

The Centre for Social Justice

21st Century Welfare: Response of the Centre for Social Justice

September 2010

THE CENTRE FOR
SOCIAL
JUSTICE

The Centre for Social Justice: A Response to the Department for Work and Pensions *21st Century Welfare* Consultation

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Published by the Centre for Social Justice, 1 Westminster Palace Gardens, Artillery Row, London SW1P 1RL

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Introduction

1. The consultation paper, *21st Century Welfare*,¹ issued by the Department for Work and Pensions (DWP) on 30 July, 2010 supports the recommendations made by the Centre for Social Justice (CSJ) in our paper *Dynamic Benefits: Towards Welfare that Works*.²
2. This response is intended to provide constructive advice, both on what we believe to be the broad principles for reform, and the implementation issues raised within the consultation paper.
3. The CSJ continues to support the recommendations made in *Dynamic Benefits*. This document aims to bring out the key points in response to the consultation questions, with added detail based on feedback, implementation work and further analysis.
4. The CSJ's goal is to see work, which is the most sustainable route out of poverty, at the heart of a reformed benefit system for all claimants who are capable of working.

1. WHAT STEPS SHOULD THE GOVERNMENT CONSIDER TO REDUCE THE COST OF THE WELFARE SYSTEM AND REDUCE WELFARE DEPENDENCY AND POVERTY?

The most sustainable way to reduce welfare dependency is through work. If we continue trying to end poverty through the provision of benefits, it will become more entrenched, costing the state more in the long term. The aim of these reforms should be to ensure that work is rewarded; this will lead to cost savings in the medium term through reduced levels of worklessness.

A policy that increases the number of working households should be favoured over an increase in the number of hours worked per household. An increase in working households would have a greater impact on reducing intergenerational poverty. This could be achieved through an effective use of earnings disregards at the household level.

Secondly, bringing tax credits and all benefits within a single benefit system would lead to administrative efficiencies. Simplification would provide an opportunity for significant on-going savings through a reduction in fraud and error administration costs.

We recommend that there is no reduction in the current level of benefit. Reducing the level of benefit will deepen poverty for those who are truly unable to work, and who deserve the protection of the welfare system. However, we do believe in conditionality: those who are able to work must actively seek work in exchange for benefits.

1 Department for Work and Pensions, *21st Century Welfare*, London: Department for Work and Pensions, 2010

2 Centre for Social Justice, *Dynamic Benefits: Towards Welfare that Works*, London: Centre for Social Justice, 2009

2. WHICH ASPECTS OF THE CURRENT BENEFITS AND TAX CREDITS SYSTEM IN PARTICULAR LEAD TO THE WIDELY HELD VIEW THAT WORK DOES NOT PAY FOR BENEFIT RECIPIENTS?

The CSJ has presented a detailed review of this in our report *Dynamic Benefits*. We argue that the current combination of a lack of incentive in the system, through high withdrawal rates and low earnings disregards, combined with high levels of complexity, means that often work does not pay.

The 100 per cent withdrawal of Jobseeker's Allowance (JSA), and cumulative tapers on housing benefit, council tax benefit and tax credits, combined at higher earnings levels with taxation, leads to extremely high marginal rates of tax. This can virtually eliminate an individual's incentive to work, particularly in low paid employment cases.

The belief that work does not pay is not uniform across groups of claimants. This is unsurprising, given that different groups face varied eligibility criteria, disregard levels and taper rates.

The lack of incentive is particularly acute for 'NEETs', who suffer from low initial earnings prospects, low disregard levels and high taper rates. Though tax credits improve incentives for parents, often the source of their unemployment can stem from a lack of engagement with the workplace when they were younger, or so-called NEETs.

Although couple households benefit from a reduced cost of living through shared housing, they suffer from significantly lower benefits as a result. Carers and the disabled are penalised through hours rules, which lead to a full withdrawal of benefit if they work over a certain number of hours.

Those just beyond the benefits threshold, whose finances are in practice little improved after working, can feel disillusioned if the increase in their income fails to outweigh the expenses of working and the loss of passported benefits. Often the financial circumstances of these individuals are not significantly better than if they did not choose to work at all.

3. TO WHAT EXTENT IS THE COMPLEXITY OF THE SYSTEM DETERRING SOME PEOPLE FROM MOVING INTO WORK?

The CSJ believes that for many claimants, complexity is as significant a deterrent as the lack of financial incentive for moving into work. Complexity can result in uncertainty over income, delays in payment, concern over administrative errors and excessive bureaucracy.

Many claimants want to work, for the reason that earned income is more satisfying than income through benefits. However, their aspiration is undermined by such complexity. Common results of this are:

- a) Confusion over entitlement – will they be better off?
- b) Delays in administration and payment – will it hurt their cash flow?
- c) Fear of lost entitlement if employment is not sustained.

In the present system, the claimant is forced to manage multiple income streams, most of which affect one another. This compounds the uncertainty of moving into work and creates a disincentive to change circumstances because of the difficulty of managing the changes.

As well as uncertainty over paid employment, the hours rules and inflexible eligibility criteria for benefits can limit claimants' ability to volunteer and contribute to society in other ways for fear of losing benefits.

4. TO WHAT EXTENT IS STRUCTURAL REFORM NEEDED TO DELIVER CUSTOMER SERVICE IMPROVEMENTS, DRIVE DOWN ADMINISTRATION COSTS AND CUT THE LEVELS OF ERROR, OVERPAYMENTS AND FRAUD?

Significant structural reform is needed to overhaul a complex and costly system. This would afford the opportunity to ameliorate the customer experience, while simultaneously improving efficiency of administration.

Customer service improvements could be delivered through a sole benefit payment, a single point of contact and greater personalisation of back to work services. The claimant would have clarity over their entitlement; additionally they would only have to manage one income stream and inform a single agency of changes in their circumstances.

A single benefit payment, administered by a single agency, would reduce duplicated effort and diminish costs through centralised benefit administration. Fraudulent claims are more likely to be picked up by a single agency. An automated real time system to administer benefit payments would reduce delays in payment and could significantly reduce the level of administrative error within the system.

Finally, structural reform would increase the level of legitimate take-up of benefits within the system. There are a number of people who are entitled to benefits, but fail to claim due to confusion over entitlement and complexity. While there is a risk that this would increase overall costs, we believe that the government should be open about entitlements, and support the rights of those who are entitled to benefit.

5. HAS THE GOVERNMENT IDENTIFIED THE RIGHT SET OF PRINCIPLES TO USE TO GUIDE REFORM?

The CSJ supports the principles outlined in the consultation document.

The Government should be explicit in its proposals about accessibility to benefits in an effort to increase the level of take-up of benefits from those who wish to claim, and are entitled to claim, benefits. Access to information about benefits should be increased and improved. This can be achieved in two ways: firstly, through enhancing the public's financial literacy so that information about entitlement is easier to understand; secondly, through better access to those financial services that support benefit payments, including bank accounts and online information services.

6. WOULD AN APPROACH ALONG THE LINES OF THE MODELS SET OUT IN CHAPTER 3 IMPROVE WORK INCENTIVES AND HENCE HELP THE GOVERNMENT TO REDUCE COSTS AND TACKLE WELFARE DEPENDENCY AND POVERTY? WHICH ELEMENTS WOULD BE MOST SUCCESSFUL? WHAT OTHER APPROACHES SHOULD THE GOVERNMENT CONSIDER?

We believe that the approaches outlined would improve work incentives and tackle welfare dependency, by ensuring that work pays, and reducing the associated financial risks of entering employment.

The system of universal credits meets these requirements and appears the simplest model to understand from the perspective of the claimant. It retains earnings disregards – these can be used to target incentives toward workless households – and a single withdrawal rate thereafter gives clarity to the impact of earnings on ‘take home’ income. Grouping benefits into a basic entitlement and additional amounts based on personal circumstances makes it easier for the claimant to understand the reasons for their entitlement and how they would be impacted by changes in circumstances.

The system should recognise that although our report *Dynamic Benefits* focuses on the important impact of the benefit system on work incentives, incentives are not the only factor to impact upon employment and welfare dependency, particularly for the most vulnerable groups of claimants.

Other crucial factors include:

- a) As we have previously argued in *Breakthrough Britain*,³ work incentives need to be complemented by effective, personalised back to work support for those furthest from labour market. This could be due to a number of factors, such as inexperience, educational failure, attitude, addiction, or previous disability. The Government should offer individuals the support required to return to the labour market, in return for responsible efforts on their part to return to work.
- b) Furthermore, the demand for labour will impact on the level of employment and welfare dependency, regardless of the benefit system in place. The Government should consider the impact of employment legislation on wages, the employment flexibility, discrimination in the workplace and progression in employment on employment levels and welfare dependency.

7. DO YOU THINK WE SHOULD INCREASE THE OBLIGATIONS ON BENEFIT CLAIMANTS WHO CAN WORK TO TAKE THE STEPS NECESSARY TO SEEK AND ENTER WORK?

Clear work expectations must be attached to the receipt of benefits for people who can work on the grounds that progression in work leads to improved outcomes for claimants.

³ Centre for Social Justice, *Breakthrough Britain: Economic Dependency and Worklessness*, London: Centre for Social Justice, 2007

Conditionality should be targeted, such that those able to work are asked to actively seek employment, with conditionality imposed until the claimant is off benefit entirely. As we have noted above, this should be combined with effective back to work support.

Those who are currently unable to engage fully with the labour market – for health reasons or because of caring responsibilities – should be asked to prepare for work. Lone parents should actively seek work, with a minimum work requirement of five hours for those with very young children in education, rising as their youngest child gets older.

Those unable to work should be encouraged to take up work related activity, without fear of reprisal or adverse impacts on their eligibility for benefits.

8. DO YOU THINK THAT WE SHOULD HAVE A SYSTEM OF CONDITIONALITY WHICH AIMS TO MAXIMISE THE AMOUNT OF WORK A PERSON DOES, CONSISTENT WITH THEIR PERSONAL CIRCUMSTANCES?

The Government should recognise that individuals may choose to limit their hours of work in order to make a social, rather than an economic contribution to the country – such as through informal childcare or caring responsibilities. They should work a minimum number of hours, consistent with their personal circumstances, and this should be re-assessed regularly. Concerns over the fairness and effectiveness of the assessment regime in place should continually be addressed.

We argue that households should have sufficient incentive to increase their earnings through more, or better work. However, the Government should target incentives toward out of work households. Simply increasing an individual's working hours may contravene the aspiration to boost the number of in-work households. Certainly in the last decade, more output did not lead to higher household employment per se, rather an increase in the hours worked by households in employment

9. IF YOU AGREE THAT THERE SHOULD BE GREATER LOCALISM WHAT LOCAL FLEXIBILITY WOULD BE REQUIRED TO DELIVER THIS?

Centralised benefit administration can reduce administration cost. However, it needs sufficient flexibility to adapt to local circumstances. For example, there are local variations in living costs, employment incentives and opportunities. In recognition of this, the Government should consider allowing local setting of benefit levels, notably payments related to housing and council tax costs within limits.

A personalised employment support service can better serve the needs of the local community. Providers should be allowed the flexibility to deliver tailored support, with local authorities, Job Centre Plus, private sector providers and community and voluntary sector groups given the opportunity to bid for delivery.

This opportunity includes:

- a) Discretionary budgets spent on appropriate training programs, encouraging local employers to engage with the work programme or to improve inward investment.
- b) Co-ordination of funding on employment programmes to be consolidated locally.
- c) Benefit administration savings (in employee time) to be re-directed to employment support where affordable.

10. THE GOVERNMENT IS COMMITTED TO DELIVERING MORE AFFORDABLE HOMES. HOW COULD REFORM BEST BE IMPLEMENTED TO ENSURE PROVIDERS CAN CONTINUE TO DELIVER THE NEW HOMES WE NEED AND MAINTAIN THE EXISTING AFFORDABLE HOMES?

The Local Housing Allowance (LHA) allows claimants increased freedom to move, thereby increasing labour mobility and encouraging personal responsibility. The DWP should retain the savings opportunity for LHA tenants, as this further encourages personal responsibility and encourages the negotiation of lower rents by responsible tenants.

Local authorities should be allowed to retain a degree of freedom over how to meet their housing needs. They can encourage lower cost tenancy and increase available housing stock by paying the landlord directly when dealing with irresponsible claimants.

11. WHAT WOULD BE THE BEST WAY TO ORGANISE DELIVERY OF A REFORMED SYSTEM TO ACHIEVE IMPROVEMENTS IN OUTCOMES, CUSTOMER SERVICE AND EFFICIENCY?

As discussed in *Dynamic Benefits*, we believe a reformed system should aim to deliver a single individual payment, with a clear summary of entitlement to benefit income, earned income and withdrawal of benefit, tax and other deductions. This should be managed centrally through an automated, real time system to be responsive, achieve cost efficiencies, and minimise error and fraud.

However, claimants should receive support, tailored to their needs. The initial assessment of entitlement should be conducted on a personal basis with an individual advisor. This should take into account and explain clearly the claimant's entitlement to benefits, the conditions upon which these benefits are paid and the responsibility of the claimant to find work – with opportunity for questions and clarifications.

Should the claimant require support to move into employment, this should be made available as early as was required into their claim. Work support, via the Single Work Programme should be suitable for the local area and delivered on a personal basis.

12. IS THERE ANYTHING ELSE YOU WOULD LIKE TO TELL US ABOUT THE PROPOSALS IN THIS DOCUMENT?

The impact of the existing benefit system on behaviour was highlighted by *Dynamic Benefits*. In particular, the couple penalty was shown to have a negative impact on couple formation. Similarly, the lack of incentive for young people contributed to the problem of NEETS – people who are likely to become mothers, fathers and role models themselves.

Worklessness and benefit dependency often has its root causes elsewhere, possibly in educational failure, family breakdown or addiction Reform begins the process of reversing social breakdown and tackling the pathways to poverty identified in *Breakthrough Britain*.

The Government should carefully consider the impact a reformed system will have on positive behaviours and ensure that desirable social outcomes such as strong families, higher employment and reduced dependency are achieved as a result. These interconnected pathways to poverty and social breakdown too often hand the dependency culture from one generation to another.

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