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# Reforming working-age social security: lessons for policy makers

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Why has reforming working-age social security proved so hard? What lessons can be learnt for future reform from what has worked – and what has not worked so well – in the past? This Insight paper captures the lessons from a roundtable convened by the Institute for Government in partnership with the Social Security Advisory Committee.

In April 2018, we brought together former ministers, civil servants, academics, parliamentarians and other advisers to discuss progress over the past 30 years in reforming working-age social security. Our 'roundtable' of 26 attendees took place under the Chatham House rule.

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## Background

The background – to steal language that has been used by both the main UK political parties at various times – is that over three decades the social security system has moved from being a “passive” to an “active” welfare state.

Up to the mid-1990s, with one or two small exceptions, benefit was paid to people of working age on condition they did not work. The big conceptual shift which then took place was that, with globalisation and new technologies putting pressure on many lower-skilled jobs, the welfare state should instead use at least some of the benefit money to support people in work, rather than merely supporting them on condition they did not work.

That produced first Jobseeker’s Allowance as a replacement for unemployment benefit, with more active work search conditions attached. And then, starting under the Conservatives in the mid-to-late 1990s but hugely reinforced by its successor Labour government, a string of welfare-to-work programmes to get those out of work into it. Alongside that went the revision of the (very small) Family Income Supplement programme into a more generous version of Family Credit paid to working families, and then its replacement by much more generous tax credits. And with the tax credits came the minimum wage, intended to help limit the ability of low-wage employers to reap the spoils from greater in-work benefits.

Over that period and beyond, there have been some notable successes. For example, the merger of benefit and employment offices to create Jobcentre Plus (a reform other countries have imitated); a dramatic rise in employment among lone parents; overall rates of employment that are high by historical standards; and rates of claim for Jobseeker’s Allowance, or its equivalent, that are running around the lowest levels since the early 1980s.

Outside working-age benefits, the progressive rise in state pension age in return for a more generous state pension has so far also proved a success for the Department for Work and Pensions (DWP), the WASPI controversy aside\*. As has the creation of what will become over time a single state pension, and the so far successful roll-out of automatic enrolment into private pensions. So the DWP has a record for much of which it can be proud.

### **To responsibilities as well as rights, and from passive to active**

The move from a “passive” to an “active” welfare state however – one that has been accompanied by a “rights and responsibilities” agenda, namely that claimants have a right to benefit but a responsibility genuinely to look for work – has occurred alongside other changes.

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\* Women Against State Pension Age Inequality: a plan to slowly equalise women’s state pension age from 60 to 65 was significantly accelerated as the age for both men and women moves to 66 in 2020, leaving a cohort of women born in the 1950s significantly worse off, [www.waspi.co.uk](http://www.waspi.co.uk)

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First, the system, both in and out of work, has become much more means-tested. For those of working age, the scope of contributory-based national insurance benefits has shrunk markedly under governments of all colours.

Second, over a longer timescale than 30 years, this part of the welfare state has moved from highly discretionary decision making by the officials of the old National Assistance Board, to a much more “rules-based” approach in the 1970s and 1980s, to one that now combines a set of rules with considerable discretion and judgement.

For example, just what does an unemployed woman or man, with their own back history, have to do to demonstrate that they are actively seeking work – either to DWP directly or on a welfare-to-work programme? The “work coach” makes that judgement, including whether any excuse for a missed interview is valid.

Or just how disabled does someone have to be, and in what way, to qualify for the various levels of the Employment and Support Allowance (ESA) or the Personal Independence Payment (PIP)? Here, judgements are made by assessors, within a set of rules. But within those rules, the judgements made and the degrees of discretion applied are crucial.

Third, as Universal Credit, with its troubled history,<sup>1</sup> continues to be rolled out, the state is no longer interested simply in whether someone is in or out of work but whether their earnings in work are progressing to the point where they earn the equivalent of the minimum wage at 35 hours a week – so-called in-work progression. That is a much more intrusive role in people’s lives, once they are in at least some level of work, than in the past.

Fourth, and underlying all this, is that the active welfare state is now positively seeking to change behaviour – seeking to facilitate, encourage, cajole and at times demand that people either look for work and take it, or prepare themselves for it. And as that has moved – to put it in an over-simplified way – from just dealing with the unemployed to requiring more activity from those out of work with physical and mental health problems, and people with longer-term disabilities, let alone those with addiction problems, the going has got appreciably tougher. DWP has faced high levels of successful appeal over ESA and PIP decisions, and savings on many of these programmes, including repeated revisions to housing benefit, have failed to materialise on the scale promised.

One clear lesson from the past 30 years is that the next reform to working-age benefits is unlikely to be far away. The gains from learning the right lessons from past successes and failures are therefore potentially large. So we asked participants<sup>2</sup> to focus on the particular challenges they confronted when attempting to reform working-age social security and the lessons that they drew from the process.

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## The approach of the Department for Work and Pensions

### **DWP is a data-driven department but with a limited view of useful evidence**

DWP prides itself on its internal analytic capacity – it employs over 600 analysts, which is a hugely powerful resource, it has access to high quality large-scale data and compared to most other government departments is very comfortable with numbers. But it was seen to be much stronger on quantitative than on qualitative data – the sort of anthropological and ethnographic information that might help the department to understand the lives of the people it is trying to help better.

There were other limitations. DWP was seen as more sceptical about external research, with a tendency of its press office to “rubbish” critical results, and of its analysts to shut out research not either conducted or directly commissioned by the department. It seemed more at home with data about aggregate numbers than tapping into the experience either of those who used the system as clients or the department’s own frontline staff. There has been limited appetite for pilots – in part because policy makers are impatient for results.

More generally, however, DWP was also seen to have a somewhat traditional “policy cycle” view of evidence – collecting evidence at the start and then some measures to evaluate at the end, but with only limited management information when it embarked on reform – and only generating information two to three years after a reform was started. But the evolving nature of social security reforms meant that it was unclear what was being evaluated – the final version of Universal Credit (UC), for example, will be very different from its initial specification.

With a few notable exceptions, there has been limited useful evidence on the potential impact of big system-wide changes from other countries, even though the US Earned Income Tax Credit did help with the design of tax credits in the UK and there was much international learning among the organisations that ran welfare-to-work programmes. However, significant differences in the way different countries run their welfare systems make learning at scale difficult.

More positively, however, the re-vamped way that UC is now being rolled out has led to a more iterative approach. There is now a deliberate “test and learn” process that uses feedback from both clients and DWP frontline staff to improve features of UC before they are rolled out at scale.

### **DWP suffered from reform overload at a time it was trying to cut staff**

There was a particular problem when new ministers arrived with a big agenda and the civil service was too eager to please. The combination of massive reforms in 2010, not just the introduction of UC but also cuts to other benefits (such as the move from Disability Living Allowance (DLA) to PIP and the huge extension of ESA to existing claimants rather than just new applicants), plus big pension reforms and cuts to senior

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staff of 40%, was too demanding. The initial timetable for UC looked impossibly demanding and so it proved.

The manifesto problem was not confined to the Coalition Government. The Labour manifesto in 2005 set down the rates of the new ESA, which meant officials found that subsequent reforms were unhelpfully “constrained by the democratic process”.

### **DWP does not have the levers of an “employment department”**

DWP is increasingly being asked to take on the role of an employment department – but it does not have the levers. DWP has a network of Jobcentres which are great at a simple job search service but may well struggle with the challenge of “in-work progression”. Skills and training policy is the responsibility of a different department; another is in charge of the national minimum wage and employment law; another in charge of immigration work permits.\* Other OECD countries have employment departments with a wider range of responsibilities.

### **Implementation remains an Achilles heel**

Although, as noted earlier, DWP has a track record of successful implementation of reform, it has faced big challenges with recent changes. Lack of continuity of ministers and senior officials was a big issue – on UC there had been six Senior Responsible Owners\*\* and six project managers in six years – although, on the civil service side, there has been more stability recently. Turnover among senior staff was a problem that went well beyond UC – senior staff were able to move positions too quickly and easily.

It has proved hard to assemble teams with the right sets of skills. Some skills, for example, data architects or contract commissioners are in short supply because of uncompetitive pay scales. And DWP has had to rebuild its internal IT capacity after it was contracted out in the 1990s – as happened across much of the rest of government. With that went not just the ability to do the work but, too often, the skills needed to manage contracts effectively and assess the promises being made by external contractors. For UC, DWP has rebuilt those skills, now having one of the strongest IT teams in government.

Implementation issues show up elsewhere as well. For example, the contracted out assessment tests for fitness to work and PIP require the completion of a complicated multi-box matrix within an hour, perhaps making it unsurprising that a lack of consistency and accuracy followed.

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\* The Department for Education, the Department for Business, Energy and Industrial Strategy (BEIS) and the Home Office: although the full picture is even more complicated. BEIS still shares a part of the skills agenda, HM Revenue and Customs actually enforces the minimum wage, and the Treasury is never far from these matters.

\*\* The Senior Responsible Owner is the civil servant charged with prime responsibility for seeing a project delivered on time and to budget.

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## The model of welfare

### The conceptual framework looks outdated and needs a refresh

There was significant concern that the current conception of welfare was outdated and needed a refresh. The lack of a plausible conceptual model was a reason for the failure of ESA to deliver – it was based on a “linear” and “on the day” assessment of illness that did not give sufficient weight to the fact that half of those being assessed had a mental rather than a physical condition, with both subject to fluctuations in severity.

This challenge was highlighted with assessments more broadly. Where previous assessors decided whether someone was physically fit to do manual labour, the current assessment for ESA includes deciding whether someone with anxiety or other mental health issues, or with fluctuating health conditions, is fit to do flexible work or prepare for it. In the case of PIP, there have also been issues around fluctuating health conditions that are assessed on a single day. This is a big shift, with which the conceptual model has yet to catch up.

There was also criticism that the current framework undervalues the “security” element of social security. It was argued that it was more difficult for recipients to make good decisions when the “incentive” for them to do so took the form of sanctions that made life harder.

In addition, the focus on household income at a single point in time fails to take account of the way circumstances change and it fails to recognise the value that individual household members, particularly married women, can place on small sources of independent income like the Carer’s Allowance.

Much of the discussion about putting the user at the centre of government services failed to recognise that most people did not want to be at the centre of government services. They did not define their relationships in the way government did – a woman looking after her parents saw herself as a “daughter not a carer”. And people had their own support networks which could help them take more control of their lives. These could be supported and strengthened<sup>3</sup>, but were largely invisible to DWP.<sup>4</sup>

There is therefore a big framing issue to be addressed. The system tries to address low household incomes – but assumes that is purely the result of low pay. More often it is the result of low work intensity within the household, with an individual and/or their partner working few hours. It also needs to take account of the fact that while the focus is on paid work, many of the affected households have young children and household structures that are increasingly fluid. One of the big drivers of in-work poverty is the large gender pay gap: women are disproportionately in low-paid jobs and struggle to get back into work at the same level after having children, with much part-time work offering little or no pay progression, producing a widening gender gap in hourly pay over time.

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One project in Wales was looking at reframing Jobcentre approaches around people's assets. That appeared to be yielding positive results both for participants and also staff who were enthusiastic.

### **The benefits system is being asked to pick up wider societal problems**

A major challenge to the benefits system is that it is increasingly being asked to deal with the symptoms of structural problems whose causes are in large part outside the influence of DWP. The rising burden of poor mental health and disability requires new ways of working with the health service, for example. This is being attempted – but there are barriers to such cross-service working, not least the accounting differences between DWP's Annually Managed Expenditure and the cash-limited RDEL (Resource Departmental Expenditure Limit) health budgets.

DWP is also picking up the impacts of the structural problems in the housing market and the high costs of utilities and childcare in the UK. Housing benefit, for example, has been made progressively less generous, but the bill has carried on rising as a greater proportion of recipients are in privately rented properties rather than social housing, with private sector rents rising significantly in many parts of the country.

### **Benefits forecasting is too static and behavioural assumptions unrealistic**

Models of benefit changes have been too static and failed to take into account the dynamic effects that result when changes intended to influence behaviour were taken into account. But there was also a problem that behaviour adapts to rule changes in unintended ways, again making forecasting difficult. Forecasting is never easy, but many of the behavioural assumptions built into them have proved false, which makes the case for seeking to adapt the "test and learn" approach in UC to other parts of the benefit system, to create a system more flexible and rapid than full-blown multi-year pilots.

Many of the savings projected by the Treasury in spending forecasts were static and naive, ignoring likely behavioural changes and implementation challenges – generated to make spreadsheets add up when in practice they were not realisable. In addition, cutting one benefit can often lead to increased pressure on public spending elsewhere.

## **The challenge of reform**

### **Reforms require long timescales crossing a number of administrations**

Effective reform is a long-term process. Implementing automatic enrolment – assuming it reaches the full 8% contribution in April 2019 – will have taken 14 years from the time the Pensions Commission first proposed it. On the current timetable, it will be 13 years after the original white paper before Universal Credit is fully rolled out.

That underlines the importance of working with a broad cross-party consensus on major reforms. There has in fact been a general consensus on the direction of travel on social security structures in recent decades, the party differences tending to focus on specific rates and exemptions, plus the troubles that have arisen in implementation, rather than

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on the broad structures. Earlier recognition, however, that major reforms take time, and need to be built piece by piece, would increase the chances of success.

### **Parliament needs a better understanding of welfare policy**

In particular, the civil servants at the roundtable, but also some politicians, felt that the adversarial approach of the National Audit Office and Public Accounts Committee (PAC) could inhibit the department's ability to be open about the challenges it was facing, as missed deadlines turned into bad headlines. The aggressive approach adopted by the PAC made it hard to admit problems and members seemed to be focused on catching witnesses out. (Select committees were a little better.)

Parliamentarians generally – and select committees in particular – would benefit from the availability of “trusted channels” for confidential briefings from the department to enable them to be better informed about the challenges. That has, on occasion, happened, but relatively rarely. Rapid turnover of ministers can be a barrier to those relationships developing. Public understanding of the welfare budget was also poor, which hampered the quality of public debate.

### **Reform requires support across government – including from Treasury**

Although it was not problem-free, the development and implementation of tax credits had benefitted from being a “whole of government” project, driven by a powerful Chancellor in a powerful Treasury.

Universal Credit, on the other hand, had suffered from being a solely DWP-driven project, pursued in parallel with a Treasury cuts agenda – and without commitment from other departments. Council tax benefit was removed from its scope early on, its generosity was repeatedly reduced, and there have been long delays in the DWP and other government departments working out the eligibility thresholds for items such as free school meals and free prescriptions for those on low income – in-kind benefits to which the old benefit rules provided a “passport”. The decision to stop further cuts in benefits announced by the then Secretary of State Stephen Crabb had seemed to put an end to that parallel policy phase.<sup>5</sup>

The Treasury has a clear interest in the benefit system but the relationship has too often proved dysfunctional, particularly when Treasury ministers have wanted to “kill a policy”. The Treasury could rationally point out that DWP has incentives to underestimate costs. But there were reservations about the Treasury acting as a policy promoter in the welfare state arena, rather than simply as a finance department, monitor, and progress assessor. Fiscal events, particularly (but not only) at the start of a Parliament, have too often undermined welfare reform. This was particularly problematic when the Treasury was pursuing bilateral conversations with individual departments that were aimed at making savings but which ignored the impact those decisions would have elsewhere. The Social Security Advisory Committee (SSAC) itself has noted that welfare measures announced at fiscal events were less well developed than those that came out of the normal DWP policy process. For example, it recently



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used its statutory powers to examine in detail a measure affecting housing benefit that was announced in the Autumn 2017 Budget, requiring a formal response in Parliament from the Secretary of State to their advice.<sup>6</sup>

Ministers faced a particular challenge in delivering cuts to disability benefits – which required “Orwellian language” to dress them up and make them sound palatable. For example, Disability Living Allowance, which described the benefit clearly, was replaced by the opaquely named Personal Independence Payment when a key aim of the policy was to cut the bill by 20%.

### **Future challenges raise new levels of complexity**

The need for effective cross-government working is increasing with the more complex set of issues now confronting DWP. One initiative in response to this challenge was the establishment of a joint Health and Social Security unit to try to promote more joint working with the National Health Service – but this has had only limited success so far. In-work progression – a focus of a recent SSAC report<sup>7</sup> – will require at least some emphasis on skills and training, which are not part of DWP’s remit.

### **Devolution and experimentation are new opportunities**

Devolution of social security is still in its early stages. That presented opportunities to learn about different forms of organisation, principles and priorities. Scotland was developing a “human rights and dignity focused” approach. But although co-ordination on welfare devolution was working well between officials, there has been less ministerial engagement.

The UC legislation had been deliberately designed to allow experimentation. This could be a source of future evidence on which interventions are effective, providing better quantification of the trade-offs inevitably involved when setting UC parameters. This includes how far different withdrawal rates or more generous work allowances produce better outcomes, with the opportunity, for example, to re-integrate council tax benefit. There was considerable support for greater use of randomised controlled trials, which have so far been limited to relatively narrow issues such as the impact of the amount of time spent with a Jobcentre Plus work coach on in-work progression outcomes.

## **Conclusion: time for a paradigm shift?**

The roundtable did not focus on explicit solutions to the issues identified and did not try to reach a consensus. But there seemed to be little support for the idea that the answer was to rein back the level of ambition in the face of the increasing complexity of the task the department faces. There was a sense that public and parliamentary resistance are rising to many of the more conventional approaches that have run their course. The broad conclusions are set out below.

For more than 20 years, DWP has increasingly become involved in “behaviour change” as part of an “active” welfare state. Given relatively low unemployment – while

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acknowledging the challenges that the “gig” economy brings, along with the existence of a significant group of young people who appear neither to be in paid work, education or training, but are not in touch with DWP – the “work first” approach has had marked successes. But there is a sense that this “golden age” as one contributor put it, is coming to an end.

DWP is now engaged in the much more challenging task of behaviour change for those who have always been the “hardest to help”: people with disabilities, mental health problems and addictions, plus “in-work progression”, aimed at getting those earning little to earn more.

That is much more challenging, partly because DWP does not have the levers of a full-blown employment department. In tackling those challenges, the department should make better use of anthropological and ethnographic approaches and evidence, alongside its undoubted economic and statistical skills, to understand better the lives of the individuals and families it is seeking to help. That can in part be achieved by being more open than it has been at times in the past to research findings that it has not itself commissioned, and by working more closely with both clients and the department’s own frontline staff, who can often have better insight than policy designers in Whitehall.

A better understanding might help DWP staff strengthen the networks of support that can empower people, rather than relying so extensively on a sanctions and financial incentives approach. This is not an easy task, but it needs to be undertaken. There have been real problems in delivering forecast savings from changes to some of the key benefits. But a deeper understanding of the way households function and their motivations might lead to improved forecasting.

As fresh initiatives are taken, the “test and learn” approach in Universal Credit could be adopted for other areas. While far from a panacea, it should mitigate the risks of one-off policy design, followed by roll-out, with that only too often followed by retrenchment and potentially costly redesign. There needs to be greater recognition that major changes take time, and a much wider understanding across government that DWP is increasingly being asked to pick up the consequences of wider policy failures.

The Department of Health and Social Care – and indeed the NHS – need to work much more closely with DWP on relieving the burden of disability and mental health problems. Skills and training will be an important part of “in-work” progression, as will child care. Conversely, trying to restrain the housing benefit bill has been a case of running up a down escalator – younger cohorts are increasingly not owner-occupiers but instead are in privately rented accommodation – but the levers to tackle that lie chiefly in the housing market, not DWP. Successful reform needs to be much more of a cross-government effort than in recent years, with clear Treasury support, and a better grasp in the Treasury of the links with other policy areas.

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