

## 6 Benefit reform – towards a single system

### Issue

As the welfare reform Green Paper set out, there is a strong case for benefit reform in order to create a simpler, more flexible system – and in the longer term moving towards a single system of working age benefits. Complexity makes it more difficult for claimants to understand their rights and responsibilities, and staff and advisors to offer appropriate source and guidance. It also increases the risk of fraud and error, and can act as a barrier to someone moving into work, or affect incentives to remain on a particular benefit.

However, if fundamental benefit reform was straightforward then it would have been done by now. The system is complicated because its objectives, and their application, are complicated. Broadly I would suggest that there are six objectives for the benefit system for those out of work:

- To provide a **safety net** for people who are out of work temporarily, and a decent minimum income for those who cannot work.
- To show a **clear link** between what the State expects of the individual and what the individual is entitled to in return.
- To **support a return to work** for those who can, in particular by:
  - Ensuring that people are not trapped on benefits;
  - Incentivising and easing the transition to work.
- To be accessible by **the individual** – so that they can easily find out what they are entitled to and get the right amount at the right time, without needless duplication or hand-offs
- To be **efficient** – making the best use of the time of the people who run it and be straightforward enough that computer systems support it properly.
- To be **affordable and sustainable** for the long-term.

The history of the benefit system, from 1948 to today, has inevitably been a series of trade-offs and compromises around these core objectives. It is not possible to achieve all of them absolutely – a comprehensive, affordable, simple system that both lifts people out of poverty and provides strong incentives to move into and progress in work. So, successive Governments have sought to alter, and occasionally to fundamentally rewrite, the balance between objectives according to changing political and public priorities.

The level of complexity of the current system now carries significant penalties. 169 questions are needed to gather information in a straightforward lone parent claim for Income Support. The average time to become established with the right rate is currently running at between 12 and 16 working days, and for more complicated cases it can be much longer.

Many of the obstacles to reforming the structure of the working age benefits have been or are being removed. The recent creation of the DWP's Benefit Simplification Unit, as a dedicated team whose objective is both to simplify the existing system and to deter further complexity, is a welcome development. The structure no longer has to cater for such wide variations in need now that pensioners and children are being provided for through separate mechanisms (pension credit and child tax credit respectively). Employment and Support Allowance will also simplify the structure of benefits for sick and disabled people. This creates an opportunity to look afresh at the system of support for working age adults to ensure that it provides the best balance between competing objectives. Whether the answer is a single benefit system may still be a matter for debate – but that debate should certainly take place.

## Options for reform

This report has considered three broad options for a "single system" of working age benefits:

- as now, different benefits and benefit levels to reflect different circumstances, based on one common rate (the Income Support personal allowance);
- a single benefit with a single rate;
- a single system with two rates – a basic rate and a long-term rate.

There are strengths and weaknesses with each option.

### **Simplification, but maintain distinct benefits**

With the introduction of ESA from 2008 then effectively there will be three main benefits (ESA, JSA and IS) with a common basic rate and additions for work-related activity or certain characteristics (disability or caring).

From 2008 the basic high-level model for a single person would look like:

<p style="text-align: center;"><b>Additional premiums</b></p> <p style="text-align: center;">Currently three disability premiums (two in ESA) and a carer premium</p>
<p style="text-align: center;">After 13 weeks:</p> <p style="text-align: center;"><b>Long-term rate/ Work related activity payment</b></p> <p style="text-align: center;">A higher rate paid in ESA via a work-related activity or support component (replacing the basic disability premium in IS)</p>
<p style="text-align: center;"><b>Basic personal allowance</b></p> <p style="text-align: center;">Payable at £57.45 to all on ESA (main phase), lone parents aged 18+ on IS and others on IS or JSA aged 25+. Lower age-related rates for under 18s/25s in ESA (assessment phase), IS and JSA</p>

This system seeks to provide a comprehensive safety net alongside targeted additional payments for people (and sometimes households) with particular circumstances. This is relatively cost effective for the State, provides stronger financial incentives to return to work for groups closer to the labour market especially for young people and recognises that an individual's circumstances matter – both because they can lead to extra costs and to worse labour market outcomes throughout a lifetime.

But the system is also highly complex – with different benefits for different groups, overlapping benefits, administrative costs and often confusion for the individual. It also does not fully reflect individuals' rights and responsibilities, and there is a risk of creating incentives to move between benefits and away from the labour market. If this system is retained steps should be taken to simplify it, clarify rights and responsibilities and remove perverse incentives as far as possible.

### **One benefit, one rate**

The second option would be to move towards a single benefit that pays at a single rate. It may however be difficult to subsume all the existing premiums in a single rate.

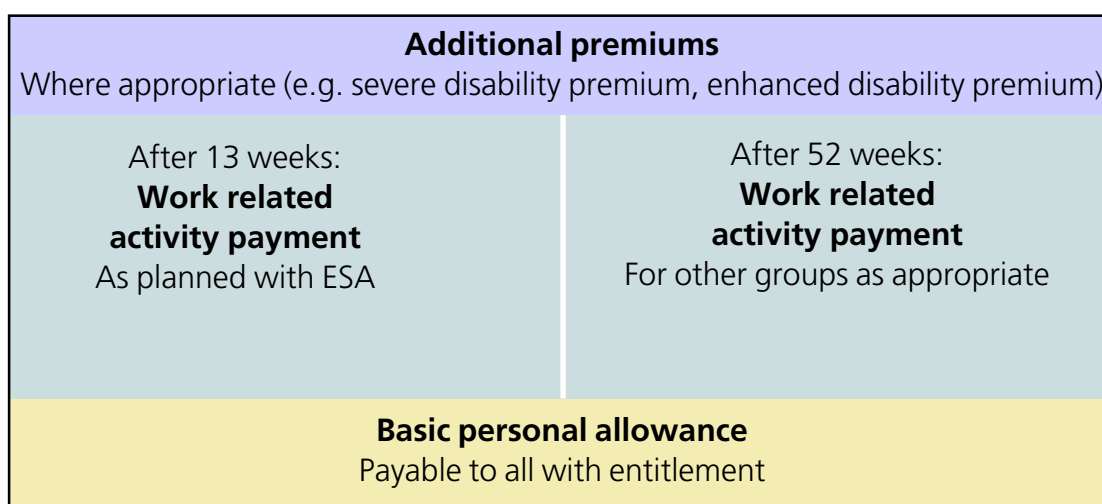
<p style="text-align: center;"><b>Additional premiums</b></p> <p style="text-align: center;">If appropriate (e.g. severe disability premium, enhanced disability premium)</p>
<p style="text-align: center;"><b>Basic personal allowance</b></p> <p style="text-align: center;">Sufficient to cover basic living costs for all current client groups. Removes need for work-related component in ESA, basic disability premium in IS, carer premium.</p>

This would be straightforward for the State and the individual, would send clear messages about entitlement and would remove incentives to move between benefits. It would support poverty objectives and need not create an "unemployment trap", as long as either the benefit is set below 16 hours at National Minimum Wage or is supported by in-work tax credits.

However it could also be very expensive – and, depending on where the benefit rate was set, have significant costs in terms of the adverse impact on work incentives. If, for example, the effect was to increase the average duration on JSA by just five days, the additional cost would be in the region of £200 million a year.

### A basic rate and a long-term rate

The third option would be somewhere between the status quo and a single benefit with a single rate. Under this model there would be a common short-term rate (as with the current IS personal allowance) with an additional common long-term rate. This long-term rate could start after 13 weeks for people who meet the PCA (as is planned for the ESA) and after 12 months for others (JSA, lone parents and carers). Again there may be a need for additional support for some people.



The fundamental difference with the current system is that it would increase benefits for people on JSA and IS for more than a year. There is a justification for this, in that the costs of being long-term workless will be higher than in the short-term. A long-term/short-term rate would also support poverty objectives (the biggest gainers would be long-term workless lone parents) and better maintain the incentive to work than a single rate (for people on JSA over 90% flow off by 12 months). It would also be consistent with my other recommendations by linking the extra payment to extra work-related activity.

However the adverse work incentive impact could still be significant. Financial work incentives for lone parents tend to be weaker than for most people, and this would weaken them further. The perverse incentive would be to remain out of work once one was through the twelve month hurdle, an effect that could only be partially mitigated by linking rules. (Again, there has not been any detailed work on the potential impacts; more is needed.)

## Costs and benefits

The fit with the high-level objectives, and the potential costs, are set out below.

**Table 10 High-level objectives and the potential costs**

	<b>Current system</b>	<b>Single system, single rate</b>	<b>Single system, two rates</b>
<b>Safety net and income</b>	Universal safety net, extra payments focused on those unlikely to work, through premiums and tax credits.	Universal safety net with common level that is same or higher for all (or higher for some and lower for others)	Universal safety net, using duration on benefit as proxy for additional support.
<b>Link between rights and responsibilities</b>	Clear for JSA and ESA, less clear for lone parents and unclear for current IB.	Could weaken link, but depends on conditionality regime	May be clearer for all – with extra payment based on extra responsibility
<b>Support return to work</b>	Very strong for JSA and ESA, relatively strong for lone parents, less so for IB. Some financial incentive to move between benefits.	Would weaken incentives for many or most, particularly short-term JSA. But no incentive to move between benefits.	Some weakening for JSA, more significant impact likely for lone parents. Could mitigate through link with responsibilities. Less incentive to move between benefits.
<b>Individual focus</b>	Complexity increases processing times and increases uncertainty/confusion.	Could be highly simple – initial payment could be set up with minimal checks.	Some simplification but fundamentals likely to be very similar to now.
<b>Efficiency</b>	Relatively inefficient	Could maximise efficiency	May be an improvement on current design.

Alongside these high-level design issues, I have also considered the case for individualisation and for simplification.

## Individualisation

In order to deliver increased conditionality for partners (as set out in Part 5) the Government will need to introduce some individualisation within the benefits system. There are broadly two options – to individualise the current “household” benefit rates, or to introduce increased mandatory activity for the partner of the primary claimant without fundamentally changing the benefit.

Complete individualisation is attractive. The current household personal allowance (£90.10 plus premiums) could be notionally “split” between both claimants and any additional premiums given separately (at the single rate). Each member of the couple would then have rights and responsibilities that are consistent with the treatment of single claimants and appropriate to their circumstances.

However although this may be highly logical it would bring with it costs and complexity, and may give some partners greater incentives to inactivity. The second option, to maintain “household” benefits but to apply additional conditionality to the partner as well, may achieve the same result. This would also be broadly consistent with JSA “joint claims” and with the ESA legislation.

### **Simplification**

Within all these models there would be opportunities to simplify the benefit rules to produce greater clarity and certainty for the individual claimant and to improve the efficiency of administration. Complexity arises not just from the structure of benefit rates but also from, for example, differences in eligibility criteria, rules on earnings, income and capital, links and dependencies between different benefits and the way changes of circumstance are handled.

Simplification is often not cost-free and individual measures need to be considered on their merits. But the Department’s existing programme of simplification is very much on the right lines in seeking to:

- increase consistency and coherence by standardising where possible;
- keep to a minimum information requirements and the number of administrative steps needed to operate a process;
- ensure policies and procedures are easily explained and make sense to claimants and staff.

#### **The Local Housing Allowance**

The Local Housing Allowance is a radical simplification of the Housing Benefit rules for the Private Rented Sector. Claimants’ maximum housing benefit will be based on flat rate according to the number and mix of occupiers, and the area, rather than tied to the actual dwelling they live in. Claimants can therefore see in advance, subject to income and non-dependant deductions, what their likely Housing Benefit will be. The Local Housing Allowance is already operating in 18 local authorities, of which the 9 ‘pathfinders’ have been subject to a comprehensive evaluation. It is anticipated that Local Housing Allowance will rollout nationally in April 2008.

In the pathfinders, the transparency of the Local Housing Allowance is reported to make discussions about work between advisers and claimants easier. The Local Housing Allowance also helps clients to become more work ready. Under the Local Housing Allowance, Housing Benefit is paid straight to the customer in most cases, rather than to the landlord, which helps prepare them for receiving a wage, as they would have to do when in work.

## Housing Benefit and Council Tax Benefit

The proposals in this chapter are mainly about reforming out of work benefits. But there is also a case for much closer integration of the tax and benefits system as a whole and in particular for simplifying the way that benefits paid by Jobcentre Plus and those paid by local authorities (Housing Benefit and Council Tax Benefit) work together. There are two parts to this:

- ensuring that as far as possible the rules are aligned and do not damage incentives to enter work;
- ensuring that claimants have one point of contact.

In the shorter term, the most significant issues appear to be around information and perceptions of returns from work:

- Awareness of entitlement to Housing Benefit in work is relatively low. Recent DWP research found that “Customers ... generally had little knowledge of being able to receive HB/CTB in work ... their understanding of HB/CTB was very limited and often confused and contradictory.”<sup>65</sup> This means that many people may underestimate the positive impact of employment.
- Duplication and hand-offs (with different benefits paid by Jobcentre Plus, HMRC and their local authority) can act as a barrier to trying a return to work.
- In some cases it can take several weeks for payments to begin when someone starts work or to stop when they leave – creating concerns about their income during the transition.

Therefore more integrated delivery of benefits and transfers could make a major difference to employment outcomes. This is explored in more detail in Part 7, on the role of Jobcentre Plus.

## Recommendation

None of the options described above is straightforward and all would create winners and losers. Debate on further reform needs to be informed by detailed modelling on the impacts of reform on work incentives, the costs and benefits (for individuals, the Exchequer and society) and take into account the interactions between all out-of-work and in-work support. This should call on existing expertise in academia, think-tanks and the private sector.

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<sup>65</sup> Housing Benefit and Council Tax Benefit as in-work benefits; claimants’ and advisors’ knowledge, attitudes and experiences, by Caroline Turley and Andrew Thomas. DWP Research Report No. 383, September 2006.