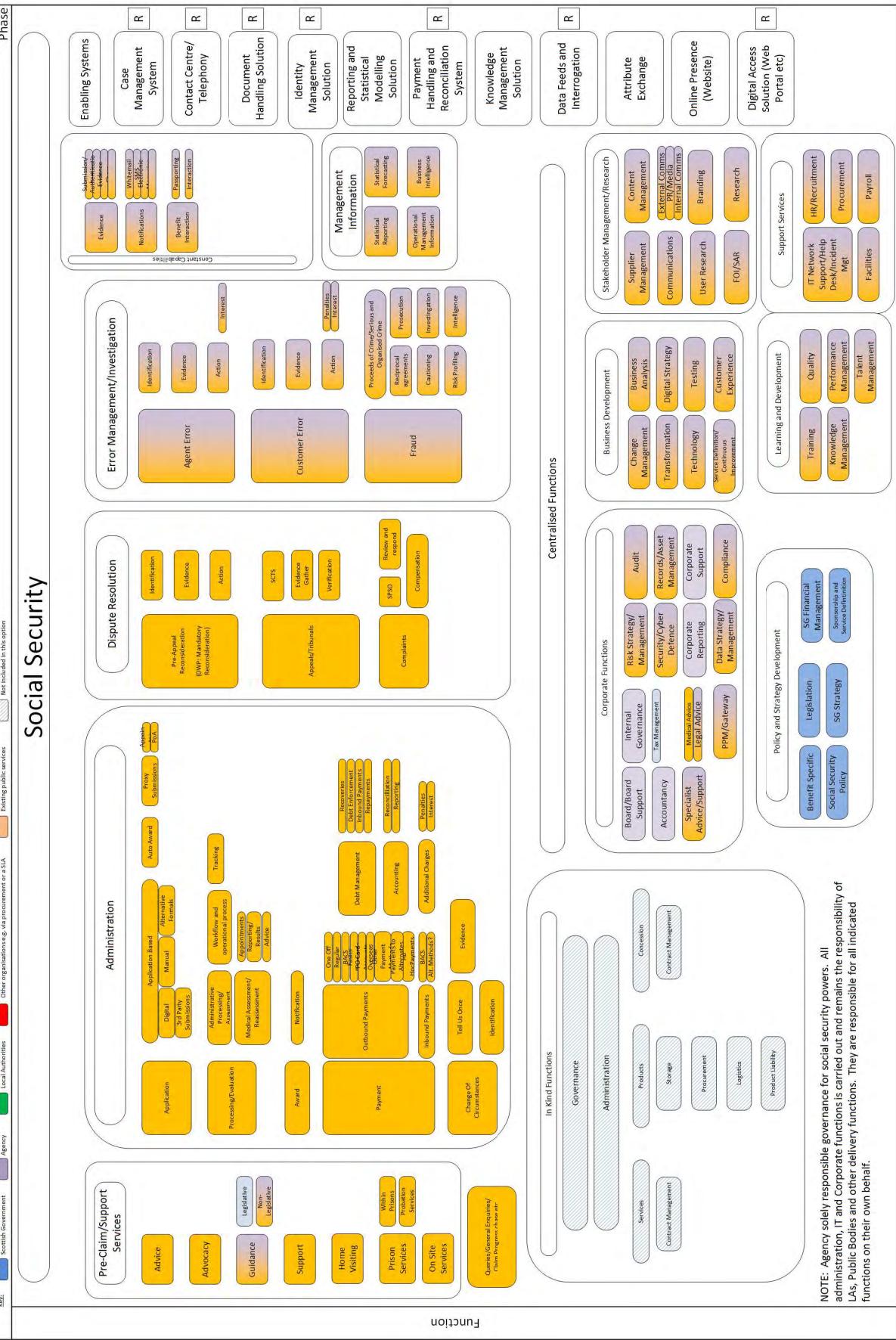
10.41. Other public sector organisations would be responsible for their own staff, estate, and telephony arrangements. Guidance and standard operating procedure on this would be designed by the agency to ensure consistency of information etc. The agency would therefore provide a coordination role similar to that provided to the NHS by National Services Scotland in terms of its commissioning of national services as well as a consistent IT solution. Responsibility would be based on the best location for each benefit's interface with the users. For example, this could mean that the NHS is asked to take on the responsibility for administering Disability and Maternity payments and local authorities continue with discretionary benefits.

10.42. The bulk of the new social security powers would therefore be delivered by existing and new staff across the public sector. For this to function, training and/or recruitment would be required to provide the additional services, and support is required for staff (e.g. midwives) to do this in addition to existing workloads.

Social Security Programme – Process Analysis and Design Project – Function Overview – Option 6

Func:

- █ Scottish Government
- █ Agency
- █ Local Authorities
- █ Other organisations & instruments or SAsA
- █ Existing public services
- █ Not included in this option



NOTE: Agency solely responsible governance for social security powers. All administration, IT and Corporate functions is carried out and remains the responsibility of LAs, Public Bodies and other delivery functions. They are responsible for all indicated functions on their own behalf.

Option 6 - Social security is embedded in a range of existing public services with the agency providing governance

There was a poster in my GP practice waiting room promoting a benefits advice service. When I saw my GP I asked about it and she explained to me that I might be able to claim disability benefits.

She said that I could find out more about the benefits and how to apply online or over the phone by calling an NHS number, and that if I had any difficulties I could set up an appointment to come back to the surgery and go through an application with the practice benefits advisor.

After phoning the NHS number I said I'd prefer to have some help, so set up an appointment to go in to my GP surgery. A friendly benefits advisor took me to a room in the surgery with a computer and filled in an online application form with me. Although she entered most of the details into the computer, the officer showed me how to do simple things like find the section of NHS Inform on benefits and log in to my account if I needed to at home.

The benefits advisor explained that information I'd given to my GP in the past would be used alongside the application, and that it wouldn't be passed outside the NHS. My identity was verified by my CHI number.

They then told me that the NHS benefits service would process my application and how long this would take. They asked how I'd like to be contacted, and I said telephone and text message.

Soon after that I had a call from the NHS benefits service explaining that I would need a face to face medical assessment and when this would be. The staff member talked to me about any concerns I had about the assessment. I also got a text message to confirm the date and time, and that I would need to go to the assessment centre at my nearest hospital for the assessment. When I went to the hospital on that day, I was introduced to the NHS assessment officer who did the assessment.

A couple of days later, the NHS benefits service informed me over the phone and by letter that I would receive the benefit. They also said that, if I wanted to, I could give some of this up to have access to a car from the Motability scheme. I liked having the choice but I decided not to do this and wrote back to confirm this and my bank details.

They informed me of the date for my first payment in an email they sent confirming payment arrangements. The payment was paid promptly after this into my bank account on the day I expected.

Six months later, I moved house. I phoned my GP to let them know and they automatically sent the details to the NHS benefits service.

Figure 21 - Capabilities needed to deliver social security

1	Queries / General Enquiries / Claim Progress chase etc.	Centralised Functions - Learning and Development – Training
2	Pre Claim / Support Services – Advice	Centralised Functions - Learning and Development - Knowledge Management
3	Pre Claim / Support Services – Advocacy	Centralised Functions - Learning and Development – Quality
4	Pre Claim / Support Services – Guidance	Centralised Functions - Learning and Development - Performance Management
5	Pre Claim / Support Services – Support	Centralised Functions - Learning and Development - Talent Management
6	Pre Claim / Support Services - Home Visiting	Centralised Functions - Support Services - IT Network Support / Help Desk / Incident
7	Pre Claim / Support Services - Prison Services	Management
8	Pre Claim / Support Services - On Site Services	Centralised Functions - Support Services – Facilities
9	Administration – Application	Centralised Functions - Support Services - HR / Recruitment
10	Administration - Processing / Evaluation (including Assessment)	Centralised Functions - Support Services – Procurement
11	Administration – Award	Centralised Functions - Support Services – Payroll
12	Administration – Payment	Centralised Functions - Policy and Strategy
13	Administration - Debt Management	Development - Benefit Specific Policy
14	Administration – Accounting	Centralised Functions - Policy and Strategy
15	Administration - Change of Circumstances	Development - Social Security Policy
16	Administration - Additional Charges	Centralised Functions - Corporate Functions - PPM / Gateway
17	Dispute Resolution - Pre-Appeal Reconsideration (DWP: Mandatory Reconsideration)	Centralised Functions - Corporate Functions - Data Strategy / Management
18	Dispute Resolution - Appeals / Tribunals	Centralised Functions - Corporate Functions – Compliance
19	Dispute Resolution – Complaints	Centralised Functions - Business Development - Service Definition / Continuous Improvement
20	Error Management / Investigation - Agent Error	Centralised Functions - Business Development - Customer Experience
21	Error Management / Investigation - Customer Error	Centralised Functions - Stakeholder Management - Content Management
22	Error Management / Investigation – Fraud	Centralised Functions - Stakeholder Management - FOI / SAR
23	Centralised Functions - Corporate Functions - Board / Board Support	Centralised Functions - Stakeholder Management – Research
24	Centralised Functions - Corporate Functions - Internal Governance	Centralised Functions - Policy and Strategy
25	Centralised Functions - Corporate Functions - Risk Strategy / Management	Development – Legislation
26	Centralised Functions - Corporate Functions – Audit	Centralised Functions - Policy and Strategy
27	Centralised Functions - Corporate Functions – Accountancy	Development - SG Strategy
28	Centralised Functions - Corporate Functions - Records / Asset Management	Centralised Functions - Policy and Strategy
29	Centralised Functions - Corporate Functions - Security / Cyber Defence	Development - SG Financial Management
30	Centralised Functions - Corporate Functions - Specialist Advice / Support	Centralised Functions - Policy and Strategy
31	Centralised Functions - Corporate Functions - Corporate Reporting	Development - Sponsorship and Service Definition
32	Centralised Functions - Corporate Functions - Corporate Support	Management Information - Statistical Reporting
33	Centralised Functions - Business Development - Change Management	Management Information - Statistical Forecasting
34	Centralised Functions - Business Development – Transformation	Management Information - Operational
35	Centralised Functions - Business Development – Technology	Management Information
36	Centralised Functions - Business Development - Business Analysis	Management Information - Business Intelligence
37	Centralised Functions - Business Development - Digital Strategy	Constant Capabilities – Evidence
38	Centralised Functions - Business Development – Testing	Constant Capabilities – Notifications
39	Centralised Functions - Stakeholder Management - Supplier Management	Constant Capabilities - Benefit Interaction
40	Centralised Functions - Stakeholder Management – Communications	In Kind Functions – Governance
41	Centralised Functions - Stakeholder Management - User Research	In Kind Functions – Administration
42	Centralised Functions - Stakeholder Management – Branding	In Kind Functions – Services
		In Kind Functions – Products
		In Kind Functions – Concession

ANNEX B

11. Estimation of Costs

11.1 Estimated costs of option 1 - The agency centrally delivers social security in Scotland

11.1.1 High level parameters and assumptions under option 1

11. Function Coverage: Under option 1 almost all of the functions needed within the social security system are undertaken by the social security agency. Assessments would be delivered by agency staff, and not a separate organisation. Alongside this, the Scottish Government would provide a small number of **policy, strategy and management information** functions. The cost of this option in terms of costs and staff are outlined below. Excluded from these costs are the costs associated with the devolution for existing third and public sector services.

11.1. Benefit Coverage: The costs for option 1 are based on the agency centrally administering all devolved benefits, the existing benefits currently administered in Scotland by Local Authorities and others, such as the Scottish Welfare Fund, as well as an estimate of the additional administrative burden of changes to existing benefits e.g. extending eligibility and new benefits (See the technical annex for more information). In addition it includes the costs of DWP administering Universal Credit Flexibilities.

11.2. Estates: option 1 estate costs for a centralised agency are estimated based on modelling sites in the central belt providing accommodation suitable for generic office functions only (i.e., there is no retail level space for engaging with social security clients). There are no additional estates costs in this option for face-to-face contact for people applying for or in receipt of benefits; services which require local presence, such as **assessments and local fraud and error investigations**, would be delivered by a mobile workforce travelling from their home base. These staff members would be allocated a small shared hot-desking space in the central office for report writing and other desk-based work.

11.3. Assessments: Paper based assessments would be undertaken by central agency staff. The costs of undertaking face-to-face **assessments** are based on a mobile workforce covering an area of Scotland within a 1 hour driving time from their home base.

11.4. For each option a similar methodology has been used to estimate digital costs of the enabling systems. In the DWP DABM data, there are costs for Costs Only IT lines. Those costs relate to the maintenance of existing DWP systems. Given the very varied IT landscape within DWP – and the connectedness of systems that relate to the benefits being devolved to other systems within DWP that relate to reserved benefits – the DABM costs for IT are not a useful comparator for

the future on-going IT costs for the social security agency. Because of this, we have removed the DABM IT costs. We have done some early discovery work to understand at high level the type of modern, coherent IT architecture that would be required to support the administration of the devolved benefits. Cost estimates for the on-going operation of those systems have been used instead of the DABM costs.

11.5. The costs for the above are dependent on the number of staff and number of central offices and further locations, as those have a significant impact on some areas of IT cost (e.g. numbers of licenses to access systems, or security costs for additional locations). In the point estimates below, VAT, and inflation have been excluded.

11.6. In addition to the above costs, estimates from the DABM model of IT Costs that include staff costs are included in the enabling systems costs. This includes staff IT support.

11.2 Estimated costs of option 2 - The agency delivers social security in Scotland through local offices

11.2.1 High level parameters and assumptions under option 2

11.7. Function Coverage: Under option 2 almost all of the functions needed within the social security system are undertaken by the social security agency. Assessments would be delivered by agency staff, and not a separate organisation. Alongside this, the Scottish Government would provide a small number of policy, strategy and management information functions. The cost of this option in terms of costs and staff are outlined below. Excluded from these costs are the costs associated with the devolution for existing third and public sector service.

11.8. Benefit Coverage: The costs for option 2 are based on the agency with local offices and a corporate headquarters administering all devolved benefits, the existing benefits currently administered in Scotland by Local Authorities and others, such as the Scottish Welfare Fund, as well as an estimate of the additional administrative burden of changes to existing benefits e.g. extending eligibility and new benefits (See the technical annex for more information). In addition it includes the costs of DWP administering Universal Credit Flexibilities.

11.9. Estates: option 2 estate costs for an agency with local offices and a corporate headquarters are estimated based on modelling sites in the central belt for the corporate headquarters and local offices across Scotland, based on the footprint for Jobcentre Plus, providing accommodation suitable for generic office functions and retail space for face-to-face contact with those applying for benefits.

There are additional estates (and staff) costs in this option for face-to-face contact for people applying for benefits. Services which require local presence, such as assessments and fraud and error investigations, would be delivered through these offices and by agency staff traveling out from these local office locations.

11.10. Under this option costs are presented for two types of local office model. In option 2a some Queries, General Enquiries and Claim Progress; Pre Claim, Support Services and all face-to-face assessment would be spread across the local offices, with all other functions being located at the headquarters. In option 2b, administration of the benefits is spread across local offices with only Corporate Functions remaining at the headquarters.

11.11. Assessments: The costs of undertaking assessments are based on a workforce covering an area of Scotland from the local office either with those being assessed travelling to the local office or the agency staff travelling out to do home or prison visits.

11.12. Digital: The digital cost of the enabling systems needed under this option are estimated in the same way as for option 1.

11.3 Estimated costs of option 3 - The agency delivers most benefits, but local authorities provide the face-to-face contact for the social security system and additional benefits based on local need

11.3.1 High level parameters and assumptions under option 3

11.13. Functional Coverage: Under option 3 a dual landscape would exist. Local authorities would, alongside the agency, receive and answer **queries and general enquiries**. Local authorities would also **administer** a pot of money to be allocated based on local need and for one off and crisis benefits at a local level (**Application, processing/evaluation, award, payment**) via their existing systems. They would provide a range of **management Information** to the agency and Scottish Government. They would also run a range of **continuous capabilities** (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government. For all other benefits the social security agency would undertake the functions relating to **applications, processing/evaluation, award, payment and change of circumstances** as well as all the other functions such as **corporate and management functions**.

11.14. The Scottish Government would provide a small number of **policy, strategy and management information** functions. The cost of this option in terms

of costs and staff are outlined below. Excluded from these costs are the costs associated with the devolution for existing third and public sector services.

11.15. Benefit Coverage: The costs for option 3 are based on the agency administering all devolved benefits, as well as an estimate of the additional administrative burden of changes to existing benefits e.g. extending eligibility and new benefits (See the technical annex for more information). In addition it includes the costs of DWP administering Universal Credit Flexibilities. Local authorities would also administer a pot of money to be allocated based on local need and for one off and crisis benefits at a local level – this would build on the Scottish Welfare Fund and Discretionary Housing Payments.

11.16. Local Authorities would be the face-to-face contact for social security including for assessments in Scotland and would administer a pot of money based on a local needs and rapid response (for crisis and one off payments). The cost of administering this is would be part of a formal negotiation with local authorities. Therefore both a case study approach is taken to illustrate the costs of this part of option 3 and an estimated total cost based on this are included here.

11.17. Estates: option 3 estate costs for the agency are estimated based on modelling sites in the central belt for the corporate headquarters in the same way as option 1. A case study approach has been taken to illustrate the local authority costs of option 3.

11.18. Assessments: Local authorities would undertake **assessments** in this option.

11.19. Digital: The digital cost of the enabling systems needed under this option are estimated in the same way as for option 1.

11.4 Estimated costs of option 4 - The agency delivers cash and benefits in kind

11.4.1 High level parameters and assumptions under option 4

11.20. Function Coverage: Under option 4 what the agency does would be the same as option 1 and 2 the difference is that it would also be providing benefits ‘in kind’ as well as in cash in the form of goods, services and concessions). The only functions the agency would not undertake in their entirety under option 4 would be identical to those in option 1 or 2. Alongside this, the Scottish Government would provide a small number of policy, strategy and management information functions. The cost of this option in terms of costs and staff are outlined below. Excluded from these costs are the costs associated with the devolution for existing third and public sector services.

11.21. Benefit Coverage: The costs for option 4 shown below are based on the agency centrally administering all devolved benefits, the existing benefits currently administered in Scotland by Local Authorities and others, such as the Scottish Welfare Fund including in kind as well as cash, as well as an estimate of the additional administrative burden of changes to existing benefits e.g. extending eligibility and new benefits (See the technical annex for more information). In addition it includes the costs of DWP administering Universal Credit Flexibilities.

11.22. Estates: option 4 estate costs are either as set out in option 1 or option 2a or 2b but with the additional requirement to store and transport in kind benefits.

11.23. Assessments: Paper based assessments under option 4 would be undertaken by agency staff as set out in option 1 or option 2.

11.24. Digital: The digital cost of the enabling systems needed under this option are estimated in the same way as for option 1.

11.4.2 Option 4 case study - storage, distribution and fitting of goods

11.25. In addition to the in-kind costs that form part of the estimate above, it is possible under option 4 to look at the costs of existing ‘in kind’ benefits provided by the Scottish Welfare Fund. Within this current benefit which is administered under the *status quo* local authorities provide goods, services and concessions. The costs of concessions are estimated within the costs for option 4 above however for good e.g. cookers or carpets their distribution and in some cases fitting are incorporated into a single cost which includes the goods themselves. It is therefore assumed that these costs would not lie within the admin budget of the agency but would rather be part of the procurement of these items.

11.26. However because of fluctuations in demand for some items of goods there may be a need to store a number of weeks supply of some items to ensure delivery is prompt. This is particularly important as items can be needed in crisis situations, There would be two ways to deal with this issue. The first would be to build into the procurement of these items that a stock level and delivery turnaround time is maintained by the supplier. The second is for an in-house or third party warehouse to hold a certain amount of stock and deliver this to ensure there was no gap in service provision.

11.27. Under this second option stock would be delivered by suppliers to a central location on pallets and held in ambient storage on behalf of the agency or in an agency national distribution centre then delivered. The cost of receipt handling and dispatch of the palletised goods into and out of the warehouse would be in the region of £3.20 per instance. Then the estimated cost for storage per pallet would be in the region of £1.75 per pallet per week based on 2016 prices. To deliver this stock around Scotland on pallets would range between £35 for the mainland to £55 in Highlands and Islands.

11.28. This second option is already used within National Services Scotland to ensure that items needed by NHS Boards are available and delivered when needed.

11.29. It is however difficult to estimate the amount of stock which would need to be held to ensure delivery and therefore the cost of this as part of this options appraisal. This case study however illustrates that this element of social security could be delivered either as part of the procurement of stock items and/ or by procuring then storing stock to ensure there is no delay in providing crisis items.

11.5 Estimated costs of option 5 - The agency provides governance but the delivery of social security is done by others e.g. via procurement or a Service Level Agreement.

11.5.1 High level parameters and assumptions under option 5

11.30. **Function Coverage:** Under option 5 a range of functions around **pre claims support, enquiries, benefit processing and assessment** would be undertaken by others via procurement or an SLA rather than by the social security agency. This would mean that the agency would be much smaller than under other options like in option 6. The agency would however undertake **decision making, dispute resolution** and some **error management and investigations**. It would provide a range of **centralised functions** (Corporate Functions, Business Development, Stakeholder Management/ Research/ Support Services, Learning and Development) with much larger procurement and audit divisions. It would also produce a range of **management Information** with Scottish Government. It would also coordinate a range of **continuous capabilities** (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government, see Figure A below. Alongside this, the Scottish Government would provide a small number of **policy, strategy and management information** functions. The cost of this option in terms of costs and staff are outlined below. Excluded from these costs are the costs associated with the devolution for existing third and public sector services.

11.31. **Benefit Coverage:** The costs for option 5 are based on the agency managing others via procurement or an SLA to undertake the administration of devolved and existing Scottish benefits, such as the Scottish Welfare Fund. In addition it includes the costs of DWP administering Universal Credit Flexibilities.

11.32. **Estates:** option 5 estate costs for a centralised agency are estimated based on modelling sites in the central belt providing accommodation suitable for generic office functions to provide corporate functions and the limited operational functions listed above only (i.e., there is no retail level space for engaging with social security clients). There are no additional estates costs in this option for administering the benefits or face-to-face contact for people applying for or in receipt of benefits; services which require local presence, such as **assessments** would be delivered by others not the agency.

11.33. **Assessments:** The costs of undertaking **assessments** are based on this being done by others via procurement or an SLA. This is the same as that which currently happens under option 0 *the status quo*.

11.34. **Digital:** The digital cost of the enabling systems needed under this option are estimated in the same way as for option 1.

11.6 Estimated costs of option 6 - Social security is embedded in a range of existing public services with the agency providing governance.

11.6.1 High level parameters and assumptions under option 6

11.35. Functional Coverage: Under option 6 most aspects of the 8 functions outlined above would be undertaken by a range of existing public services in Scotland rather than by the social security agency. This would mean that the agency would be much smaller than under other options and provide corporate oversight and governance. For example the agency would undertake some **error management and investigations**. It would provide a range of **centralised functions** (Corporate Functions, Business Development, Stakeholder Management/ Research/ Support Services, Learning and Development, Policy) with much larger procurement and audit divisions. It would also produce a range of **management information** with Scottish Government. It would also coordinate a range of **continuous capabilities** (Evidence, Notification and Benefit Interaction) particularly between DWP and Scottish Government.

11.36. Other public sector organisations would receive and answer queries and general enquiries. They would also administer benefits (Application, processing/evaluation (including assessment), award, payment and change of circumstances). This would mean assessment being undertaken by others not directly employed by the agency with the potential for example this to be done by the NHS or Local Authorities.

11.37. Alongside this, the Scottish Government would provide a small number of **policy, strategy and management information** functions. The cost of this option in terms of costs and staff are outlined below. Excluded from these costs are the costs associated with the devolution for existing third and public sector services.

11.38. Benefit Coverage: Option 6 is based on the social security agency providing governance, guidance and consistency as well as liaising with DWP and Scottish Government, but existing public sector in Scotland administering all devolved benefits, as well as the additional administrative burden of changes to existing benefits e.g. extending eligibility and new benefits (See the technical annex for more information).

11.39. The cost of the agency and Scottish Government under option 6 is provided here, as well as an estimate of the cost of administering these benefits. As this would be part of the functions undertaken by the public sector in Scotland these costs will be further developed in the Full Business Case for social security. Therefore a case study approach is taken to illustrate the administrative costs to the wider public sector of option 6 based on Health and Social Care Integration as well as an estimate of the costs based on Health and Social Care Unit Costs.

11.40. **Estates**: Option 6 estate costs for a centralised agency are estimated based on modelling sites in the central belt providing accommodation suitable for generic office functions to provide corporate functions only (i.e., there is no retail level space for engaging with social security clients).

11.41. **Assessments**: NHS Boards or Local authorities would undertake **assessments** in this option and are incorporated into the option 6 case study below.

11.42. **Digital**: The digital cost of the enabling systems needed under this option are estimated based on a service being provided to both agency locations and staff and locations in the wider public sector (see case study below).

11.6.2 Option 6 case study Health and Social Care Integration: The costs to wider public sector of option 6

11.6.2.1 Background

11.43. Should option 6 be taken forward, the funding provided to the wider public sector including Health Boards and local authorities to administer the parts of the new social security system outlined above would be determined in part through negotiation with local authorities and in part through legislative change giving responsibilities to the wider public sector around social security.

11.44. The case study below provides an overview of and the costs of health and social care integration to illustrate the costs of a similar scale of system change for the NHS and local authorities. In addition to this case study the case study outlined in option 3 is also useful here in order to understand the role local authorities currently play and might play in the future.

11.45. Health Boards and local authorities as well as the wider public sector already undertake a number of benefit and assessment related functions in Scotland. Therefore it can be assumed that asking the wider public sector to take on more responsibility in this area is more about transforming and building on what they do already rather than asking them to provide an entirely new service. Core to this would be firstly taking the existing benefit maximisation, advice and support services and Scottish Welfare Fund and building on these to provide some of the face-to-face support and local needs based service for the social security system. Secondly it would be to build on the functions already undertaken within the NHS in Scotland around primary care, maternity, end of life, occupational therapy etc. to provide access to social security and needs based assessments.

11.6.2.2 Overview of Health and Social Care Integration

11.46. The Public Bodies (Joint Working) (Scotland) Act 2014 (PBJW 2014) received royal assent on 1 April 2014. The Act provides the legislative framework for integration of health and social care services in Scotland. It requires local integration of adult health and social care services, with statutory partners (Health Boards and Local Authorities) deciding locally whether to include children's health and social care services, criminal justice social work or housing within their integrated arrangements.

11.47. In broad terms, the aims of the legislation are threefold:

11.48. To improve the quality and consistency of care for patients, carers, service users and their families;

11.49. To provide seamless, joined up care that enables people to stay in their homes, or another homely setting, where it is safe for them to do so; and

11.50. To ensure that resources are used effectively and efficiently to deliver services that meet the needs of the growing population of people with longer term and often complex needs, many of whom are older.

11.51. Key features of the Act are:

11.52. National outcomes for health and wellbeing, which will apply jointly and equally to the NHS and Local Authorities.

11.53. Health Boards and Local Authorities are required to establish integrated partnership arrangements. Two models of integration are available for Health Boards and Local Authorities to choose from: delegation of functions and resources between Health Boards and Local Authorities (Lead Agency), and delegation of functions and resources by Health Boards and Local Authorities to a body corporate (Integration Joint Board).

11.54. Where the body corporate model is used, a chief officer must be appointed by the integrated partnership to provide a single point of management for the integrated budget and integrated service delivery. In the delegation between partners model, this single point of management falls to the Chief Executive of the "lead" agency (i.e., the partner to whom functions and resources are delegated).

11.55. An integrated budget must be agreed in each integrated partnership to support delivery of integrated functions, which will cover at least adult social care, adult community health care, and aspects of adult secondary (hospital) care that are most amenable to service redesign in support of prevention and better outcomes. Ministers have established in Regulations which functions (and therefore budgets) must be included in the integrated arrangement.

11.56. Each integrated partnership have established locality planning arrangements at sub-partnership level, which will provide a forum for local professional leadership of service planning.

11.57. Each integrated partnership has now put in place a strategic commissioning plan for the functions and budgets under its control – the joint strategic commissioning plans have been widely consulted upon with non-statutory partners, patient and service user representatives, etc.

11.58. The central focus of the Act, and much of the supporting policy work that sits alongside it, is on the importance of effective joint strategic planning and commissioning of services. This approach builds on the wealth of evidence for successful integration of health and social care from elsewhere in the UK and further afield, which demonstrates that, while no single organisational approach is required to deliver improvement, the following characteristics are consistently displayed by successful systems:

11.59. Local planning systems focus on population need, rather than historic structures. Health and social care systems must plan together for older people, for example – or for adults with chronic obstructive pulmonary disorder, or for children with complex needs, or for any other care group that is a local priority – rather than planning separately in terms of “health” provision and “social care” provision.

11.60. Resources across health and social care should be pooled to support delivery of the population-based plan. Resources reflect population need, and are managed to follow patient/service user need in order to deliver maximum benefit. This approach eliminates the risk of cost shunting, which can permit financial gain from poor performance on the part of one partner, at the cost of the other.

11.61. Mechanisms are in place to ensure the opportunity for leadership by local clinicians and professionals from across health and social care – and, particularly, GPs – in planning service provision. Clinical buy-in and leadership of integration is fundamental to improving outcomes.

11.62. Strong, effective, consistent local leadership retains a relentless focus on outcomes for patients and service users.

11.63. The integration of health and social care provides for a strong foundation of partnership working. Health Boards and local authorities are required to work alongside the third and independent sector, and to build a more strategic relationship in order to find joint solutions to meet the challenges of delivering sustainable care.

11.64. Integrated Partnerships will embed third sector groups, service users, carers and groups who represent them, at every level of the decision-making process. These groups will shape the planning and delivery of health and social care provision locally through their involvement in the strategic planning process.

11.65. On 1 April 2016 the 31 partnerships across Scotland took full responsibility for the functions and budgets that had been delegated to them from their local Health Board and Local Authority. Clackmannanshire & Stirling have formed a joint partnership which is why there is only 31 partnerships.

11.66. Each of the Partnership areas has opted for a body corporate model of integration, with the exception of the local authority area of highland which has chosen the lead agency model of integration. Highland Council is the lead agency for children's services, and NHS Highland is the lead agency for services to adults.

11.6.2.3 The estimated recurrent costs of Health and Social Care Integration

11.67. In terms of health and social care integration as set out in the 'Public Bodies (Joint Working)(Scotland) Bill, which was introduced in the Scottish Parliament in 2013, there are a number of recurrent costs. 2015/16 is the first full year of implementation and Scottish Government are not yet in a position to establish the actual rather than estimated recurrent costs of the Bill. These recurrent costs are:

- the costs which would fall to Health boards and local authorities under two models i.e. either delegation between partners or delegation to a body corporate (including financial cost teams, clinicians' involvement in local planning and analytical support) which was estimated to cost between £4.55 -£5.6 million per annum from 2015/16 onwards.
- the estimated costs associated with staff transfer under these two main bodies of these two main models of integration (delegation to a body corporate or desegregation between partners)
 - A likely case, where all partnerships opt for delegation to a body corporate model (except Highland); this is also the lowest cost scenario. The cost under the first scenario is £nil p.a.;
 - A mid cost case where half of partnerships opt for delegation to a body corporate model and half opt for delegation between partners model; the cost in this case would be £13.5m.
 - A highest cost case, where all partnerships opt for delegation between partners model with functions delegated to Health Boards and adult social care staff transferring to Boards. The cost under the highest cost case is £27m p.a.
- the direct costs associated with the Bill (including financial cost teams, financial recording and reporting, analytical support, health and social care dataset and information system, clinicians' involvement in locality planning, scrutiny) which are estimated to be £6.27 million from 2016/17.
- the estimated cost implications to other public bodies from provisions in the Bill which is described below.

11.68. The Bill places a duty on the Health Board and local authority to achieve the nationally agreed outcomes for health and social care. The outcomes and the performance indicators will be prescribed by the Scottish Ministers. Where other functions beyond adult health and social have been delegated, the Health Board and/or local authority will be required to take account of other relevant outcome measures. The performance of partnerships in achieving the nationally agreed outcomes and other relevant outcomes in relation to the delegated functions will be assessed jointly by Healthcare Improvement Scotland and the Care Inspectorate.

Healthcare Improvement Scotland and the Care Inspectorate undertook ‘pilot’ joint inspection of integrated services in early 2013. Estimates based on the pilots from Care Inspectorate and Healthcare Improvement Scotland suggest a cost of £173,362 per joint inspection. It is anticipated that these bodies will undertake six inspections per year at an estimated cost of £1.1 million.

11.69. Additional resource, longer term, will also be required to fund the Care Inspectorate and Healthcare Improvement Scotland for scrutiny of strategic commissioning. The scrutiny bodies will review strategic plans as part of joint inspections, assessing whether the plan meets all statutory requirements and has been created within the statutory duties laid out in the Bill. It is anticipated the scrutiny bodies will carry out six joint inspections per year, with a recurrent cost estimated at £670k p.a., some of this work is already underway. This is based on an assessment by Care Inspectorate and Healthcare Improvement Scotland of the additional requirements being placed upon them.

11.6.3 Outline Business Case Estimate of Wider Public Sector Costs

11.70. As discussed above, estimates of wider public sector costs for option 6 are dependent on a large range of unknown factors. An estimate of funding that would need to be provided was determined for the purposes of this Outline Business Case as follows:

11.71. There are approximately 500,000 people (headcount, Q2 2016) employed in what is known as the “devolved” public sector in Scotland. The majority of these are employed in the NHS and Local Government. Assume that the core activities of queries and general enquiries and benefits processing that are to be delivered by the wider public sector are administered by staff members in two main roles:

- Social Security Champion (5% of the Scottish devolved public sector, each providing 10% of their time)
- Social Security Administrator (1% of the Scottish devolved public sector, each providing 25% of their time)

11.72. Apply staff salary costs (including on-costs) to this staff time to estimate the core costs for administration. Further, add resource for assessments in the same way as for option 3, but using unit costs for community occupational therapists from the PSSRU cost book³⁵.

11.73. Assume that enabling systems are provided to central agency staff and sites, as well as the social security administrators, located at 250 public sector locations across Scotland.

³⁵ <http://www.pssru.ac.uk/project-pages/unit-costs/2015/>

ANNEX C

12. Overview of public bodies which provide similar functions

Full file available online

Overview of public bodies which provide similar functions to the new social security agency

Overview of public bodies which provide similar functions to the new social security agency	1
Context	2
Method.....	2
Public Bodies Overview.....	2
Public Bodies Overview.....	3
How many public bodies are there in Scotland?	3
How many people do public bodies typically employ?	4
Public Bodies which have similar functions to the future social security agency	7
1. Disclosure Scotland.....	9
2. Student Awards Agency Scotland (SAAS).....	14
3. Scottish Public Pensions Agency (SPPA).....	18
4.a National Services Scotland (NSS).....	22
4.b NSS Practitioner Services	26
5. Scottish Legal Aid Board (SLAB)	30
6. Social Security Agency, Northern Ireland (2015/16)	34
Summary	39
Annex A.....	41



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