

Scottish Campaign on Welfare Reform

**A Response to the UK Government consultation paper:
21st Century Welfare**

September 2010

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Introduction

The Scottish Campaign on Welfare Reform (SCOWR) is a unique coalition which has been working together since 2006, campaigning for a better welfare benefits system. SCOWR has over 60 members and is made up of over 40 key third sector organisations, faith groups, unions and charities from across Scotland as well as a number of individuals.

In response to UK Governments consultation paper 21st Century Welfare, SCOWR held a special members meeting to discuss in detail, our response. A large number of our members attended, and the following paper outlines our response as a coalition, based on that meeting and earlier policy discussions.

Our members include an extremely diverse group of organisations representing a substantial part of Scottish civic society. All of us have particular areas of concern. This response therefore focuses on the broad policy principles rather than making detailed comments. Many of our members will also be submitting their own responses, focusing in detail on the potential impact that the proposals would have on the groups they represent.

Our members include the following organisations Action for Children Scotland, Archibald Foundation, Capability Scotland, Care Co-ordination Network UK, Carr-Gomm Scotland, Citizens Advice Scotland, CPAG in Scotland, Energy Action Scotland, Faith in Community Scotland, Fife Gingerbread, Glasgow Disability Alliance, Inclusion Scotland, One Parent Families Scotland, Oxfam, Public & Commercial Services Union Scotland, Rosemount Lifelong Learning, Scotland's Commissioner for Children and Young People, Save the Children in Scotland, Scottish Council for Voluntary Organisations, Scottish Federation of Housing Associations, Scottish Trade Union Congress, Scottish Women's Convention, Turning Point Scotland, The Iona Community and The Poverty Alliance.

SCOWR is very pleased to see some of our key policy calls for a better welfare system included in the consultation paper. In particular, we welcome the commitment to simplify the current system and to tackle some of the financial disincentives to moving into work.

However, the wider political and economic context in which these proposals are made gives us very grave cause for concern. The Government has already announced, in the June emergency budget, cuts of 11 billion to welfare benefits expenditure. In a report for the End Child Poverty Coalition, according to the Institute of Fiscal Studies, these cuts will hit the poorest hardest.¹ More recently the Chancellor, George Osborne, has announced a further 4 billion cuts to the welfare budget - to be detailed in the October budget.

Yet to make the positive aspects of these proposals work requires substantial short term investment. Looking to fund the reforms solely from within the current budget is not

¹ *The distributional effect of tax and benefit reforms to be introduced between June 2010 and April 2014: a revised assessment*, IFS. Available at <http://www.ifs.org.uk/publications/5245>

practical without undermining the aims of the reforms, hitting many of the poorest in society hardest and undermining the strengths of our current system. Conversely, investment now could make significant long term improvements to the welfare system and in the long run cut the wider costs of poverty to society as a whole.

Consultation Questions

We will take questions in a slightly revised order to provide more clarity.

5. Has the Government identified the right set of principles to use to guide reform?

Although there are very welcome elements in the proposals, there are fundamental problems with the underlying principles of the approach described.

As with previous welfare reforms, the current proposals are predicated on the underlying assumption that the key to tackling poverty is moving people into work. Whilst there is acceptance that 'work needs to pay', there is no acknowledgment of the need to tackle the rising numbers of people in "in work" poverty or indeed below poverty level benefit rates². The proposals fail to address the wider role of the welfare system in protecting those who are not able to work, or for who the rewards of paid work are insufficient to protect from poverty.

The proposals focus on targeting the behaviour of individual claimants whilst ignoring barriers to employment such as lack of jobs, childcare, employer discrimination and below poverty level wages³. In the current economic climate, when unemployment is at record levels, such an approach is increasingly unrealistic.

At the same time, an immense amount of unpaid work, in caring for young children, for ill and disabled friends and relatives (mainly carried out by women) and socially worthwhile volunteering is not recognised or valued in the proposals.

² A report from Joseph Rowntree Foundation, *Should adult benefit for unemployment now be raised?* shows why an increase in benefit rates is long overdue. Available at <http://www.jrf.org.uk/publications/should-adult-benefit-now-be-raised>

³ A report from the Institute of Public Policy Research, *In-work poverty in the recession* shows that in work poverty forms a rising share of the numbers in poverty. Available at <http://www.ippr.org.uk/publicationsandreports/publication.asp?id=774>

SCOWR agrees that it is time to stop tinkering with the system and make some fundamental changes. We believe that these changes should be underpinned by the following set of principles:

- *Increase benefit rates to a level where no one is left in poverty and all have sufficient income to lead a dignified life*
- *Make respect for human rights and dignity the cornerstone of a new approach to welfare*
- *Radically simplify the welfare system*
- *Invest in the support needed to enable everyone to participate fully in society*
- *Make welfare benefits in Scotland, suitable for Scotland*

We discuss what these mean in terms of practical policy throughout the remainder of this response.

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

As described above, SCOWR does not support the view that welfare policies which are mainly targeted at changing individuals behaviour will necessarily be effective either in moving people into work or reducing poverty. Nor do we support the view that cutting welfare expenditure is either desirable (from the point of view of tackling poverty) or necessary, even during recession. In fact, during a recession when more and more people find themselves out of work, adequate benefits are more important than ever.

Whilst savings could be made in relation to unnecessary complexity and official error, overall there is a need for substantial investment in the short term. However, this would lead to significant savings in the longer term, removing barriers to paid employment and slashing the wider costs of poverty to society including additional spending in other areas such as health and social care.

2. Which aspects of the current benefits and Tax Credits system in particular lead to the widely held view that work does not pay for benefit recipients?

For many claimants, it is not a matter of public perception, but rather a simple fact that moving into work or increasing their hours does not pay, or at least pays so little that the other costs (both financial and wider costs) make it not worth while.

Aspects of the current system which mean that that work doesn't pay include:

- very low levels of income disregards, within means tested benefits, for those working less than 16 hours per week
- high withdrawal rate of benefit tapers

- lack of entitlement to working tax credit for people under 25 (unless they have a disability or children).
- for disabled people, the potential loss of DLA, following a reassessment of their claim when taking up work, often necessitating stressful and time consuming appeals.
- the difficulty and stress involved in making a fresh claim for benefit on the basis of ill health a problem which has been exacerbated by the introduction of ESA.
- for those with young children, the high cost of childcare coupled with the fact that only a proportion of those costs will be met through tax credits.

The above list is not exhaustive and whilst we welcome the proposals to tackle some of the barriers, in particular the low earnings disregards and high marginal participation rates, as discussed elsewhere in our response, such proposals on their own are simply not enough to “make work pay”.

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

Complexity is an important contributing factor because unless people are able to assess the financial impact of the decision to move into (or increasing hours of) work, many will be reluctant to do so - fearing that the financial and other benefits of moving into work could be outweighed by the costs.

Complexity and the lack of investment in the administration of the welfare system also contribute to poor service delivery. Many people find themselves plunged into financial chaos every time they report a change of circumstances and this is clearly a barrier to moving into work or increasing hours.

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

SCOWR recognises that the current system is administratively expensive and that complexity does contribute to fraud and error. However, combining fraud and official error figures is extremely unhelpful to a rational analysis of welfare benefit spending and only contributes to the current demonisation of welfare claimants as scroungers in both the media and mainstream political discourse. In fact current figures put fraud and official error together at 5.2 billion, of which the vast majority – 4.1 billions, is due to official error, showing that most savings in this area would be made through a reduction in official error and not fraud.

We discuss the issue of improving customer service delivery in question 11 below.

6. Would an approach along the lines of the models set out in chapter 3 improve work incentives and hence help the Government to reduce costs and tackle welfare dependency and poverty? Which elements would be most successful? What other approaches should the Government consider?

Again, we disagree with the assumption implied in this question, that cutting welfare expenditure will reduce poverty. Instead we consider whether the different models proposed will reduce barriers to employment, reduce poverty and inequality and meet SCOWR's key principles for a better welfare system.

Simplification

All of the models aim to simplify the current system to varying extents. SCOWR calls for the simplification of the welfare system as one of its key policies. We therefore very much welcome the focus on simplification in the paper.

SCOWR want to see a simplified system, not only because it could help remove some barriers to work and lead to better service delivery for claimants, but also because it could enable people to better understand their rights and entitlements. Very many people currently fail to claim their entitlements and a simpler system would do much to increase take up of the billions of pounds of benefits which go unclaimed every year.

Universal Credits

As part of our proposals for a radical simplification of the current welfare system, SCOWR calls for both the harmonisation of the current tax credits and benefit system and a substantial up rating of the current earnings disregard as a way to remove barriers to employment. Proposals to introduce these measures therefore are very welcome indeed. However, without any details of the rates at which disregards or tapers might be set (or indeed how these might be paid for) it is difficult to comment in detail.

In principle, SCOWR would also support the introduction of a single taper, but only in so far as it is set at such a rate that individuals do not lose out financially (see discussion below) . Any cuts in eligibility would also cut across the intention to tackle the financial barriers to employment and only serve to decrease incentives to work.

This model draws heavily on Dynamic Benefits from the Centre for Social Justice which proposed to means test Disability Living Allowance (DLA). This model does not suggest that DLA is included but it does state that "we will consider the role of additional payments for disability separately" suggesting that means testing may be considered at a later date as a way to fund some of the changes proposed or simply to make savings in the welfare budget.

SCOWR is opposed to any proposals to means test DLA. Rather, as part of our proposals for greater simplification, we are calling for an increase in the proportion of non means tested financial support on the basis that non means tested support is simpler, easier and

less costly to administer and does not suffer the stigma often attached to means-tested support.

Single Unified Taper

A unified taper is probably not essential in terms of making the current system easier to understand – people generally understand the impact of taxation on their earnings. The critical issue in relation to tapers is the rate they are set at, whether they are generous enough and ensuring, at the very least, that individuals do not lose out in any new arrangement.

The paper suggests that one option would be having a taper no higher than 80%. This would mean that for every £1 earned a claimant would keep 20p. According to figures elsewhere in the paper, MDRs vary for individuals from between 60% to nearly 100% depending on their circumstances and for those getting working tax credit or child tax credit only, the current rate is 73%. This shows that an 80 % taper would be a substantial cut in benefit entitlement for many people on very low incomes. It would also reduce financial incentives for those groups to increase their employment.

Single Working Age Benefit

One controversial idea in this model is the abolition of contributory benefits which they argue would pay for more generous provision elsewhere.

Although there are problems with contributory benefits, the proposals in this model to restrict what is (for those who are able to qualify) an ongoing means tested benefit, to a mere 12 weeks would be a major loss of income for many individuals and families.

The 'Mirrlees' model

Whilst the very generous proposed tapers and disregards suggested in this model would certainly be of great benefit to those who can work, the proposals are problematic during a period of high unemployment when even the most generous disregards and tapers will not help those unable to find work. In addition, groups who are furthest away from the labour market (including those facing structural barriers to employment such as a lack of childcare or employer discrimination) would also lose out under such as system.

The IFS calculates that to make the model revenue neutral (i.e. before any savings due to increased labour market participation) would cost £9 billion. This is achieved through a combination of means testing child benefit and the loss of the family element of child tax credit, increasing basic rate of income tax by 1%, increasing National Insurance Contributions (NICs) and cutting basic benefit rates to £50.00 per week. Overall, they conclude that this would still result in a small additional cost to Exchequer.

SCOWR is opposed to any further cuts in basic benefit levels. Current basic levels of benefit entitlement are set at £65.45 per week leaving many claimants struggling to

provide adequate food and clothing for themselves and their families and pay essential bills without falling into chronic debt.

Instead, SCOWR want to see current benefit rates up rated so that no one is left below the poverty line and all claimants have sufficient to live in dignity.

We are also opposed to means testing child benefit which would only serve to undermine the UK Government's commitment to end child poverty, introduce complexity into the system and reduce incentives to move into work.

In addition, increasing the basic rates of taxation and NICs would hit the poorest hardest. In contrast to this approach SCOWR believes that insuring against the risks of ill health, disability or unemployment is something from which everyone benefits and for which we should all, as a society, take collective responsibility for, ensuring that costs are met in a fair and equitable way.

A single benefit/negative income tax

In addition to means testing child benefit and abolishing contributory benefits, this model also abolishes housing benefit or any specific payments linked to housing costs.

SCOWR is opposed to these proposals as, notwithstanding the issues discussed above in relation to the extension of means testing and the cuts in universal benefits, a system which fails to take into account the costs of housing would leave many without adequate resources to maintain payments on their home.

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

No, current conditions placed on claimants are already causing severe hardship. Recent evidence on the impact of the introduction of ESA has demonstrated that increasing conditionality has resulted in some of the most vulnerable and the poorest members of society being hit hardest.⁴

SCOWR wants to see a new approach to welfare – one which places human rights and dignity at its heart. As part of that new approach, SCOWR is calling for, in the short-term, an urgent review of ESA and the changes made to move lone parents off Income Support, with the aim of ensuring that reforms that fail to treat claimants with dignity are rolled back.

SCOWR does not believe that the current regime of conditionality is either necessary or effective. There is a need for support, training and advice to be provided to those who are not in paid work but who could progress into paid work with the right support. However, to be effective, such support must be provided without the treat of benefit sanctions and with the needs of the individual at its heart. In addition, SCOWR is calling for investment across

⁴ A report for Citizens Advice Scotland *Unfit for Purpose*, documents the failings of the new benefit. Available at <http://www.cas.org.uk/unfitforpurpose-scottishcabevidenceonesasa.aspx>

a whole range of areas to enable everyone to participate fully in society, whether that be in paid employment or other areas of unpaid work such as caring or volunteering.

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

Increasing conditions on those who are currently classed as in full time work (i.e. working 16 hours or more per week) fails to recognise the fact that many people work less than 35 hours a week because of caring commitments and other responsibilities.

The paper also states that it aims to strengthen families. However, proposals to introduce additional conditions for those who are currently working part time in order to encourage them to seek full time work, run counter to this aim. Part-time work is a choice made by some to balance work and family life, and increasing conditions for those who still have to rely on benefits, will reduce this choice and place many families, and especially lone parents, under increasing stress.

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

In Scotland greater localism could mean greater autonomy for Scotland, for regions within Scotland, or both. SCOWR wants welfare benefit reform to take account of the different legislative framework in Scotland so that it is integrated with Scottish childcare, education, training and other key devolved areas of responsibility.

SCOWR also calls for benefit and job seeking services to be made more accountable at a local level to services users with the aim of ensuring that all claimants are treated with dignity and receive an excellent service. We believe that it is essential that these principles form the basis of any reforms aimed at to promoting greater localism.

Whilst more local flexibility and autonomy could have benefits, it could also have major problems if badly designed and implemented. In particular, there is a need to ensure that there are robust safeguards in place to maintain an equality of access and entitlement for individuals across regions. Without such safeguards there is a real danger that socio-economic disadvantage and other forms of inequality are made worse on the basis of a post code lottery.

10. The Government is committed to delivering more affordable homes. How could reform best be implemented to ensure providers can continue to deliver the new homes we need and maintain the existing affordable homes?

Whilst SCOWR supports the commitment to ensure the delivery of more affordable homes, housing is not an area of policy which we, as a coalition, are able to comment on in detail. Individual member organisations however, will provide comment where appropriate.

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

As described above, SCOWR want to see benefit and job seeking services accountable at a local level to service users with the aim of ensuring that all claimants are treated with dignity and receive an excellent service.

At the same time there is a real need for localism in the administration of welfare benefits. The current separation, for example between remote call centres, Job Centre Plus frontline staff and decision makers needs to be realigned so that decision making is devolved down to local areas, staff are offered enhanced training and conditions and are given the skills and resources to enable them to provide excellent service to claimants locally.

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