Values Into Action Response to Government White Paper

On 8th November 2011, Sheffield Hallum University produced a report regarding the UK Welfare Reforms that shows that Scottish people will be amongst the hardest hit by the proposals. Statistics drawn from the report are as follows:-

- There are currently 300,000 people in Scotland claiming incapacity benefit
- As a result of the proposed reforms 65,000 could lose their benefit completely
- A further 36,000 are likely to be moved to Job Seekers Allowance

The report goes on to say that the loss of entitlement is entirely the result of new benefit rules. It does not necessarily indicate that the health problems or disabilities that previously gave entitlement are anything other than genuine.

Key questions:-

- Will any extra support be offered to parents of disabled children? Because of the extra costs of childcare they face, they will be particularly badly affected by the amount of childcare covered. Unless extra safeguards are put into the system, our modelling demonstrates a very significant drop in income
- What criteria will be used to determine entitlement to the disability disregard? If the criteria are the same as those for entitlement to the disability element of WTC, many fewer people will be eligible, as the benefits which passport this help are being radically changed.
- Will Universal Credit include any extra support for people with a disability, apart from that mentioned in the White Paper? (ie the disability disregards and - we assume - the work-related or support component for those who satisfy the WCA). If not, then our modelling suggests that several groups of disabled people will be worse-off than under the present system
- What support will be available for carers? Will those eligible for carers allowance be able to earn more than the present limit and still claim and receive a carers premium?
- Is it right or fair that Universal Credit will only be processed at the rate of the slowest element? Can an interim payment be paid and topped up when all elements are in place?
- What provision will be made for those who can’t apply for the Universal Credit online? Many people don’t own a computer or wouldn’t be able to complete the form online.

Simplicity
This is a worthy goal and easy to ‘sell’ to the public, media and politicians but it is difficult to see how it can be achieved where entitlement continues to be based on the application of hundreds of rules relating to a claimant’s income and capital, housing costs, disabilities, family circumstances, and capacity and availability for work, all of which are subject to frequent changes of
circumstances and all of which will presumably be transplanted from the current ‘out of work benefits’ into Universal credit. There will, of course, be some ‘streamlining’, and having one benefit which can be paid in and out of work, without any ‘hours rules’, is likely to ease the transition. It appears, however, that most of the detailed rules of entitlement to current means-tested benefits will continue, and, as the introduction of ESA illustrates, the amalgamation of different benefits under one name does not necessarily result in ‘simplification’. Also, despite its name, the Universal credit will not encompass a range of non-means-tested benefits which will continue to have their own rules and to interact with the new benefit in complex ways.

The new system will also, inevitably, create new areas of complexity. ‘Transitional protection’ rules are always complex and will make the calculation of entitlement and losses when taking up employment difficult for a number of years. The transition period will require the transfer of millions of claimants to the new benefit and the administration of old and new systems. Establishing a choice for working pensioners to claim Universal credit rather than Pension credit will create new ‘better-off’ issues. The proposed ‘earnings disregard’, rules with maximum and ‘floor’ allowances look complicated and likely to compromise the aim of simple and transparent ‘better-off’ calculations for claimants considering employment. Introducing a means-test for all claimants seeking access to health benefits and free school meals will result in more form filling and bureaucracy.

**Work incentives**

Much is predicated on the proposal for a single taper rate of 65%. It is difficult to assess the likely impact of this in the light of the scanty analysis presented in the White Paper, but it appears a 65% taper rate actually represents little if any improvement on the current system for the majority of claimants, particularly when the effects of the withdrawal of council tax benefit and other benefits are factored in. Although it appears that marginal deduction rates of over 90% will be eliminated, this will only affect a small minority of claimants, while the number of claimants subject to marginal deduction rates of less than 60% will decrease.

There also appears to be no evidence that allowing claimants to keep 35 pence of every £1 of earnings will act as significant work incentive and no analysis of the influence of low pay, poor conditions of employment, lack and costs of child care provision, transport costs and, crucially, the regional labour market, as work disincentives. The proposed earnings disregard scheme with provision for reductions to disregard floors is less generous and more complex than appears and there will be no disregards at all for single claimants, while a new threshold for eligibility for health benefits may set up a new ‘cliff-edge’ poverty trap.

**Cuts in entitlement**

There is concern that ‘simplification’ and enhancement of work incentives will be achieved by cuts in out-of-work benefits (in the latter case by increasing the differential between benefits and low pay). There is little detail in the White Paper about benefit rates, although it is stated that these will ‘generally be the same as under the current system’ for people not in work, and that those in
the bottom income decile (i.e. bottom 10% of income distribution) will see their income increase by around £2.40 per week, those in decile 2 (i.e. the next lowest 10%) will gain by £3.60 per week, and those deciles 7-10 will experience small losses of less than £1 per week.

There are worrying indications, however, of possible cuts in particular areas of provision including:

- the application of capital limits for help with payments in respect of children (there are currently no limits for tax credits);
- ‘simplification’ of the current provision of disability premiums;
- ‘changes’ in the calculation of help with mortgage costs;
- the absence of proposals relating to childcare costs and the possible replacement of payments by vouchers or discounts;
- a ‘review’ of carer’s allowance and support for carers within universal credit;
- the ‘localisation’ of council tax rebate schemes;
- ‘reform’ of the social fund which appears to include the abolition of DWP crisis loans, community care grants and most budgeting loans.

All this must also be seen against the background of the £18 billion of cuts announced in the June Budget and October Spending Review, some of which appear to be directly contradictory to the principles behind the universal credit (e.g. the increase in tax credit taper rates, the more stringent WTC hours rules for couples, and the reduction in maximum childcare payments). The ‘benefits cap’, which is to be carried forward into the universal credit, appears to be arbitrary and unfair. The White Paper also confirms the further erosion of contributory benefits by time limiting contributory ESA and there is also a worrying reference to ‘simplifying’ support for those who qualify for ESA in youth. The reform of DLA is likely to see many fewer claimants qualify, pushing more disabled people into reliance on means-tested support.

Administration
The proposed reliance on computers and IT to deliver and administer the universal credit is risky given the poor record of large-scale Government IT projects. There are also concerns that significant numbers of vulnerable claimants will be unable to use the internet to initiate and manage their claims and will receive a second class service from reduced numbers of DWP staff. If something goes wrong with a claim or award, a claimant could be left without money for living expenses and housing costs for lengthy periods, while a move to monthly payments could also cause hardship and difficulty for some claimants.

Many of the problems with the current system stem from administration. Staff training is a key issue and if the Universal Credit is to succeed it is vital that appropriate investment is made in staff training to ensure timely and accurate benefit decisions.

Conditionality
There are concerns that some of the most vulnerable claimants, including those with ongoing mental health problems, could be subject to repeated
sanctions for failing to conform with the demands of the system, and that personal advisers will have too much power and discretion to impose unreasonable requirements on claimants. It is also noteworthy that increased conditionality is expected ‘in return’ for the guarantee that the universal credit will make work pay, but that it is to be imposed several years before that guarantee is implemented. Bringing together all existing means tested benefits also means bringing together multiple rules for conditionality. A problem with the current system is that whilst ESA has more limited conditionality and JSA more extensive conditionality there is no recognition that many people on JSA would actually benefit from a less aggressive conditionality regime and a more supportive approach to helping them move into work. As the Universal Credit is developed it is important that conditionality is developed appropriate to each claimant and flexible enough to ensure the wide range of individuals accessing the Universal Credit are each supported appropriately.

**Contribution-based v income-based benefits**

The Universal Credit is designed for claimants on a low income with the current intention that contribution-based benefits should be administered separately. However, many individuals claim both contribution and income-based Employment and Support Allowance (ESA) or Jobseeker’s Allowance (JSA) and it is vital that the new system works for those with entitlement to both strands of the benefit.

It is also important to consider the impact separating support for people on contribution and income-based benefits has on work incentives. Contribution-based JSA is already time limited, and it is possible that further reforms to ESA result in contribution-based ESA also becoming time limited. With the focus of Universal Credit on supporting and encouraging people to move towards work, it sends a negative message if working and accruing National Insurance contributions and capital then means you receive less financial support if you lose your job.

**Means testing**

With the Universal Credit based on household income how this income is measured will be vital in ensuring the benefit is fair. For example, currently parents caring for a disabled adult child whom they live with, unless they themselves are disabled, have non-dependent deductions made from their Housing Benefit. As the Universal Credit is developed it provides the opportunity to address idiosyncrasies like this that exist within the current system and ensure the needs of the household as a whole are taken into account.

**Marginal Deduction Rate**

The rate at which benefit is withdrawn is the most important element within the Universal Credit. Given large numbers of people already face Marginal Deduction Rates (MDR) comparable to those currently being proposed (although the complexity of the system means many will be unaware of their MDR) we would urge the Government to run targeted trials of the Universal Credit to try and determine the impact of different taper rates.

**Interaction between Basic Allowance and Additional Amounts**
When setting the taper it is important that it is clear how this will interact with Additional Amounts paid on top of the Basic Allowance. Will extra payments made on the grounds of disability, or support with housing costs, count as income when determining the earnings disregard or will the taper apply to the entire amount an individual receives?

**Earnings Disregard**

21st Century Welfare recognises that it will be appropriate for some groups to have a larger earnings disregard before the taper begins than others. To reflect the additional work related costs associated with disability (for example, more expensive transport costs) disabled people should receive a larger earnings disregard than non disabled claimants.

**Minimum Wage**

Increases in the minimum wage and benefit uprating currently take place at different points in the year. This causes difficulty for all claimants carrying out permitted work who find they need to reduce their hours in order to accommodate the minimum wage increase. With the Universal Credit intended to increase labour market participation at all stages of a benefit claim, it is vital that it dove tails with the Minimum Wage.

**Financial impact of changes**

It would be useful to see calculations of the impact of the introduction of the Universal Credit on those ESA claimants working exactly 16 hours a week who are currently predicted to be left financially worse off. Is there a commitment to ensure no one is left financially worse off by the introduction of the Universal Credit includes current additions such as the Enhanced Disability Premium and the Severe Disability Premium?

**Housing costs**

The use of Additional Amounts helps the benefit reflect the differing reasons why an individual may require support from the Universal Credit. One problem with Housing Benefit is it currently fails to reflect the reasons why an individual may need support with their housing costs. Disabled people face additional housing costs for reasons ranging from access needs (such as ground floor accommodation) to needing to be near informal support networks. These additional costs are part of the reason why many disabled people require the support offered by Housing Benefit and the introduction of the Universal Credit provides an opportunity to recognise these additional disability related costs within the benefits system. The Government should consider including a disability housing premium as an Additional Amount within the Universal Credit.