Welfare Reform Bill

Second reading briefing from CPAG

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Child Poverty Action Group
94 White Lion Street
London N1 9PF
www.cpag.org.uk

1. Introduction

1.1. The social security system, welfare benefits and tax credits have proven essential in preventing poverty and supporting the wellbeing of children in the UK. A fair and efficiently functioning social security system is essential to preventing poverty and making progress eradicating child poverty in the UK.

1.2. Child Poverty Action Group believes that designing a social security system fit for the 21st Century requires that welfare benefits must succeed in preventing poverty and supporting people able to work with sustained job outcomes that improve their lives and keep them out of poverty. But the current system of benefits and tax credits is complex and poorly administered, and this lowers take up amongst vulnerable groups.

1.3. We agree with the aims of simplifying the social security system, improving work incentives and tackling poverty that the Government has stated are behind the proposals in the bill. However, the case in favour of a Universal Credit being able to achieve this is not yet proven. Our approach to the proposals for a Universal Credit and other welfare reforms presented in the bill will be one of constructive engagement. We have long campaigned for a system that prevents poverty for all regardless of work status, does not let down claimants who want to progress into work, and protects fair entitlement for citizens who have paid thousands of pounds over many years into the social protection schemes funded by National Insurance.

1.4. Although simplifying the system is attractive in principle, great caution is needed in practice because the system must respond to the complexity and variety in the lives of claimants and their households. Means-tested benefits inevitably create complexity and can contribute to the poverty traps that Universal Credit seeks to address. We are concerned the same complexity will be a significant feature of Universal Credit, which will continue to based on hundreds of detailed rules relating to a claimant's income, capital, family composition, housing costs, capacity and availability for work, disabilities and immigration status – all of which are subject to frequent change. Another type of complexity has arisen from the cumulative impact over time of incremental changes often designed to make small spending savings, but which result in more complexity.

1.5. A major extension of conditionality running in tandem with a harsher sanctions regime presents new areas of complexity and potential dispute. The growth of a sanctions bureaucracy of doubtful efficacy not only adds to complexity, but risks forming a barrier to successful job outcomes. Autonomy cannot be imposed from above, but the proposals make the error of going against the evidence base from behavioural science on self determination. A system that will be explicitly about 'imposition' and 'compliance' will erode autonomy, restrict self determination and fail to produce engagement.

1.6. Whilst not a government document, it is important to recognise the origins of the Universal Credit proposals in the Centre for Social Justice publication *Dynamic Benefits: Towards welfare that works.* [i] There are substantial differences to the levels of resources and the Marginal Deductions Rates (MDR) outlined in that document. The combination of significantly lower investment for implementation of an ambitious programme of reform, alongside an £18 billion package of cuts to benefits and tax credits introduced in the Budget and Spending Review, will increase both complexity and hardship. This renders the successful introduction of the universal credit harder to achieve and will mean that the MDRs deemed necessary by *Dynamic Benefits* for effective work incentives will be heavily compromised.

1.7. The bill is skeletal and it is impossible to give it sufficient scrutiny without sight of draft regulations. As the biggest change to the Welfare State since Beveridge, the Government must ensure that the requisite time and information is provided to parliamentarians in both chambers for full and detailed scrutiny of the proposals. It will be unacceptable for parliamentarians to be left to scrutinise the proposals in committee without sight of any draft regulations. The current parliamentary session is due to continue for a further 12 months, so there is no need to rush this legislation through and it should proceed at a pace that allows fully informed scrutiny.

2. CPAG's principles for welfare reform:

2.1. Child Poverty Action Group believes that the following core principles should be met by the government's welfare reforms:

1) **Social security.** Reforms must retain a national social security system that protects all people of working age and their families against adverse changes in their circumstances, strengthening it where necessary to reflect the changing nature of risks people face to income, employment, health and wellbeing.

2) **Child poverty.** Increased protection against poverty for all families and children (irrespective of their age, status, ethnicity – and whether their parents are in or out of paid work) that contributes the reductions in child poverty needed for the eradication of child poverty by 2020 as required by the Child Poverty Act 2010.

3) **Social inclusion.** Minimum income standards should be provided that protect the health and wellbeing of claimants. The social security system should not become a driver of social segregation, or lead to exclusion from the mainstream of society.

4) **Decent jobs:** The vast majority of claimants want to work, but face job shortages, barriers to employment, and employer discrimination. A welfare reform programme will only be successful on job outcomes if it is part of a broader employment programme aimed at creating new jobs with decent pay and progression in both the private and public sectors, with the reintroduction of job guarantees for some claimants. Barriers that prevent people accessing work and being better of in work must be addressed too. Focussing on the claimant alone, and not the wider context, will lead to failure.

5) **Work incentives:** Earnings disregards and tapers must be set at levels that ensure there are clear financial benefits to entering work and increasing working hours. Better off calculations must take full account of additional in-work costs to ensure that both income and outgoings are fully considered when ensuring there are adequate work incentives.

6) **Flexibility:** The system must balance simplicity with the need to cater for the diverse and ever changing needs of claimants throughout their lives. It must respond to the complex combinations of different factors affecting individuals

and households, such as disability, ill health, relationship breakdown, bereavement and caring responsibilities.

7) **Autonomy and empowerment.** Work-related services provided as part of welfare packages should nurture autonomy and self-determination, rather than eroding autonomy as is common under the current sanctions bureaucracy. High quality, personally tailored support should be a statutory entitlement so that more claimants than under the current system are empowered to realise their aspirations to enter decent jobs.

8) **Gender equality.** Reforms to social security and welfare entitlement should not leave the general situation of women worse than under the current system, or limit the economic independence of women. The opportunity should be taken to identify how financial independence, income equality and lifelong income security for women can be improved.

9) **Independent living.** Disabled people and their families have a right to independent lives and the pursuit of their aspirations. Reforms must ensure a system that guarantees dignity and independence for disabled people by recognising and providing the financial support and services needed to counter their disability.

10) **Fiscal benefit.** The economic and fiscal benefits of social security and investment in welfare provision must be recognised; and the costs to government must be recognised as dynamic, rather than dead weight. For example, it is a false economy to allow barriers to employment to arise if the taper rate is set too low, or support for the costs of childcare is too low. Investment must be made at optimal levels.

3. Key concerns:

3.1. Damage to work incentives – taper, cuts carried forward, losers

3.1.1. The initially proposed withdrawal rate of 55% has been increased to 65% under pressure from the Treasury. This will mean almost 2 million workers will have worse Marginal Effective Tax Rates (METRs) than under the current system. METRs and work incentives will be worse across all claimants compared to the 55% taper that the Centre for Social Justice argued was necessary to make a universal credit system promote increased employment. While we recognise that those working fewer hours will have increased work incentives, it is vital that the system also improves, rather than damages, work incentives for those working longer hours and reduces poverty for those in full-time jobs.

3.1.2. The rates of Universal Credit people receive will carry forward billions of pounds of cuts being made to benefits and tax credits between now and 2014. This means that all claimants are likely to be real-terms losers compared to the current system.

3.2. Partner penalty

3.2.1. The universal credit taper mechanism reduces incentives for a partner to work. This relates to the way in which the taper will apply to net rather than gross earnings, compared to the current system with tax credits.

3.2.2. Opportunities for the partner of the main earner in a couple to find work and increase the household income are a crucial part of strategy to end child poverty. On the most recent figures, 29% of couple families are in poverty if there is only one parent in full-time work. This falls to just 7% if a partner is in part-time work, and 3% if both are in full-time work.

3.3. Childcare support

3.3.1. The Treasury is insisting that the funds made available for childcare support must be reduced from this April so that parents can only claim back 70%, instead of 80% of their childcare costs.

3.3.2. Current rules allowing disregard of childcare costs for housing benefit claims means that in practice many parents are able to recoup up to 97% of childcare costs. So a reduction to 70% already represents a tenfold increase in their childcare outgoings.

3.3.3. It is also expected that the remaining funds will be spread more thinly so that current recipients of the childcare element of working tax credit may only be able to recover 60% of costs under Universal Credit. This takes place at a time when the cost of childcare is rising significantly. Instead of more parents entering work, we may see more parents leaving work because the childcare that enables them to work is no longer affordable enough to make them better off in work.

3.3.4. We believe that the support should be provided as an additional element to the credit at a minimum of 80% of childcare costs if work incentive are to be successful; and that government should aim to increase to 100% of costs over time.

3.4. Savings penalty

3.4.1. The bill proposes is to transpose the savings and capital rules currently used for income support to all Universal Credit claimants. The upper capital limit for income support is £16,000 with a taper applied to capital between £6,000 up to the £16,000 limit. This creates a savings and capital penalty that as never before been applied to tax credit recipients. At present there are no capital limits for entitlement to tax credits.

3.4.2. CPAG believes, at the very least, that the components of the Universal Credit which replace the current tax credits system must replicate the treatment of capital as it now is. Otherwise those seeking to save for things like a mortgage deposit, children's university fees, or a nest egg for emergencies will be punished for doing the right thing. Changing this rule is likely to cost in the tens of millions, rather than hundreds of millions, so it is affordable.

3.4.3. The use of income support capital rules will increase means testing and complexity. The income support rules dealing with capital run to many pages and even though they have been in place for many years are still a cause of confusion and controversy. These onerous rules not only deal with easily identified savings such as those in bank accounts, but real and notional interests in property, shares and trusts. Rather than applying them to all Universal Credit claimants, it is an important to review these rules for out of work claimants under the Universal Credit and look for simpler alternatives that decrease complexity and better support a pro-savings culture.

3.5. Payment processes

3.5.1. The new real-time PAYE system is to be used as part of the universal credit system of monthly means-testing. However, earnings are not the only information and circumstances that will be used to calculate entitlement. Therefore the system may require an extension of means-testing relative to the current approach in tax credits with information having to be provided on a monthly basis. This will be a costly and chaotic bureaucracy, creating a system that will appear complex and unpredictable to claimants.

3.5.2. The universal credit requires an IT project on a major scale and it will be very difficult to avoid technical problems with such a major change. The risk to families is particularly great because all the payments they are entitled to will be put into one pot, so an error in one part of the system could mean they are left utterly destitute with nothing at all. We are concerned that the current timetabling of the implementation is too fast given this risk.

3.5.3. Self-employed claimants are outside the PAYE system so are not in a position to provide real-time monthly earnings information. We reject suggestions of notional earnings based on minimum wage, which could create disincentives to increase working hours and frequent overpayments, or underpayments. We recommend that self-employed people should continue to be able to make their claim based on annual earnings without any new and onerous monthly means-testing and reporting. Such means testing and reporting would act as a barrier to people entering self-employment because of the bureaucracy and risk they would face.

3.5.4. The Government has indicated it is considering paying claimants on a monthly basis. Many claimants – particularly vulnerable claimants – need to budget on a weekly or fortnightly basis and there needs to be provision for weekly or fortnightly payments of benefit, where these are requested and needed by claimants.

3.6. Payments in joint claims

3.6.1. The white paper proposed that the universal credit would only go to one partner for a joint claim. It suggested that the scope would be looked at for payments for children and childcare that in tax credits currently go to the main carer – usually the mother – to continue to do so under universal credit.

3.6.2. Given the evidence of the advantages for children of the main carer being the recipient of these funds, it is not enough to just look at the scope. It must become a solid guarantee from ministers. Otherwise, there is a tremendous risk that the funds allocated to children within a household will be reduced as a consequence, especially where the main earner refuses to pass on finances that are meant for the wellbeing of children. Women's independent entitlement will also be particularly affected leading to a major step back in gender equality.

3.7. Passporting of benefits

3.7.1. The intentions on passporting remain vague and guarantees are not sufficiently firm on prevention of losers resulting from the change. The white paper stated only that a system of withdrawal of passported benefits on graduated thresholds is being considered – a series of cliff edges, instead of one large cliff edge. It also stated that government will *'aim to ensure that the benefits awarded are awarded to broadly the same number of people as currently'*. This leaves a great deal of uncertainty about how it will work and who will benefit from passporting such as free school meals or prescriptions.

3.7.2. While a series of cliff-edges may be preferable to one large cliff edge, it is still far from ideal given that we know passported benefit cliff edges in the current system are a significant barrier to work. We need to see detailed proposals in advance of the committee stage to allow the committee members to properly debate this important issue.

3.7.3. Free school meals should continue to be free at the point of delivery and must not be replaced by cash alternatives. The aim should be to maximise take-up and the Government should seriously consider extension of entitlement as a way of limiting the negative impact of loss of free school meals as well as extending the social and health benefits that are associated with wider, and universal provision. A mechanism must be found that also avoids a cliff-edge loss and is simple for schools to administer.

3.8. Loss of support to work and change to imposition and compliance

3.8.1. Around 200,000 claimants will lose access to back to work support. There will be no actual entitlement to support for any claimant. If Ministers promises are not kept to provide the standard of high quality and personally tailored support needed for successful work outcomes, there will be nothing claimants can do.

3.8.2. The language on the face of the bill is of 'imposition' and 'compliance'. A 'claimant commitment' will be 'prepared by the Secretary of State'. This approach will damage claimant relationships with advisers and lead, from the outset, to a culture of compliance and suspicion, rather than a culture of engagement and trust. The evidence base from the behavioural science and social psychology field of self determination theory (SDT) strongly suggests that the greatest outcomes are achieved from nurturing intrinsic motivation, self-determination and autonomy.

3.8.3. The bill should contain a statutory entitlement to high-quality and personally tailored work-related support for claimants. It is unacceptable in a 21st century welfare system for claimants who want to work to have no entitlement whatsoever to the support that can help them gain employment. The bill needs to future-proof the system against future governments that may otherwise fail to deliver the high-quality and personally tailored support that has been promised.

3.8.4. The bill should allow for the piloting of personalised budgets for some claimants so that they can become direct commissioners of work-related support in a similar way to how disabled people manage personal budgets. This would increase autonomy, improve accountability of service providers, encourage innovation in service provision and, the behavioural science suggests, improve employment outcomes.

3.9. Sanctions and conditionality

3.9.1. The Universal Credit as currently proposed will create an unprecedented increase in conditionality. At present neither tax credits nor housing benefit are subject to any conditionality at all. The conditionality regime envisioned in the Bill imposes work related requirements on virtually all adult claimants, is within a more dictatorial structure and has much stiffer penalties.

3.9.2. All claimants, including both partners in a joint claim, will be placed into one of four groups. A limited number of claimants will be subject to no work related requirements at all, but the vast majority will be subject to some work related requirements. It remains almost entirely unexplained how the decisions will be made on the appropriate group, when claimants might move between groups and what system of reviews and appeals will be in place.

3.9.3. Increasing the financial rewards for claimants to work or increase their work is a positive move. But requiring adult claimants who are already working to work additional hours or find better paid work is an unnecessary and potentially negative move which will increase bureaucracy and spread much more thinly resources for work related programmes of support. It is certainly the case that many claimants may like to benefit from ongoing support once in work to increase their pay and hours, but we believe the Government will have more success, with greater cost efficiency and less bureaucracy, through a voluntary scheme that entitles Universal Credit recipients to continue receiving work-related support once in work.

3.9.4. While CPAG accepts the need for some conditionality in the system, we are unconvinced of the value of severe financial sanctions and concerned at the harm they do to the most vulnerable. DWP research has provided scant evidence of the efficacy of sanctions and indeed there is little research available with methodology that disaggregates the impact of sanctions from support services. However, DWP does have research evidence to suggest that the most vulnerable claimants are the most likely to be sanctioned. We are therefore concerned that there is no provision in the bill to protect the wellbeing of vulnerable claimants and their children from financial sanctions.

3.9.5. As an absolute minimum it needs to be made explicit on the face of the Bill that a sanction can only be applied to the adult standard element and not to any of the other elements which go to make up the Universal Credit.

3.10. Hardship payments

3.10.1. Proposals to make hardship payments loans instead of awards will create subgroups of claimants who remain below the benefit entitlement levels for years. If loans replace hardship payments for claimants who face the maximum proposed sanction of three years, then their sanction will effectively last decades because of the time it will take to repay the loan at below the standard entitlement level. This proposal presents a serious risk to the wellbeing of claimants and their families and disincentives those who are in this situation due to sanctions from re-engaging with the conditions of entitlement.

3.11. Scheme-payers rights to ESA curtailed

3.11.1. People who have paid their National Insurance contributions week after week for perhaps decades are to have removed their full rights to support if they become sick or disabled. Restricting the contribution based employment and support allowance to a maximum of 12 months is arbitrary and unethical behaviour in terms of the Government's stewardship role for a contributory scheme that people have paid into.

3.12. Independent living cuts

3.12.1. The main current benefit that supports independent living for disabled people is Disability Living Allowance (DLA). The bill enables replacement with a personal independence payment (PIP) and the Government has stated its intent to make 20% of savings on the overall cost compared to current DLA expenditure. However DLA is still estimated to be under claimed by about 20% the proportion of people like to be entitled. This represents a major cut to support for independent living. Loss of DLA or the new PIP will not only prevent many disabled people leading independent lives, but runs the risk of preventing some from participating in employment.

3.12.2. The proposals for an entitlement gateway test based on ability to undertake 'specified activities' risk replicating the failings of the current Work Capability Assessment. A more holistic assessment of a person's disability, including an assessment of the disabling impact of their environment, is needed if the PIP is to genuinely serve the agenda of independent living.

3.13. Abolition of Council Tax Benefit

3.13.1. The bill will scrap council tax benefit and allow it to be replaced by a plethora of local schemes, with overall funding reduced by 10%. This will add tremendous complexity and will also mean that many families will no longer receive the same level of rebate.

3.13.2. The transparency of work incentives that the universal credit is intended to provide will be lost because of the complication of needing to account for a claimant's local scheme for council tax rebates. It is beyond comprehension that a decision to localise, and cut funding for, council tax benefit should be tagged onto the bill, undermining the entire logic of the Universal Credit.

3.14. Social fund abolition

3.14.1. The bill allows the social fund (budgeting loans, community care grant and crisis loans) to be scrapped in favour of payments on account and a plethora of locally administered schemes. The fund provides crucial support when a low income household needs a lump sum to help with essential like buying a cooker or replacing a broken boiler, and also provides support when administrative problems within the benefit system generate unexpected gaps in support.

3.14.2. There is a danger that a plethora of local funds could create confusion with people not knowing where to go, or what they are entitled to. Funds will not be ring fenced, local authorities may spend the money elsewhere. With the Social Fund Commissioner being abolished there will be no protection against this. A postcode lottery could appear, with some areas forcing far more families to resort to doorstep lenders in an emergency so that they get caught in spiralling debt.

3.14.3. The future of the social fund is currently being consulted on. It is therefore premature for the Government to put high risk proposals in the bill before formal consultation has been competed.

4. Further concerns CPAG will be taking up at Committee Stage

4.1.1. There are a great many more areas that CPAG will be encouraging committee members to address. This includes probing amendments throughout much of the bill due to the lack of detail provided. It will also include areas such as:

- Ensuring disability premiums are present within the Universal Credit.
- Removing the proposed benefits cap.
- Opposing the use of civil penalties where errors are made.
- Ensuring protection against unreasonable recovery of overpayments.
- Child maintenance and protecting access to a statutory child maintenance scheme.
- Protecting benefit entitlements for 17-18 year olds.
- Protecting benefit entitlements for students (and studying rights for claimants).
- Fair treatment of statutory maternity pay and statutory sickness pay within universal credit.
- Appropriate treatment of carers who will be affected by Universal Credit and adequate support for those who remain outside it.
- Protecting mortgage interest support.
- Ensuring qualifying period for PIP is not longer than 3 months.
- PIP conditions for children.
- Uprating of Local Housing Allowance on RPI, not CPI.
- Preventing extension of Shared Room Rate.
- Safeguards for contracting out.

About CPAG

CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement.

Child Poverty Action Group is a charity registered in England and Wales (registration number 294841) and in Scotland (registration number SC039339), and is a company limited by guarantee, registered in England (registration number 1993854). VAT number: 690 808117

Contact details:

Tim Nichols
Parliamentary Officer

Child Poverty Action Group
94 White Lion Street
London N1 9PF

Phone: 020 7812 5216 or 07816 909302
Email: tnichols@cpag.org.uk

End notes

i This report by the Centre for Social Justice, published as part of their Breakdown/Breakthrough Britain series can be downloaded from can be downloaded from:www.centreforsocialjustice.org.uk