

## **21<sup>st</sup> CENTURY WELFARE – A RESPONSE TO THE DEPARTMENT FOR SOCIAL DEVELOPMENT (DSD) FROM THE SOCIAL SECURITY ADVISORY COMMITTEE**

1.1 The Social Security Advisory Committee (SSAC) welcomes the opportunity to comment on the 21<sup>st</sup> Century Welfare consultation document from a Northern Ireland perspective. We have also submitted a UK-wide response to the Department for Work and Pensions (see Annex 1). The Social Security Administration Act 1992 specifically recognises SSAC's Northern Ireland responsibilities by providing that one member of the Committee must be appointed after consultation with the head of the Department for Social Development (DSD) Northern Ireland. The Act gives SSAC virtually identical responsibilities in relation to the Northern Ireland social security system as it has for Great Britain, which includes a general duty to advise on virtually all social security matters.

1.2 SSAC recognises the arrangements for the co-ordination of social security policy between Northern Ireland and Great Britain contained in Section 87 of the Northern Ireland Act 1999. Moreover, the agreement reached between the Treasury and devolved administrations makes structural changes between the two social security systems difficult to implement in practice<sup>1</sup>. Nonetheless, social security is a matter transferred to the responsibility of the Northern Ireland Executive and Northern Ireland Assembly. There are notable differences in the provision of social security, for example, with the retention of the rates system, differences in the scope for deductions from benefits and divergent arrangements for assessing student's entitlement to means-tested benefits. In addition there are a number of differences between the recently enacted Welfare Reform (NI) Order 2010 and its counterpart the Welfare Reform Act 2009. Further, the administrative arrangements for delivering social security are quite different in Northern Ireland - being shared between two government departments, namely the Department for Social Development and the Department for Employment and Learning. The actual delivery of services also diverges from Britain, for example, lone parents on JSA whose youngest child reaches the age of ten (and recently age seven) only sign on once every 13 weeks rather than once a fortnight as in Britain. These differences reflect a practical recognition of different historical and contemporary circumstances in Northern Ireland.

1.3 The overall direction of travel for welfare reform is unlikely to depart radically from that applied in Britain. In practice, many of the concerns raised in our submission on 21<sup>st</sup> Century Welfare apply across the United Kingdom. Nevertheless, welfare reform needs to take into account the particular circumstances that apply to Northern Ireland. This is not an argument that Northern Ireland is a special case and must be sheltered from change. Instead SSAC would support an empirical assessment of what is different about the circumstances in Northern Ireland and the objective ramifications of those differences for proposals emanating from the Department for Work and Pensions. The Government's localisation agenda lends support to such an approach, which aims to ensure that the recipe for change actually works in practice.

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<sup>1</sup> HM Treasury: Funding the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly – a statement of funding policy (2000)

1.4 There are a number of significant differences in the backdrop to welfare reform in Northern Ireland. These include the lack of a developed infrastructure for childcare. The significant strides made over the past ten years or more in Britain have simply not occurred in Northern Ireland. During the Committee's last visit to Northern Ireland one of our members (then chief executive of the Daycare Trust) noted that the situation matched that being grappled with by the (then) Labour government on assuming power in 1997. With no lead government department responsible for childcare, no statutory duty on public authorities to provide adequate childcare and no childcare strategy in place, provision is piecemeal and expensive. A survey conducted by Employers for Childcare among unemployed women showed that half of those surveyed felt that a lack of suitable childcare was the most significant barrier to finding work.<sup>2</sup> Many of the UK welfare reform proposals for both lone parents and working age couples with children are underpinned by the assumption of sufficient readily accessible and affordable childcare. This underpinning is simply not in place in Northern Ireland.

1.5 The recent report by the Centre for Social Justice – Breakthrough Northern Ireland - illustrated the greater impact of mental health problems on the population. The report noted 'the majority of people claiming illness-related out-of-work benefits do so on account of mental health and behavioural disorders ..... this demonstrates a significant and widespread problem in Northern Ireland given its comparatively small population'.<sup>3</sup>

1.6 The proportion of the population claiming Disability Living Allowance (DLA) and Incapacity Benefit (IB) is significantly higher than in Britain.<sup>4</sup> The rate of receipt of DLA per thousand population is 102 in Northern Ireland compared to 52.3 in Britain, while 9% of the working age population claim IB compared to 5.4% in Britain.<sup>5</sup>

1.7 A similar issue applies to the percentage of the population who are long-term unemployed. The level of long term unemployment and ill health combined with a different prognosis for economic recovery has particular ramifications for aspects of welfare reform. A recent survey of the economy by the Ulster Bank noted the growing divergence between the economy in Northern Ireland and that across the United Kingdom as a whole.<sup>6</sup> The report outlined that while the UK as a whole posted its fourteenth successive monthly rise in business activity in June 2010 there has been no recorded growth in Northern Ireland since November 2007.

1.8 The chief economist for the Ulster Bank commented on the findings that:

"whilst concern has shifted to fears over whether Northern Ireland will experience a 'double-dip' recession it is debateable whether it actually exited recession in the first place. Given the absence of a meaningful economic recovery during the first half of

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<sup>2</sup> H. Kinnear. The Childcare Barrier (2003) Employers for childcare.

<sup>3</sup> Breakthrough Northern Ireland – The Centre for Social Justice (September 2010) (p15).

<sup>4</sup> DSD statistical bulletin (February 2010)

<sup>5</sup> DSD statistical bulletin (November 2009)

<sup>6</sup> Ulster Bank Northern Ireland PMI survey June 2010

2010, unlike the UK, it now looks increasingly likely that Northern Ireland will experience a contraction in economic growth, albeit marginal, in 2010. This would represent a third successive year of economic decline and compares with just one year of contraction in the UK (2009). Therefore it is perhaps more accurate to talk about a prolonged recession rather than a double dip. In any event, even a return to growth of around 1 per cent will still feel like a recession as unemployment is not expected to peak until 2012.”

1.9 The greater reliance on public sector employment in Northern Ireland (where close to 30 per cent of employees work in the public sector – the highest proportion of all UK regions and nations)<sup>7</sup> and longer rate of recover from the recession suggests that increased powers of conditionality, long term reductions to Housing Benefit and further moves to transfer lone parents from JSA to Income Support are unlikely to have the desired impact of moving people towards employment, as sufficient employment opportunities are unlikely to be in place.

1.10 Against this backdrop, SSAC recommends that Northern Ireland examines the scope for variations in welfare reform in response to its specific conditions, whilst recognising the overall direction of travel being followed in Britain.

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<sup>7</sup> <http://www.parliament.uk/briefingpapers/commons/lib/research/briefings/snep-05625.pdf>

## 21<sup>st</sup> CENTURY WELFARE – RESPONSE BY THE SOCIAL SECURITY ADVISORY COMMITTEE

### 1. Introduction

1.1 SSAC has long taken an interest in the benefit reform and simplification agendas, including publishing our views and recommendations on matters such as the use of earnings disregards and work incentive measures.<sup>8</sup> We therefore welcome the commitment in the consultation document to the creation of a simplified and more coherent and consistent system. We recognise that major changes to the current system represent a formidable challenge and that there is some way to go before we shall see a comprehensive framework for structural change. Nonetheless, we do see the current need to mark out clearly the direction of travel, even if resources are not immediately available to take us to where we would wish to be. We fully support the document's aspirations and look forward to considering more detailed proposals as these emerge. In the following paragraphs, in trying to ensure that some of the mistakes of the past are avoided, we inevitably dwell on the pitfalls or challenges of the proposals.

1.2 Complexity has a negative impact on both customers and the Department, and can undermine confidence in the system; it contributes to error (official and customer), administrative costs, non-take up of benefit and may act as a disincentive to entering the labour market (due to claimant misconceptions of benefit rules). This all points to the need for a simpler and more transparent system which enables customers to better understand their responsibilities and entitlements, and staff to administer the system correctly.

1.3 Weaknesses of the current system are well known and have long been debated.<sup>9</sup> It is also well understood that major structural change is not an easy option.<sup>10</sup> It presents a huge challenge, carries enormous risks, and will not be achieved without substantial investment. Such change is not unachievable, but rather requires careful consideration of the necessary trade offs, for example between tailoring the system to meet a wide range of circumstances and the desirability of a relatively simple set of rules.<sup>11</sup> Consequently there will be people who lose out as a result of the change. The challenge is further complicated by the fact that benefit levels in the UK are already relatively low, which means that simplification may result in 'losers' being pushed further into

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<sup>8</sup> [http://www.ssac.org.uk/pdf/occasional/getting\\_involved.pdf](http://www.ssac.org.uk/pdf/occasional/getting_involved.pdf)

<sup>9</sup> Weaknesses include lack of clarity and transparency in the benefits system; processing and administrative delays and errors; lack of integration of the tax, benefits and housing support systems; inadequacy of working age benefit rates. E.g. <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep659.pdf>

<sup>10</sup> NAO (2005) Dealing with the complexity of the benefits system

[http://www.nao.org.uk/publications/0506/dealing\\_with\\_the\\_complexity\\_of.aspx?alreadysearchfor=yes](http://www.nao.org.uk/publications/0506/dealing_with_the_complexity_of.aspx?alreadysearchfor=yes)

<sup>11</sup> WPSC report 2006-2007 session <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmworpen/463/46304.htm>

poverty.<sup>12</sup> We are reassured however by the Secretary of State's commitment to protect the most vulnerable customers.<sup>13</sup>

1.4 It is important to recognise that the present system developed as it did for what seemed like good reasons at the time, not least in response to structural changes in the labour market. However, greater flexibility has led to greater job insecurity and an increase in part-time and non-permanent jobs. There are currently over 1 million part-time workers across the UK who cannot find full-time work, and over half a million temporary workers who would rather be in permanent jobs. Many of these jobs are also very low-paid and insecure. Taken together these features reduce the attractiveness of work in the flexible end of the labour market. The insecurity of these jobs contributes to a cycle of low-paid work, to out-of work benefits, and back to low-paid work. It also creates additional anxiety among those seeking to move from benefits into work, because claimants fear that should employment end abruptly they will be left without an income while their benefit claims are re-started.

1.5 Whilst we recognise the additional pressures currently imposed by the need to contain costs, we have concerns about the impact of some of the measures announced in the emergency budget. Rapid cuts made in order to reduce expenditure could further distort the system and make wholesale, rational reform of the welfare system even harder in the longer-term. The speed with which some of the changes are being designed and implemented also leaves very little time for the consideration of a holistic view of the social welfare agenda, which for example needs to take account of the impact on housing policy, child outcomes and poverty levels.

1.6 We highlight below a number of key issues that should be considered in more depth, before going on to address the questions posed in the consultation document.

## 2. Key issues

### *Conditionality and complexity*

2.1 Although there is considerable emphasis on benefit conditionality the document doesn't acknowledge that conditionality is also a driver of complexity. For example, the suggested continuation of conditionality until the claimant is deemed to be sufficiently self-supporting seems to be complex and both financially and administratively burdensome. Evidence from the Employment Retention and Advancement Project suggests that the provision of in-work support was challenging for advisers and the quality of the adviser workforce was key to successful delivery.<sup>14</sup> Initial difficulties needed to be overcome by intensive staff training.

### *The evidence base*

2.2 We would welcome more evidence to support some of the assertions in the document, e.g. there is little evidence to support the assumption that conditionality

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<sup>12</sup> [http://www.oecd.org/document/3/0,3343,en\\_2649\\_34637\\_39617987\\_1\\_1\\_1\\_1,00.html#statistics](http://www.oecd.org/document/3/0,3343,en_2649_34637_39617987_1_1_1_1,00.html#statistics);  
[http://www.ssac.org.uk/pdf/occasional/Rights\\_Responsibilities\\_Social\\_Security.pdf](http://www.ssac.org.uk/pdf/occasional/Rights_Responsibilities_Social_Security.pdf)

<sup>13</sup> Work and Pensions Select Committee evidence session, 15/9/10

<sup>14</sup> <http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep520.pdf>

reduces unemployment. Evidence on conditionality is less conclusive than the paper sets out.<sup>15</sup> The evidence shows that where conditionality works it is when combined with a range of other measures that support people's moves into work – e.g. generous benefits, affordable and accessible childcare and a focus on the creation of good jobs that pay.

2.3 We are also unaware of a body of evidence that suggests that integrating income-related benefits and tax credits would reward the identified 'positive behaviours' or that the models for reform would necessarily make understanding entitlement easier.

#### *IT and links with HMRC*

2.4 The document regards the IT challenge as one that could be addressed without major investment but we are concerned that implementation issues, which are well documented for the current system, have not been given due consideration.<sup>16</sup> We believe that the 21<sup>st</sup> century welfare IT changes could be more substantial than outlined in the consultation paper and we have doubts about the practical implementation and cost implications outlined in the document.

2.5 For example, there are complications in the system that are not yet fully addressed, such as how to deal with individuals who are both employed and self-employed, or a couple where one is employed and the other self-employed, or a household comprising persons employed by a number of different employers. Figure 5 (page 35) in the document paints a particularly over-simplified version of the proposed system and we look forward to reviewing more detailed models as they become available.

2.6 We would have liked the consultation document to address how taxation (calculated at the individual level) and benefit eligibility (calculated at the household level) are to be reconciled. These issues highlight the complexity inherent in reforming the system and explain the complex nature of the current system – one which attempts to take account of the complex needs and circumstances of both individuals and households.

2.7 The introduction of a disregard of £2,500 in the tax credits system for in-year falls in income (announced in the Budget) could have clear implications for integrating the tax and benefit systems; claimants with in-year income changes will find that tax credits are, from April 2012, much less responsive to their changed earnings. This will add additional complexity to any system that is trying to better take account of changes in people's incomes.

2.8 The successful implementation of a new DWP IT system is closely linked to the current HMRC consultation on a real-time PAYE system, and we will follow the outcome of that consultation closely. We can see clear advantages to implementing a real-time system. Whilst the current system can deal with situations where employment is stable throughout the year, it is less effective where circumstances change regularly and

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<sup>15</sup> <http://www.dwp.gov.uk/docs/realisingpotential.pdf>; Reed H (2010) Flexible with the Truth London: Landman Economics/TUC

<sup>16</sup> <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmpubacc/1034/103403.htm>;  
<http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/323/32304.htm>

rapidly, as the administration of tax credits clearly demonstrates. This has impacted on the sensitivity of the tax credits system; administrative challenges have been addressed by reducing the sensitivity of the system. However, we also appreciate that the real-time project will be huge and costly and any delay to the implementation by HMRC would create a large risk for DWP. A real-time system may also introduce complexity.

2.9 We have some concerns about the alternative approach suggested if real-time PAYE is not implemented (fixed period awards, para 12, p35), particularly with regard to the notification of changes of circumstances and the response by DWP/HMRC. For example, tax credit notification and subsequent updating of the system by HMRC are notoriously poor and result in both under- and over-payment of awards.<sup>17</sup>

### *Labour market*

2.10 The notions of ‘fairness’ and ‘personal responsibility’ in a work-focused benefits system must recognise the behavioural impacts of the state of the labour market. We would welcome recognition in the document that, without an improved supply of suitable, accessible, sustainable jobs, making work pay will be no more than an academic exercise. Whilst we welcome the desire to reduce complexity and increase understanding of work incentives, suitable jobs need to be available to demonstrate that being better off in work is indeed a reality.

2.11 It is important to highlight that the lack of jobs is central to claimant levels – unemployment will be reduced by growth in the job market rather than by welfare reform. Currently there are 481,000 vacancies across the economy and the ratio of jobs to ILO unemployed is 1:5 – not including the large number of economically inactive people who want to work. In such a situation, some groups (such as disabled people, people with mental health problems, lone parents with young children, and people from some minority ethnic groups) will be disproportionately disadvantaged.

2.12 The recommendation in the document to apply conditionality to those in work seems to be unworkable in the current economic climate. With high underemployment – currently over 1 million part-time workers in the UK want to work more hours - sanctioning clients who cannot increase their hours seems to be both unworkable and unfair.<sup>18</sup>

### *Work incentives*

2.13 Greater recognition should be given to the significant enhancements to work incentives that have been introduced over the last decade, specifically the National Minimum Wage, Tax Credits, Better Off in Work Guarantee and In Work Credits. However, we also believe that the impact of such incentives has been reduced by the limitations of better-off-in-work calculations (BOCs).<sup>19</sup>

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<sup>17</sup> <http://www.jrf.org.uk/publications/problems-delivery-benefits-tax-credits-and-employment-services>;  
<http://campaigns.dwp.gov.uk/asd/asd5/rports2009-2010/rrep544.pdf>

<sup>18</sup> [http://www.statistics.gov.uk/elmr/07\\_10/downloads/ELMR\\_Jul10\\_Tam.pdf](http://www.statistics.gov.uk/elmr/07_10/downloads/ELMR_Jul10_Tam.pdf)

<sup>19</sup> The Committee have previously recommended that the BOC should be both more comprehensive (e.g. to include a more in-depth consideration of the costs of working, such as travel, the loss of passported benefits and show how the financial picture might change over time) and be carried out more effectively (for example, in terms of how they are timed and scheduled into interviews and as a way of opening up a more in-depth dialogue with the customer).

2.14 The role of employers in making work pay should also be considered. It is essential that DWP works even more closely with employers to ensure that all claimants, particularly those furthest from the labour market, are supported into sustainable work.

2.15 We are concerned that some of the recent budget measures, such as steepening the taper on tax credits, will further erode work incentives. We recommend that the impact of fiscal tightening on key elements of the welfare system should be fully audited. This should examine how spending cuts have a wider impact on incentives to work and claimants' ability to access work.

2.16 Many of the emergency budget measures also have disproportionate effects on young families and may impact negatively on both work incentives and child poverty, e.g. changes to Child Benefit, toddler tax, HiP Grant, Sure Start Maternity Grant, free school meals for low income families, help with childcare costs, etc.<sup>20</sup>

#### *Comparing the models presented*

2.17 The lack of detail in the consultation paper makes comparisons difficult; the lack of costings in particular makes meaningful comparison between the different models impossible. We look forward to reviewing more detailed modelling in due course.

2.18 It is also impossible to comment on the impact of the different models on work incentives or for fairness without more detail being available. For example, the Universal Credit outline structure could be positive (if the end of the taper is high and the taper is slow) or extremely negative (if the taper is very steep and it ends when earnings are still low), reducing work incentives for low to middle earners (for example if child tax credit was not made available to families earning over £20,000). Effective assessment of the proposals is also hampered by the lack of a definition of the 'most vulnerable'.

#### *'Winners' and 'losers'*

2.19 The issue of 'winners' and 'losers' in response to a change in social security policy has long been of concern for the Committee, especially where vulnerable customers are disproportionately represented amongst the losers or where losers are geographically concentrated. We acknowledge that any retread of the system will inevitably produce both winners and losers; any proposal for change therefore needs to work carefully through the issues. The approach traditionally adopted by the Department has been to provide transitional protection (for example for clients migrated onto Incapacity Benefit from Invalidity Benefit). However, as we have discussed previously, transitional protection adds to complexity.<sup>21</sup> We therefore believe that the implementation of a new benefits system makes a strong case for buying out losers, rather than implementing transitional protection.

#### *Welfare 'dependency'*

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<sup>20</sup> [http://www.ifs.org.uk/pr/progressive\\_budget.pdf](http://www.ifs.org.uk/pr/progressive_budget.pdf)

<sup>21</sup> SSAC's published guidelines on the use of transitional protection (SSAC 12th Annual Report, May 1997 – March 1999)

2.20 We are concerned about the negative connotations of the language used in the consultation document, and more widely by Government, with regard to 'welfare dependency', implying that benefit receipt is a 'lifestyle choice'. We believe that the document confuses benefit *receipt* and benefit *dependency*; dependency implies the unnecessary or inappropriate receipt of benefit. We know of no reliable evidence to suggest that benefit receipt is a matter of 'choice' for the overwhelming majority of benefit recipients.

2.21 We recommend that it would be more appropriate to refer to a 'reliance' on benefits, rather than dependence, and to avoid language which implies that benefits are a lifestyle choice for the majority of recipients. Alternatively, it might be appropriate to refer to some claimants as 'necessarily dependent', for example as a result of health issues or caring responsibilities. It is also important to recognise that the benefits system operates as a safety net for some of the poorest and most vulnerable in society. However, we also appreciate that for some claimants the benefits system can become a familiar, reliable option, hence we support the objectives of the reforms, both with regard to simplifying the system and ensuring that work pays.

### *Fairness*

2.22 We also have concerns about the language used with regard to fairness. One of the guiding principles implies that the current system is unfair, but the document fails to define precisely how and why. The document also differentiates between 'those who pay' and 'those who receive benefits'. We believe it is unhelpful to polarise things in this way. In reality this distinction is not as simple; many benefit recipients are also taxpayers (several benefits are taxable and claimants may be both working and receiving benefits), and evidence shows that there is considerable movement between benefits and work.<sup>22</sup> For example, in June 2010 306,660 people moved off JSA and 251,120 moved on, indicating that the claimant population is very fluid.<sup>23</sup> This particularly affects those in the flexible labour market.

2.23 It is important that fairness is assessed over a longer timeframe than currently implied in the consultation document; claimants may have paid into the system for decades before claiming back through the welfare system. This provides further support for the retention of contributory benefits, discussed below.

### *Poverty and wider impacts*

2.24 We believe that reducing the absolute cost of the welfare system is incompatible with the goal of ending child poverty, to which the current government is committed through the coalition agreement. The effect may of course be mitigated slightly if reduced complexity leads to increased uptake of benefits and tax credits by eligible customers.

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<sup>22</sup> <http://www.jrf.org.uk/sites/files/jrf/work-poverty-benefits-full.pdf>; <http://www.poverty.org.uk/57/index.shtml#g1>

<sup>23</sup> [www.ons.gov.uk](http://www.ons.gov.uk)

2.25 We are also concerned by recent evidence from IPPR which reveals a rising incidence of in-work poverty.<sup>24</sup> The report highlights that the proportion of poor children who live in working households has continued to rise, despite the recession driving up unemployment. The fact that over 60 per cent of poor children now live in working households demonstrates that poverty is not simply the result of worklessness. Plans for welfare reform therefore need to be implemented alongside action to tackle low pay, improve job quality and increase retention and progression. IPPR also recommend additional support for potential second earners, for example, through enhanced work incentives and support for childcare.

2.26 The consultation document needs to take account of the wider objectives of the social security system, for example, increasing social cohesion and inclusion, compensating for loss, and assisting with meeting additional costs that, if unmet, might have greater social costs.

#### *Contributory benefits*

2.27 The consultation documents makes only passing reference to the position of contributory working-age benefits and we would welcome more detail on the future of these benefits.

2.28 The current system includes a mix of contributory and income-based benefits but the emphasis has increasingly changed, especially for those of working age, from insurance-based protection with responsibilities to fellow contributors to tax-funded support, largely based on need and obligations to tax-payers.<sup>25</sup> We support the continuation of contributory benefits on the grounds that they create a work incentive and increase independence and responsibility. They also potentially reduce the stigma for claimants and reinforce the idea of benefits as a right (for those who have paid contributions and/or received credits). If people who are in work cannot see that they will receive any support if they are, for example, made redundant, then they may resent people who need to rely on benefits.

2.29 It should be possible to incorporate the time-limited contributory based benefits into the planned structural reforms. Although this impacts on the overall simplicity of the benefits system, it maintains what the Committee views as the important link between NI contributions and at least some time-limited benefit receipt. It would also support the assertion in "Getting Britain Working" that "The payment of unemployment benefit by the state is an entitlement which is earned, not owed."<sup>26</sup>

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<sup>24</sup> <http://www.ippr.org.uk/publicationsandreports/publication.asp?id=774>

<sup>25</sup> Julia Griggs and Fran Bennett, (2009) Rights and Responsibilities in the Social Security System [http://www.ssac.org.uk/pdf/occasional/Rights\\_Responsibilities\\_Social\\_Security.pdf](http://www.ssac.org.uk/pdf/occasional/Rights_Responsibilities_Social_Security.pdf)

<sup>26</sup> Getting Britain Working - Conservative proposals to tackle unemployment and reform welfare. 2009. [http://www.conservatives.com/News/News\\_stories/2009/10/Radical\\_welfare\\_reform\\_to\\_Get\\_Britain\\_Working.aspx](http://www.conservatives.com/News/News_stories/2009/10/Radical_welfare_reform_to_Get_Britain_Working.aspx)

### 3. Consultation questions

#### **Q1. What steps should the Government consider to reduce the cost of the welfare system and reduce welfare dependency and poverty?**

3.1 It is clear that simplification of the benefits and tax credits system cannot be achieved overnight and we are therefore concerned by the desire to legislate early in the New Year. We are not convinced that all the options will have been adequately explored at that point and therefore recommend setting up a more detailed enquiry. This should review all the evidence, consider the direction of travel with regard to Welfare Reform, and make recommendations, taking into account both longer-term needs and the current economic and fiscal climate.

3.2 We would welcome further discussion on the need for radical reform of the benefit system. The Work and Pensions Select Committee outlined two other possible responses, although not mutually exclusive: first to accept complexity, but shield claimants from its dysfunctional effects (for example, by having more robust computer systems and well-trained staff in Jobcentre Plus, and external advice agencies to assist claimants) and secondly for DWP to engage in an ongoing process of incremental simplification by examining specific parts of the benefit system where complexity has been identified as particularly problematic.<sup>27</sup>

#### **Q2. 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?**

3.3 Statistics indicate that, despite the current economic climate, the current flow from benefits into work is greater than that in the opposite direction (from work on to benefits).<sup>28</sup> However, we are concerned that the proposed public spending cuts may mean that unemployment could rise and the economic outlook remains uncertain.

3.4 Despite enhancements to work incentives there is still a proportion of the claimant population for whom work does not pay (e.g. claimants with complex personal circumstances and those with caring responsibilities) and a further proportion who perceive that work does not pay.<sup>29</sup> The following are likely to be contributory factors:

- uncertainty about the benefits/tax credits systems, linked to complexity
- worries about delays in processing by DWP and local authorities
- worries about housing costs
- concerns about arrears and debt repayment
- childcare costs and inflexibility
- worries about reclaiming benefits
- loss of stability of income
- loss of passported benefits, e.g. free school meals and prescriptions
- tax credit overpayments

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<sup>27</sup> <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmworpen/463/46302.htm>

<sup>28</sup> <http://www.statistics.gov.uk/pdfdir/lmsuk0810.pdf>

<sup>29</sup> <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep649.pdf>; <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep645.pdf>; <http://offlinehbp1.hbp1.co.uk/NewsAttachments/PYC/changing%20the%20workplace1.pdf>

- additional costs of work – financial and work-life balance
- lack of availability of secure, high quality employment.

3.5 Structural factors are also important – for example the availability of low paid, low skilled jobs.

### **Q3. To what extent is the complexity of the system deterring some people from moving into work?**

3.6 Many of the issues cited above may also act as a deterrent to moving into work. Lack of transparency makes it difficult for claimants to understand and assess their in-work entitlements and their rights with regard to reclaiming benefit.

3.7 Experience of the results of complexity is also a deterrent, e.g. experience of dealing with:

- reporting changes of circumstance
- overpayments
- the lack of integration between the DWP, LA and HMRC systems
- reclaiming benefits.

3.8 At the same time, it is important to recognise that other factors may have an even bigger effect. Lack of part-time work and flexible working opportunities can be key barriers for claimants who need to restrict their jobsearch, for example for caring or health reasons. Fears about taking an insecure job can also act as a significant barrier.<sup>30</sup>

3.9 We recommend that the Department consider evidence from social policy research and behavioural economics approaches in the design of enhanced work incentives. This will help to ensure that policy is based on an empirical understanding of behavioural drivers with regard to work and that policy can influence change through an effective, evidence-based approach.

### **Q4. To what extent is structural reform needed to deliver customer service improvements, drive down administration costs and cut the levels of error, fraud and overpayment?**

3.10 The consultation document does not highlight the fact that administration costs are already low for a system based on means-testing and proactive support to return claimants to employment, or that improvements to customer service and reducing fraud and error have been achieved successfully under the present system.<sup>31</sup> Structural reform per se is not guaranteed to deliver such improvements and it is not self evident that the structural reforms proposed will necessarily achieve these goals.

3.11 However, reductions in complexity should make it easier for staff to administer the system and for both customers and staff to understand it. In particular, the integration of

<sup>30</sup> <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep659.pdf>

<sup>31</sup> [http://research.dwp.gov.uk/asd/asd2/fem/fem\\_oct08\\_sep09.pdf](http://research.dwp.gov.uk/asd/asd2/fem/fem_oct08_sep09.pdf)

the tax credits, housing support and benefits systems would deliver welcome improvements. Savings should also be observed in the longer-term with a more streamlined benefits system in place.

3.12 Not all of the proposed models in the consultation document suggest the integration of the tax and benefit systems. If the tax and benefit systems are not fully integrated then information sharing and communication needs to be greatly enhanced.

**Q5. Has the government identified the right set of principles to use to guide reform?**

3.13 We support the expressed aspirations for welfare reform but we are not certain that the principles as currently expressed would successfully guide reform. The current principles deal rather more with the limitations of the system, rather than highlighting the primary objectives of the proposed policy. We would recommend a set of broader principles that have more universal applicability and are less stigmatising:

1. Continue to support those most in need, reduce the numbers in poverty and ensure that interactions with other systems of quality support for basic needs are considered
2. Ensure that the reward from taking up work outweighs the alternative of remaining on benefits
3. Support and incentivise progression in the labour market
4. Reduce complexity and increase transparency in the system to ensure that the rewards from taking work are clear
5. Ensure that both fairness and responsibility are at the heart of the welfare debate and that a fair balance is struck between support and conditionality
6. Recognise that different groups of people have different needs and that some are further away from the labour market than others
7. Recognise that employability is determined by labour market opportunities as well as claimants' behaviours and take steps to address this
8. Ensure the system deals adequately with additional costs, including, for example, the extra costs of disability, children, housing and childcare costs
9. Integrate systems, automate processes and maximise self service, to enhance customer service, reduce administration costs and reduce the scope for fraud, error and overpayments
10. Communicate and deliver benefits in a manner that respects and promotes the dignity of all benefit applicants and recipients
11. Ensure that the benefits and Tax Credits system is affordable in the short and longer term.

**Q6. Would an approach along the lines of the models set out improve work incentives and hence help the government reduce costs and tackle welfare dependency and poverty? Which would be most successful? What other approaches should the government consider?**

3.14 Whilst we believe that an integrated tax and benefit system would overcome some of the complexity inherent in the separate systems operating at present, the consultation document does not provide enough information to assess the merits of the different

options presented. We would be interested to explore the implications of the various models when more detail is available as to how they might be applied. The lack of evidence in support of the models also makes it difficult to assess them; however, it is perhaps instructive to note that few countries have introduced and retained a unified tax-benefit system and that previous attempts to design such a system in this country have failed.

3.15 Recent research for DWP found that the idea of a single working-age benefit, as an example of radical simplification, attracted interest and support of both claimants and advisers.<sup>32</sup>

3.16 It is not clear how seriously the different models presented are being considered by the government. Costings are not presented; advantages and disadvantages are not debated; and, with the exception of Universal Credit, the options are not described in detail. The discussion of Universal Credit does not address a number of issues, including:

- the impact of capital and income other than earnings
- the non-means-tested benefits which might remain
- detail about potential support for childcare
- the relationship with benefits for those over retirement age, especially for housing costs.

3.17 SSAC has raised concerns in the past with regard to inconsistencies between the tax and benefit systems: for example, the Committee reported on the differential treatment of seasonal workers in the two systems.<sup>33</sup> We can therefore see the broad advantages of an approach along the lines of a Universal Credit. However, without more detailed information, e.g. regarding the potential tapers, it is impossible to consider which approach will be most successful.

**Q7. Do you think we should increase the obligations on benefit claimants who can work to take the steps necessary to seek and enter work?**

3.18 There are already substantial obligations on benefit recipients under the current system and, despite assertions in the document, little evidence that sanctions are effective in increasing the numbers leaving benefit. We would however support the provision of additional support earlier in a benefit spell, dependent on personal circumstances and history, and with flexibility within the system so that obligations are achievable on a practical level for an individual. It is also important to recognise that many benefit claimants are at some distance from the labour market and that a long-term activation approach will lead to more successful employment outcomes.

**Q8. Do you think that we should have a system of conditionality which aims to maximise the work a person does, consistent with their personal circumstances?**

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<sup>32</sup> <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep659.pdf>

<sup>33</sup> [http://www.ssac.org.uk/pdf/occasional/SSAC\\_seasonal\\_work.pdf](http://www.ssac.org.uk/pdf/occasional/SSAC_seasonal_work.pdf)

3.19 This exists to a certain extent within the current system, although we would be in favour of removing the current minimum hours rules. We would welcome more information about how conditionality is to be tailored to personal circumstances. The current high level of underemployment (over 1 million part-time workers in the UK want to work more hours) may impact negatively on a system which is aimed at maximising the work an individual does.

**Q9. If you agree that there should be greater localism what local flexibility would be required to deliver this?**

3.20 We would need to see more detail about potential approaches before being convinced that greater localism could be helpful. Although localisation can imply flexibility and a move away from a one-size-fits-all approach, it also carries with it the risks of post-code lotteries and boundary anomalies and the eternal worry about policing flexibility. Whilst local variation in benefit levels and structures is likely to add to costs and might increase unfairness, variation in delivery to reflect local services, environments and labour markets might bring benefits. We would however argue that the increasing reliance on telephone and web-based services reduces the scope for local variation.

3.21 It is not clear how localised conditionality (other than on a personalised basis) would fit into what must be in essence, whichever model might be adopted, a national welfare benefits scheme. It is essential however that the devolved administrations are included in the localism debate.

**Q10. 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?**

3.22 SSAC is very concerned that the cost-saving measures being implemented across Government in piecemeal fashion will impact on spending in related areas. This is a major concern which the government needs to address more holistically. The issue of affordable housing highlights the problem, with the proposed Housing Benefit Amendment regulations exacerbating the problem of maintaining existing affordable homes.

3.23 Affordable homes is a complex issue, and it is not clear that benefit changes have been considered in the wider context of the housing market. Housing Benefit (HB) restrictions will restrict the supply of larger properties by private landlords and may deter many landlords from letting to HB claimants. Potential changes to SMI will also have an impact. Whilst home ownership is the bedrock of housing policy, many sub-prime lenders have left the market, and cutbacks in SMI will deter them from re-entering. Consequently there is the real danger that people on the margins of home ownership and renting will be hit twice. If they lose their job (even if they return to a lower paid job) they could face compulsory or voluntary repossession. They will not be considered for social rented housing so will have to look to the private sector where their HB may not cover their rent. These outcomes will inevitably have an impact on other aspects of the social welfare sector.

**Q11. What would be the best way to organise delivery of a reformed system to achieve improvements in outcomes, customer service and efficiency?**

3.24 We believe that the following would be the best ways of doing so:

- ensure that incentives actually work to support the harder to help – to avoid ‘parking’ the most vulnerable claimants
- recognise that claimants differ in their level of job-readiness and treat them accordingly
- reward providers for sustainable outcomes
- ensure that the transition from work/tax credits on to benefit is also smoothed, as this can serve to make moving into work in the first place more attractive
- actively engage and consult with benefit recipients in the design and monitoring of services
- value prompt, accurate, responsive and respectful service delivery
- prioritise and invest in professionalised training of staff – staff need appropriate skills, confidence and background knowledge to offer an effective and flexible service to customers
- ensure that Better Off Calculations are more comprehensive and are carried out more effectively
- integrate pensions and working age support and delivery - to avoid increased complexity.

**4. Conclusion**

4.1 We welcome the opportunity to comment on the government's proposals for welfare reform. However, the high level nature of the consultation document offers little real scope for detailed engagement, and does not yet provide an indication of where real strategic direction and meaningful policy change will come from. We would welcome more in-depth engagement with ministers and officials as the reform process is taken forward.

4.2 Simplification of the welfare system requires the consideration of a wide range of issues, including those that might increase complexity in the short-term (for example, transitional protection), horizontal interactions between benefits, e.g. passported benefits, interactions between Departments (the tax and benefits systems), and transitions to work. Simplification also needs to be considered within the context of wider policy objectives, for example reducing child poverty. With regard to simplification objectives, we believe that the system needs to be simple, explainable, logical, and fair, and it should not result in a ‘one-size-fits-all’ approach.