



Chapter 2

Benefit reform

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Summary

A clear message from the consultation on the Green Paper was that the current benefits system is too complex. This complexity can act as a barrier to our customers and our staff. It also fails to reflect the change in focus away from benefits simply being a safety net towards supporting more people back into work.

This chapter sets out how we intend to simplify and improve the benefits system following consultation by:

- exploring models to reform the benefits system, including looking at a single income-replacement benefit for people of working age;
- exploring how we might develop our plans to support carers alongside working towards a simplified benefits system;
- launching a consultation for the reform of Housing Benefit in 2009.

We will create a benefits system fit for the 21st century. It should be simple to understand, well targeted and empowering; and provide clarity and certainty for people making the transition between benefits and work.

Today's benefits system

- 2.1 Our benefits system provides a vital safety net to prevent people falling into poverty. What is too often overlooked, however, is its equally important active and enabling role. Where possible, the benefits system must support people into employment by helping them to gain new skills, update old skills, or simply build their confidence to rejoin the labour market. Failing to provide the necessary support would be a profound waste of human potential.
- 2.2 Successive governments have tinkered with the benefits system to support the needs of specific groups. But while we provided appropriately for broad groups, we have failed to move our focus down to an individual level when it comes to back-to-work support. Too often we expect a level of activity and engagement because someone claims a specific benefit, rather than because it is appropriate for them.

- 2.3 Many people who responded to the consultation on our Green Paper *No one written off: reforming welfare to reward responsibility* told us that the current system is too complex. People commented that our customers are not always aware of their responsibilities or what information they should be providing to us. We know that this complexity can disempower people, restrict choices and act as a barrier to work by blurring the responsibilities that go with benefit rights.
- 2.4 This complexity also hinders our staff and can lead to costly mistakes – costly both to the state and to individuals. In 2005-06, £1.9 billion was overpaid as a result of error within the benefits system. Although this represented only 1.7 per cent of total benefit expenditure, the waste of scarce resources that it represents is unacceptable. We are determined to address this problem and, in January 2007, we published for the first time ever a comprehensive error reduction strategy⁵. That strategy identified the reduction of complexity as a key element in reducing error within the benefits system.

Tomorrow's benefits system

- 2.5 The social security system exists to provide support for those who need it, acting as a safety net when necessary and helping individuals to support themselves. For the benefits system to be effective in achieving its aims it must be sufficiently accessible and clear enough for customers and staff to navigate. Our priorities for the social security system must be to ensure that resources are targeted where they are most needed, to incentivise and enable people to return to work, and to achieve the best value for money. These priorities will inform any work we take forward to look at potential models for a streamlined benefits system of the future.
- 2.6 The current system is too complex. We should not expect our customers to mould themselves to fit the system, nor should our staff waste time and money dealing with badly designed processes. We need to develop a benefits system that enables and empowers individuals to take control of their lives and treats each customer as an individual, with their own varied routes back into employment. This would be a benefits system that doesn't merely catch people, but propels them forwards.
- 2.7 We have already begun to improve the support we offer by moving towards increased use of the telephone so that we can guide people through the claims process. But we accept the need to simplify the benefits system further. In the Green Paper we set out our proposal to look at whether, over the long term, radical simplification is best achieved by introducing a single benefit drawing on the best features of Jobseeker's Allowance, Income Support and the new Employment and Support Allowance.

⁵ Department for Work and Pensions. (2007). *Getting welfare right: Tackling error in the benefits system*. TSO.

- 2.8 We received many supportive responses and have also looked closely at the proposed models for a single benefit put forward by the Institute for Public Policy Research (IPPR), David Freud and others. We remain attracted to the idea of a single working-age benefit and will continue to explore whether, over the longer term, this is the right approach for our aims for the social security system.
- 2.9 Radical simplification should improve things for our customers and our staff and help to shift our customers' focus away from the complex and overlapping structure of benefits towards the journey back to work. A single system of benefits would mean that the claims and payment process could be more easily automated. It would allow us to make much better use of the internet and other methods of self-service. People would not only be able to claim benefits online, they would also be able to track the progress of their claim and notify changes. A system like this would make it easier for people to check whether there was other support that they could receive.
- 2.10 The gains for the Department in terms of administrative savings are obvious. It will enable staff to be moved to where they can actually make a difference, concentrating more on helping people with their journey back into employment and providing support more tailored to individuals rather than pre-determined by the name of their benefit. This approach is echoed by the recommendations of the recently published review of conditionality.⁶
- 2.11 In his Review, Professor Gregg also acknowledged that while the current benefits system could deliver on this aim, the hugely complex and confusing benefit structure would restrict its effectiveness. The Review therefore recommended that we take forward work on a single working-age benefit.

A single system of benefits – the way ahead

- 2.12 We have previously said that major changes to the benefits system have to be made in several stages. This is the only way to ensure safe delivery and minimise disruption for our customers. We have started to lay the foundations of a simplified system of benefits with the introduction of the Employment and Support Allowance and other recent changes. The next natural step towards a simplified system should be the closure of Income Support which would take us to a dual-benefits system based around Jobseeker's Allowance and the Employment and Support Allowance. Those who currently claim Income Support and who do not move onto the Employment and Support Allowance will move to Jobseeker's Allowance.

⁶ Gregg P. (2008). *Realising Potential: A Vision for Personalised Conditionality and Support*. TSO.

- 2.13 Jobseeker's Allowance requires the most activity of all the working-age benefits and is focused on helping people who are work-ready return to employment. We recognise that not everyone claiming Income Support is in a position to look for employment, certainly not straightaway. So for these people we will modify Jobseeker's Allowance to mirror the levels of activity within Income Support. The change in benefit will, therefore, not result in an increased level of required activity.
- 2.14 Those, however, who felt they were in a position to explore a return to work would be able to choose to make use of the increased support available. We will also carry forward the rules on education and training, meaning those people who currently claim Income Support and are studying or in training can continue to do so once they are moved to the modified Jobseeker's Allowance.
- 2.15 Professor Gregg recommended that when we take powers to abolish Income Support and move claimants onto Jobseeker's Allowance the Department should give themselves the legislative framework to deliver the new 'Progression to Work' path (see Chapter 4). We can see the advantage in doing so and will be proposing that legislation is drafted accordingly.

Carers and a simplified system

- 2.16 In the Green Paper we asked for views on whether moving some carers onto Jobseeker's Allowance, with no change in the conditionality placed upon them, would be suitable. Many carers and their representative organisations were very clear that Jobseeker's Allowance was not an appropriate benefit for carers. Respondents explained that carers would not be available for work because of their caring responsibilities – which, although unpaid, were at least as much as those experienced by people in full-time work.
- 2.17 In his review of conditionality, Professor Gregg also said that people entitled to carers' benefits should not be expected to engage in back to work activity, unless they volunteered to do so. We accept that recommendation. We also remain committed to ensuring that the specific needs of carers are recognised within the benefits system. As a result, we have amended our proposal and will not move carers from Income Support until we have a clear and detailed plan setting out how we will reform the benefits system over the longer term. We will, of course, discuss these plans with stakeholders as our work on streamlining the benefits system progresses.

Wider reform of carers' benefits

- 2.18 A number of consultation responses discussed wider issues around carers' benefits, highlighting some of the complexities and obstacles that carers encounter in the current system. The Work and Pensions Select Committee also published a report⁷ about the Department's support for carers, which provided a useful appraisal of the difficulties inherent in the current system.
- 2.19 The current economic climate is challenging and which means it is even more important that we can ensure that support is going to those who need it most. In this context, there is still a need to consider whether existing resources are allocated in the most effective way to support carers.
- 2.20 We agree that we must look carefully at the challenges the benefits system presents to carers, but it would not be right to undertake any review of carers' benefits in isolation. Many of the difficulties that carers experience arise from the interactions between different benefits and interactions with different aspects of the wider welfare system.
- 2.21 As we explained in the recently published Carers Strategy,⁸ we must look carefully at carers' benefits in the context of our wider ambitions for welfare reform. The support that carers provide within families and communities is absolutely crucial. This was made very clear during our work with carers and carers organisations on the Carers Strategy. Carers organisations continue to be at the forefront in championing change for carers and it is vital that we continue to work in close partnership as we look at how the benefits system can best provide the support and recognition that carers need and deserve. We remain committed to doing this and recognise the importance of taking a joined-up approach to looking at the future of carers' benefits – across Department for Work and Pensions and across government.
- 2.22 For example, the Department of Health is currently leading a fundamental review of the care and support system, in partnership with Department for Work and Pensions, to ensure we are equipped to deal with the challenges that an ageing population will present. The findings from this review will be crucial in assessing the role of unpaid carers in a future care and support system.
- 2.23 The needs of carers will be central to our consideration of the future reform of the benefits system. We will ensure that proposals for a future system of support make appropriate provision for carers and fit well with the outcome of the Department of Health review of the care and support system.

⁷ Work and Pensions Committee. (2008). *Valuing and Supporting Carers*, House of Commons.

⁸ Department of Health. (2008). *Carers at the heart of 21st-Century families and communities*. TSO.

Supporting work incentives

- 2.24 In the past, the tax and benefits systems tended to focus on different objectives. The tax system was used principally as a means of raising revenue, while the benefits system addressed individual and family need. But this need not be the case. Both systems can contribute to the same social justice objectives and, in particular could provide means to promote work incentives and tackle poverty.
- 2.25 The Government has reformed the tax and benefits system so it provides improved support for people who cannot work but also stronger incentives to participate and progress in the labour market. While there are genuine difficulties associated with designing a system that balances these two objectives without putting a high burden on the taxpayer, the Government has moved forward on both fronts. These changes underline the fact that, for most people, work is the best route out of poverty while freeing more resources to help those who can not work.
- 2.26 In particular, through the National Minimum Wage and Working Tax Credit the Government has boosted in-work incomes, improved financial incentives to work and tackled poverty among working-age people. For the vast majority of people in work there are now clear financial rewards and many groups previously at a disadvantage in the labour market receive considerably more as a result of increased in-work support.
- 2.27 The Government's system of back to work credits – the In-Work Credit for lone parents and the Return to Work Credits in the Pathways to Work programme – have also delivered greater support to people to provide greater reassurance and support during the first months back in employment. Some 95,000 people have benefited to date from the In-Work Credit and 52,000 from the Return to Work Credits.
- 2.28 However, the rules of the benefits system can, in rare cases, make people better off on benefits than in a job. To provide further re-assurance for people returning to work, we have been piloting a better off in work Credit since October 2008. This ensures that long-term benefit claimants (over 6 months) who move into full-time work will receive at least £25 a week more than they did on out-of-work benefits for the first 26 weeks in employment. If piloting proves successful we will look to extend this approach in 2009.
- 2.29 A number of parties raised the issue of work incentives during their responses to the consultation when responding to the question of a single working-age benefit. Some highlighted specific issues concerning the interaction of the benefits and tax credit systems with others specifically calling for an assessment of how the systems interact with each other.

- 2.30 As the labour market continues to evolve the Government will continue to work to ensure that the tax and benefits systems do not constrain people's motivation to move into, and progress in, work. A key part of this will be our continued effort to ensure that people understand the impact that moving into work would have on their financial situation.

Contribution conditions

- 2.31 The principle that people pay contributions when they are working and receive benefits when they are unable to work has long been at the heart of our welfare system. But at the moment it is possible, for example, to qualify for a lifetime on contributory Employment and Support Allowance or 6 months on contributory Jobseeker's Allowance (which also disregards savings and most other household income) after as little as 12 weeks' work at the National Minimum Wage, or three weeks as a higher-rate taxpayer. We do not believe that this is fair and we said in the Green Paper that we intended to reform the rules to bring Jobseeker's Allowance and the Employment and Support Allowance more into alignment.
- 2.32 This White Paper therefore confirms our intention to take the proposals in the Green Paper forward. From 2010, new Employment and Support Allowance and Jobseeker's Allowance claimants will only qualify for contributory Employment and Support Allowance or Jobseeker's Allowance if they have paid contributions⁹ for a minimum of 26 weeks. Payment of these contributions will need to have taken place in the last two tax years.¹⁰ We will retain the existing protections and exemptions for self-employed people and vulnerable groups.

Housing Benefit Review

- 2.33 Housing Benefit is an income-related benefit which helps over 4 million households with the cost of rented accommodation. Nearly three out of four customers are also on Income Support, income-based Jobseeker's Allowance and Pension Credit. It is a stand-alone benefit, designed and administered separately from other benefits, but there are close and often complicated links with other benefits and credits. Housing Benefit reform is therefore an integral part of any wider reform of the benefits system.

⁹ Certain people on a low income are treated as having paid National Insurance contributions if they earn between the lower earnings limit and the single person's tax threshold.

¹⁰ A tax year is from 6 April to 5 April the following year.

- 2.34 The joint Department for Work and Pensions and HM Treasury internal review of Housing Benefit was announced as part of the Budget 2008 statement. The focus of the review has been on the working-age Housing Benefits system, looking at its effectiveness, particularly in promoting work incentives, efficiency and fairness, and ensuring it represents value for money for the taxpayer.
- 2.35 The Government is concerned about the rising costs of Housing Benefit and is taking steps to improve the scheme's effectiveness. It is our intention that Housing Benefit should provide sufficient support to those receiving it to enable them to afford suitable accommodation. At the same time, we want to avoid creating situations in which people out of work are able to live in accommodation for extended periods which would clearly be out of the reach of working families. We also fully recognise the importance of strong neighbourhoods and mixed communities. We also need to support people who may be put off work because of the removal of a stable benefit income and the need to report changes more frequently. We need to look at ways of making these transitional periods more secure.
- 2.36 We therefore want to see how we can build on the existing reforms we have made to the extended payment regime and see how we can provide stability during the transition into work. We want to consider how we can make the system less responsive to individual changes of circumstances, give people more certainty about receipt of their benefit, and remove any perceived risks associated with administration.
- 2.37 Easing the transition into work, promoting value for money and ensuring the Housing Benefits system is fair to working families not on benefits are the key themes of the review and, in themselves, could mean some radical changes to the current system. We also recognize that the current structure of Housing Benefit is complex so we want to do all we can to drive forward the simplification agenda.
- 2.38 To date this review has been internal. We will launch an external consultation in early 2009. Here we will set out our long term vision for Housing Benefit reform and a potential strategy for achieving our objectives, including value for money. We will also set out any early steps we may need to take.
- 2.39 We also want to build on the successes of the 'In and Out of Work' pilots to make the links between Department for Work and Pensions, HM Revenue and Customs and local authorities seamless, thereby significantly improving customer service and providing better work incentives. The pilots have demonstrated that it is possible to have a fully integrated approach to service delivery so that, when moving in and out of work, customers need only contact one organisation about benefits rather than three. Streamlining the claims process for Department for Work and Pensions benefits, Housing Benefit and tax credits has led to transformed customer service and improved speed of processing. Turning benefits 'on' and 'off' quickly and more effectively is a key enabler to encouraging customers to take the first step into the labour market, particularly to take up short-term work.

- 2.40 We will continue to pursue our promotion of awareness and understanding of Housing Benefit and Council Tax Benefit which we know to be a problem and something that hinders moves into employment. In particular, we want to raise awareness that Housing Benefit can be claimed in work, and improve customer understanding of the way Housing Benefit operates.
- 2.41 We are keen to promote financial inclusion and individual responsibility among customers across all housing sectors. However, we will not be taking forward any compulsory pilots of paying Housing Benefit direct to customers in the social housing sector.

Review of the Social Fund

- 2.42 The Social Fund provides valuable support to help people on a low-income meet the costs of unexpected lump sum expenditure through interest free budgeting loans. In 2007-08 we made around 1.2 million social fund budgeting loans amounting to over £500 million to people getting income related benefits. In addition, 1.4 million crisis loans were made, totalling £121 million, and community care grants amounting to £139 million were made to 247,000 people.
- 2.43 We recognise that access to affordable credit is particularly difficult for the most vulnerable who do not have access to mainstream financial services. Yet that does not mean they do not have a legitimate need for credit to meet sudden and unforeseen costs. We are concerned that the poor tend to pay more in interest costs and want to do more to improve the support we can provide for such people. Ideally, we would like to offer better budgeting advice in a trusting environment over the longer-term, that ultimately supports people to save for spikes in expenditure, either planned or unexpected, rather than having to borrow at short notice.
- 2.44 The Green Paper signalled our intention to consider the scope for the budgeting loans scheme to provide more effective help to allow people to overcome financial exclusion. The feasibility study which was commissioned to look at the practical and financial implications of delivering the Social Fund in partnership with the private and third sectors has now been completed. The detailed findings were published in a report on the Department for Work and Pensions website www.dwp.gov.uk on 25 November.¹¹

¹¹ Department for Work and Pensions. (2008). *The social fund, a new approach*. DWP.

2.45 Following the study, we have announced our intention to move forward with plans to enable third sector organisations, such as Credit Unions and others, to come forward to deliver affordable credit and advice to Social Fund customers in areas where the capacity to do exists. However we do not propose to work with outside partners on the administration of community care grants which provide much needed help to the most vulnerable in our society. More generally we have begun a programme of discussion on the future of the social fund, which centres on plans to work with the third sector to make our service even better, making affordable credit available more widely and providing better financial advice and support in difficult economic times. This complements other Government initiatives to improve access to advice and support on financial issues, including the forthcoming Money Guidance pathfinder in the North West and North East of England.

Conclusion

2.46 Our benefits system for people of working age should make the most effective use of resources to provide security in time of need whilst providing that support in a way that can help them back to work. We will consider whether the complexity of our system, which has developed in a piecemeal fashion over many years, means that it does not always deliver effectively on these goals.

2.47 This Chapter sets out our long-term aim of simplifying and streamlining the system. We are already reducing the present three working age benefits to two by, in time, abolishing Income Support, having first looked carefully at the challenges the benefits system presents to carers. We also propose to consult on change to Housing Benefit: to simplify, improve work incentives and deliver better value for money; and to work with the third sector to better help Social Fund customers. Taken together, this Chapter therefore lays the foundations for major reform.