Response to the Department for Work and Pensions (2010)

21st Century Welfare, Cm 7913

Submission by the Joseph Rowntree Foundation

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The Joseph Rowntree Foundation is one of the largest social policy research and development charities in the UK. For over a century we have been engaged with searching out the causes of social problems, investigating solutions and seeking to influence those who can make changes. JRF's purpose is to understand the root causes of social problems, to identify ways of overcoming them, and to show how social needs can be met in practice.

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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?

‘Aspects’ of the system could be split into two main headings of problems in perceived work incentives that are: (1) issues of design and (2) operational. But in doing so it is important to remember that there are systemic reasons too, for instance that people tend to view things as a ‘system’ and expect ‘the government’ to be rational and ‘joined up’.

Design

Frequent reform of policy design immediately leads to one kind of ‘information problem’, the capacity of the population to update its perceptions to keep pace with policy change. A technocratic approach to getting ‘design’ right tends to ignore the real problems of people keeping pace with (i) knowing about, (ii) understanding changes in design and (iii) adapting their preferences or behaviour to take account of the change. Talk to people on the ground and you still hear many cases of ‘information lag’ – this is most common with the ‘nomenclature’ with ‘DSS’, ‘DHSS’ used to describe ‘the social’, but also clearly affects people’s understanding of what has changed and its potential effects. This is an important point because the policy cycle gets shorter and shorter over time as both ministers and civil servants increasingly lay great stock on (and are rewarded for) short-term policy wins, of changing legislation and in implementing it. This feeds a demand for ‘policy tweaking’ based on ministerial and civil service rewards (primarily career advancement), resulting in many policy changes that are technically ‘clever’ but that lack sufficient common sense when looked at together. Indeed, it is possible to characterise much of the 1997–2010 period in that light. If the Coalition Government see themselves as having a five-year remit, then policy change must work on that timescale and not have an annual series of tweaks that maximise information lag and increase complexity purely by having many changes to consider in turn.

Complexity is key. And much has already been rightly said about the current levels of complexity and its obvious effect on information problems for the population, but the issue needs unpicking to accurately understand the effects on perceived work incentives.

First, part of the problem of complexity is that components of the system are simply not clearly defined and thus cannot be understood by people on the ground. A clear example of this is the use of ‘disregards’ of income. There is no clarification in the current system (nor in the Green Paper, nor underlying Opposition policy papers) about what disregards are for. Are they to reflect the out-of-pocket expenses of having a job, or are they a ‘reward’? *If you say it is the latter but it is not sufficient to meet the former you undermine all credibility in* perceived *work incentives*. Given that employment opportunities may be significant distances from the deprived areas in which large concentrations of workless people live, it is crucial that work incentives are framed to ensure that the direct associated cash costs of job search, job entry and retention are kept as distinct ‘disregards’ and not subsumed into general ‘rewards’ for employment.

Second, it is important to realise that ‘perceived’ problems of work incentives often reflect empirical reality and are not inherently irrational or mistaken in all cases. Often policy-makers and commentators apply the average population’s perceptions of risk to situations at the bottom end of the labour market where risks are different. Perceptions of risk based on the ‘average’ experience or on those for a qualified worker returning to well-paid work in the corporate or public sector are neither empirically correct nor appropriate. Yes, low-skilled and workless populations are generally ‘risk adverse’ but often (although not always) correctly so. This means that commenting on the perceived work incentives for this group has to take into account both their own characteristics and the characteristics of the lower end of the labour market. Any policy design that relies solely on overcoming risk aversion at the individual level will often fail (even if it applies appropriate factors that match that population’s risk aversion). Inherent complexity is a characteristic of the non-standard and lowest end of the labour market, for instance, non-standard contracts that offer days, hours or work at non-fixed and irregular times, contracts that have a ‘zero-hours’ basis. This means that people will try and fit ‘reality’ of the lower end of the job market to the fixed design of benefit work incentives and correctly find a huge disconnect. A complex system for both regular and ‘complex’ employment suffers worst in its perception of the riskiest type of job.

But while the whole emphasis of policy is on ‘transition’ (of the event of job entry), then the perceived risks of this event correctly see changing status to enter low-paid work as a complex affair with many real risks. There is therefore a current problem in the perception of making work pay because policy sees work incentives primarily as based on trade-offs relating to income differences (usually and hopefully the gains to income from work) and is not sufficiently geared towards risk smoothing and mitigation.

Fourth, complexity and associated information costs lead to poor take-up. This is especially so for in-work benefits (e.g. 29 per cent take-up rates of Working Tax Credit for low-paid workers with no children in 2007/08: HMRC, 2009; and 38–51 per cent take-up of Housing Benefits for those in employment in 2008/09: DWP, 2010). Failure to take up in-work benefits changes the incentive to work by lowering the gains of being in work. For instance, people largely do not perceive Housing Benefit as an in-work benefit and this false perception directly worsens perceived work incentives.

Fifth, the effects of complexity on transaction costs (on the time, money and effort needed to interface with the system) have been well documented and commented on and are a large part of the Green Paper. This has a great effect on perceptions but it is worth distinguishing between two effects: (a) as a direct ‘information’ problem, where complexity makes the situation far more opaque than is required; and (b) as a cost problem, that the gains from work have to be considered alongside costs of getting everything in place to adjust to that event.

Moving from issues of complexity, there is a perceived problem in the ability and motivation of programmes that ‘make work pay’. This is part of a loss of trust in the capacity and motivation of government to intervene effectively at all, let alone match programmes to individual circumstances and constraints. Increasing rhetorical levels of political commentary about fecklessness and fraud alongside a widening relative gap in living standards mean that there is a tendency to perceive the system as ‘us versus them’. As relative benefit standards have declined and greater difficulties have been put in the way of getting entitlement to a system that only pays £65 a week for an adult’s needs (equivalent to an evening’s ‘cash in hand’ work in a pub, or a day’s ‘totting’ of scrap metal), then more people have turned their back on formal systems of ‘making work pay’ through benefits and employment services. One of the unintended consequences of more conditional and less generous benefits systems that are designed to make work pay is the perception that they are ‘not for me’ and people opt out to so-called ‘unknown destinations’ in the benefit records. In the US, over one-fifth of lone parents have become what Becky Blank describes as ‘disconnected’ following ‘welfare reform’, and Copisarow and Barbour (2004) describe similar effects on a smaller and less structural scale in the UK. The perceptions of ‘work paying’ have to be considered alongside the perceptions of informal work ‘paying more’ with less hassle.

Operational

What people face is a fairly rigid set of Jobcentre Plus programmes, with targets and performance indicators largely dictating what can be offered and when. Individualisation and flexibility are touted as ways of working better, but the system is mostly perceived as unforgiving by those who get routinised services. When access to more individualised services are provided then often their capacity to respond to what are seen as ‘holistic’ solutions is restricted by rigid budgeting. Alongside these services is a range of other services that are much less rigid (through European Social Fund and local funding) or that are set up to provide flexible solutions (such as Employment Zones and providers paid on results). For flexibility to work, it must be mainstream, but it is not, and thus many perceive individual flexibility and responsiveness as unobtainable.

The system has not been able to deliver improved skills training effectively. This leads to a perception that the system just deals with poor quality job matching and thus is not really interested in making ‘a career’ pay – just the marginal job.

The system churns many people into repeated low-paid episodes, again giving the perception that work doesn’t pay in anything other than at the immediate margins of low-paid unstable work for many.
Martin Evans, Department of Social Policy and Social Work, University of Oxford

It is not just aspects of the system, it is awareness of the system and how people respond to the system that lead to views on whether work pays.

There is a large range of different in-work financial support available for certain groups of benefit recipients to make work pay (such as the different elements of Working Tax Credit, In Work Credit, Return to Work Credit, Better Off In Work Credit, Self Employment Credit and the In Work Emergency Discretion Fund). This complexity makes it difficult to communicate a clear message to benefit recipients and means that *some are not aware of the in-work financial support they are entitled to, which could 'make work pay' for them* (Sims *et al*., 2010: forthcoming).

Fear of the transition into work also leads to some benefit recipients feeling that work does not pay (Bell *et al*., 2005). There is a large amount of support available when making the transition from benefits into work, including benefit run-ons and job grants. Recent research with lone parents (Casebourne *et al*., 2010: forthcoming) has found that it was rare for lone parents who had moved into work to have experienced financial trouble with the transition, although they may experience problems with repeated moves in and out of work (Goulden, 2010). However, *perceptions often differ from reality and are based on their past problems with the system* (e.g. Tax Credit overpayments). This means that when work incentives are changed it is unrealistic to expect benefit recipients to immediately respond to changed incentives. Problems with the transition are also still experienced, particularly in relation to delays in processing in-work Housing Benefit claims (Finn *et al*., 2008).

Recent research has also shown that the *fear of what will happen if they return to benefits* reflects the fact that the transition back onto benefits when employment ends is often far less smooth than the transition from benefits into work, and can lead to people getting into debt (Finn *et al*., 2008; Casebourne *et al*., 2010: forthcoming; Sims *et al*., 2010: forthcoming).

It is not just a perception that the rewards from working are small – *the reality for many lone parents who move into work is that they are only marginally better off* after the extra costs associated with work are taken into account (Casebourne *et al*., 2010: forthcoming). These include work-associated costs such as travel

to work, lunches, work clothing and contributions to childcare, alongside the loss of ‘passported’ benefits such as free school meals and prescriptions. This means that improving the earnings, hours and chances of progression in available jobs needs to be a key part of the solution.
Jo Casebourne, Inclusion

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?

While structural reform is necessary, the most important question is: would such reform be sufficient to make the system more effective in combating poverty and increasing opportunities to increase employment and thus increasing more general measures of well-being such as health (especially mental health) and educational and training opportunity?

The question suggests improvements in effectiveness of 'customer service' alongside improvements in organisational and operational efficiency. At the moment it is difficult to comment in general about what level of such gains would be obtained from which form of structural reform, but there are some obvious trade-offs to be made and clear dangers of new 'externalities' (unintended consequences) being created by some of the proposed structural reforms.

Real time income assessment and review

One of the main proposals discussed in the Green Paper is a 'real time' alignment of income assessment. A worry is that such a reform fulfils the naive short-term concerns of accountants to reduce the levels of over and underpayment and fraud at the expense of improved effective work incentives. If a major concern of reform to improve opportunity is about getting the sums right in terms of short-horizon book keeping then the underlying questions of such an approach become very serious indeed. This has a danger of being a technocratic 'solution-orientated' approach without seeing a much wider picture of economy and effectiveness.

One of the major problems of such an approach would be on the effectiveness of work incentives. Low-paid work has short time horizons and is unstable, with inconsistent remuneration. Research for HM Revenue and Customs (HMRC) by Hills, Smithies and McKnight (2005) clearly showed that low incomes fluctuate greatly and it is crucial that this is appreciated as a characteristic of the labour market that should determine how to frame work incentives that are effective. More crucially, one of the main elements of designing good work incentives is to allow for fixed periods of award that are not immediately revised to reflect fluctuations in income. To quote Barr, the standard textbook on welfare economics, this approach improves the effectiveness of transfers on poverty reduction and improves labour supply incentives and is also administratively efficient because ‘fixed period awards cushion the impact of high rates of withdrawal, while avoiding the high expenditure that would be involved in substantially reducing them’ (Barr, 2004, p. 226).

But the effectiveness gains of not immediately readjusting income to balance the books are also about customer orientation and service because low-paid workers’ *perceptions* of the underlying deduction rate of benefits (and thus of work incentives) improve because their time preferences are high due both to their low income and because any increase in earnings is likely to be temporary.

The operational efficiency of ‘live’ readjustment is also to be doubted. Each change requires documentation and potentially leads to a huge level of administration that cannot be entirely computerised. To have weekly reconciliations would hardly be likely to reduce administrative costs but to move to a monthly system would be to move away from weekly payments of wages that are still common to many low-paid people that are at the heart of welfare reform.

Unification of benefit components

Turning to the advantages of a single unified benefit (whether this is universal credit, NIT, working-age benefit or Mirrlees-type reform) then they are clear in terms of information and transaction costs for the claimant. Having a single unified assessment will reduce costs of administration that are currently spread across Department for Work and Pensions (DWP) agencies, HMRC and local authorities. However, DWP and HMRC also provide other benefits or collect taxes, and thus having systems in place that look at income and maintaining their operational role would enable benefit systems to make gains from economies of scale from being co-located. The main gain in reduction in operational players from a unified benefit appears to be to remove local authorities who currently operate Housing Benefit and Council Tax Benefit. Transfer and unification of these benefits to local authorities in 1982 was done on similar arguments about administrative savings that have been poorly realised. The important issues here are: (a) the consequent rise in administrative costs for those revenue-raising departments in local authorities (mainly Council Tax) that currently operate through a direct rebate system; and (b) that administrative gains by removing local authorities runs counter to the expressed desire in the Coalition Government to consider 'localism' of some sort in the design or operation of a benefit system.

It is impossible to discuss how far unification would improve efficiency and effectiveness without a clearly costed range of alternatives that considers both the impact of changes on the household population and the underlying changes to organisational costs and benefits. Given that each of the forms of unification discussed in the Green Paper have been put forward without direct consistent comparison, it is clear that such a synthesising comparison of options is required as the next stage in consideration of reform.
Martin Evans, Department of Social Policy and Social Work, University of Oxford

Large-scale structural reform is needed alongside key non-structural reforms. Research into problems with tax and benefits for the Joseph Rowntree Foundation (JRF) found a number of problems with the current system (Finn *et al*., 2008). It identified three categories of delivery problem – *administrative errors*, *failure to meet agreed service standards* and *problems with the design of the system* (the type that would require structural change).

The kind of problems impacting on service delivery included poor information provision and written communications; lost documentation and benefit payment delays; problems with ICT systems; the reduced options available for face-to-face contact to discuss and apply for benefits; payments into bank accounts; and Tax Credit overpayments. Many problems had arisen due to a change of circumstances that was incorrectly dealt with, and this made people unwilling to change their circumstances again.

Interviewees who experienced multiple problems with obtaining payments commented on the stress and frustration they experienced in their attempts to rectify erroneous decisions often, from their perspective, caused by poor service delivery. *Poor* *service delivery can have more serious consequences than that of inconvenience*. Many of those who had their payments stopped, reduced or interrupted experienced acute difficulties, including serious financial hardship.

Other recent research has shown the impact of payment gaps between claiming Employment and Support Allowance and Jobseeker's Allowance after lone parents are deemed 'fit for work' and the levels of stress and financial hardship that these can cause (Casebourne *et al*., 2010: forthcoming).

Recent research has also investigated the '*compliance costs*' (Bennett *et al*., 2009) of claiming benefits and Tax Credits. These costs include 'the time, money and psychological costs involved in the various stages of a claim, from finding out about benefits and tax credits and potential eligibility, through claiming, getting the payment, maintaining entitlement, and leaving benefits or tax credits or moving from one to another' (Bennett *et al*., 2009, p. 2). The research has shown that some groups, including disabled people, may incur higher costs, and has argued that these costs should be taken into account when considering policy changes.
Jo Casebourne, Inclusion

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

The set of principles set out in the Green Paper is primarily a high level ‘shopping list’ of aims and can be agreed to as a first and preliminary step, but the more important issue is to set out how some of those principles have to be traded off and how they are prioritised in moving to the next stage of reform and the design of a reformed scheme.

For instance, the first principle, to ‘ensure that people can see that the clear rewards *from taking all types of work* outweigh the risks’ (emphasis added). ‘All types of work’ is a wide and inherently ambitious phrase that could extend to a one-off day of work to someone who is currently unemployed as well as them entering a regular weekly job of indeterminate length.[1] It also includes voluntary work (that can be seen to improve employability) and that is also welcome. But such an approach is unlikely to save money (as expenses would have to be paid for voluntary work and the disregards/incentives of a day’s work would have to be very high, close to 100 per cent). Thus the overall principle is to be welcomed and is inherently sensible but is close to platitude until reform proposals are more cogently clarified.

In short, the set of principles are necessary but an insufficient declaration of the Coalition Government’s intentions on welfare reform and while acceptable in general, they leave far too much to interpretation, prioritisation and trade-off to be fully supported at this stage.
Martin Evans, Department of Social Policy and Social Work, University of Oxford

While some of the right principles to guide reform have been identified, important clarification is required.

Ensuring that people can see ‘*clear rewards*’ from work should not be done by cutting benefit levels and increasing poverty for the most vulnerable households and families.

‘*Improving rewards from work*’ will involve encouraging those claiming benefits to work under 16 hours a week. JRF research (Bell *et al*., 2007) has argued for increasing the earnings disregard in means-tested benefits. Recent research has shown how working in ‘mini-jobs’ of fewer than 16 hours per week while claiming benefits was often also felt by lone parents to be very beneficial, providing an experience of work that could help prepare them for moving into work of 16 hours per week or more (Casebourne *et al*., 2010: forthcoming).

‘*Increasing fairness*’ between different groups will mean redressing the balance between pensioners, families with children and working-age adults without children. Childless working-age adults have fallen behind given the policy focus on pensioners and children, leaving groups such as single homeless people facing some of the poorest work incentives (Inclusion, 2010). A number of recent research reports (IFS, 2010; TUC, 2010) show that cuts announced in the Emergency Budget will have the greatest impact on the poorest in society and could re-enforce existing differentials.

When determining what is ‘*affordable*’ in the tax and benefit system, consideration should be given to ‘investing to save’ to reduce costs in the medium term, rather than a focus on cutting benefits and support to reduce costs in the short term.
Jo Casebourne, Inclusion

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?

This question tries to present a simple ‘yes–no’ dichotomy to what is a range of difficult aspects of judgement and appropriateness. It needs careful unpicking and contextualisation and a reasoned response.

First, the question implies that claimants who cannot work at present should not ‘prepare for work’, only those who can should seek and enter. This relates in practice mainly to the decision in the Budget 2010 to require lone parents (presumably lone and couple mothers in the main) to move onto Jobseeker’s Allowance when their youngest child reaches the age of five. The Gregg Review had earlier proposed that mothers with children of younger ages should prepare for work. The different direction in policy gives rise to some concerns about potentially encouraging mothers with young pre-school children to experience a minimum five years (they may have older children) out of work on incomes that are extremely low. There are known effects on parental health (especially mental health) of long-term very low income and the effect of low income on child cognitive and social development is worse for pre-fives.

There is thus a potential for such an approach to merely ‘warehouse’ low-income mothers who are potential returners to employment and not to provide them with services to improve their skills, qualifications or other aspects of employability. This approach would promote a’ scarring effect’ on subsequent employment and could possibly lead to long lifetime interruptions in employment and have lifetime income effects that are detrimental to women. Of course, such an approach of warehousing young mothers on low benefits minimises the fiscal costs of providing childcare for them alongside employment or job preparation services.

The reason this question is crucial is that there is a real potential weakness in the Green Paper on long-term prevention of poverty, and perhaps an overemphasis on short-term changes of status in relation to entering employment. Getting the balance right so that reducing today’s poverty also reduces tomorrow’s and reduces intergenerational poverty requires greater emphasis on outcomes rather than just obligations (or the lack of them) and employment.

Second, the question uses an imprecise definition of ‘can work’ without any sense of hours or type of engagement or of job quality. *In reducto ad absurdum*, a qualified racing tipster in an iron lung could work by winking at his chosen horse from the television ... the point is that ‘appropriate’ work on a test of reasonableness must be applied when one considers ‘can work’. Clearly, the promotion of work that is reasonable and appropriate for those out of work is welcome and should be encouraged. However, the important questions for policy relate to the costs and gains of doing so for whom and how far such obligations are reasonable. It is very easy to pose rhetorical questions but very difficult to get the balance in policy right.

Third, in terms of what is reasonable in employment, *the aim of policy should be to promote a good job match for all customers*. Indeed, such an approach would mean much more in reality than all the rhetoric about obligations and enforcement of employment conditions. A good job match is crucial because it ensures that employment is suited and has the best potential to be sustained. Clear evidence of the benefits of such an approach arose from the Portland evaluation in the USA where a ‘work first’ approach was amended to reflect an aim of getting people into the best possible job rather than ‘any job’. The outcomes of this approach were higher earnings and less job churning when compared to a pure ‘work first’ approach that put the emphasis on quick entry into the first job possible.[2]

Fourth, obligations to seek and enter work are standard across all systems that have unemployed people claiming benefits, and increasingly lone parents and those with ill health and disabilities are treated as unemployed. However, there is a need to think carefully about ‘increasing these obligations’ because the evidence on increasing punitive conditionality is mixed. Strict enforcement of job seeking and job entry will decrease time unemployed and increase job entry rates. Given that length of unemployment is linked to poor health and deteriorating likelihood of employment then these are positive outcomes. However, there is also clear evidence of unintended consequences of stricter conditionality. In the UK, Petrongolo has clearly laid out that Jobseeker’s Allowance changes diverted the unemployed into Incapacity Benefits spells, and lowered earnings of those who entered work for a considerable period, 'while tighter search requirements were successful in moving individuals off unemployment benefits, they were not successful in moving them onto long-lasting or better jobs, with fairly long lasting unintended consequences on a number of labor market outcomes' (2009, p. 1253). The greater use of sanctions is associated with clear information problems (people often do not know they have been sanctioned in the UK). But more worryingly outcomes from sanctions also correspond to Petrongolo's findings for Jobseeker's Allowance in other systems. In Switzerland, sanctions have led to lower earnings and worsened job churning for those who got a job after sanctions (Arni *et al*., 2009). The main reason for these findings is that job matching quality worsens under coercion.

But the effects of increased conditionality and greater sanctioning are also wider than just on benefit transitions and employment outcomes. Machin and Marie (2004) found associations with sanction rates on Jobseeker's Allowance and crime (particularly property crime) and there have been observed falls in take-up of benefits associated with strict conditionality that are of real concern. US evidence showed that 20–25 per cent of lone parents faced with stricter regimes are 'disconnected', neither being in work nor on welfare (Blank, 2004) and this has also been observed in the UK where more 'unemployed' are now not relying on benefits. Policy-makers have to understand that there are costs to ratcheting up conditionality and obligations – the 'safety net' gets bigger holes and more people fall through and most of this effect is from deterrence rather than imposition of sanctions. The alternatives to benefit as a safety net can be observed across the developing economies in the world – a mix of subsistence strategies that involve using extremely casualised employment (for single days or shifts of work), increasing use of the informal sector, illegal and semi-legal activities, but also a vast amount of very low productive trading – both selling in the streets, through newsagents windows and on the web. While 'talking tough' on increasing obligations is rhetorically attractive, such an approach needs well-founded analysis of costs and benefits. This evidence is missing in the UK and policy-makers tread dangerous ground if they see it purely as cost-free.

Fifth, the key to successful conditionality is that it optimises outcomes rather than simply maximising 'activity'. It is here that the

Green Paper is at its weakest because all discussion is based on simple participation in employment rather than on productivity, skills and outcomes. One of the advantages of conditionality is that it ensures that everyone is treated and not just those who come forward for services off their own back. However, in providing services for a wider group under conditionality it is very difficult to keep service quality high. Indeed, under conditionality, previously voluntary services seem to lose quality as both staff and participants adapt to the underlying motivation of compulsion rather than of quality. There is thus a ‘cheap’ conditionality that diverts many people and only seeks results based on simple ‘counts’ of people in work or off benefit or there is well-resourced conditionality that aims to ensure that those with a large range of potentially complex needs who are ‘made to participate’ in programmes receive a high quality of service that meets those needs. Given the lack of detail in the Green Paper and the underlying concerns to reduce public expenditure to meet deficit reductions, there is little in the proposals to persuade the careful reader that the Coalition Government wants to pursue ‘quality’ in employment outcomes alongside ‘obligations’.

Martin Evans, Department of Social Policy and Social Work, University of Oxford

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

This question raises significant concerns as it has some worrying assumptions. Should policy attempt to maximise the amount of work anyone does? The ‘amount of work’ is primarily measured in the time spent in work (weekly hours being a common measure). Lengthening hours of work beyond a certain level is not a sensible approach as there are effects in associated health risk, reduction in productive family time and long weekly hours that are subject to European Union (EU) regulation. But, more importantly in economic terms, what matters most from employment is the resulting income to the individual and the resulting productivity for the employer. Basing any policy on ‘maximising the amount of work’ appears to be a mistaken approach without additional real safeguards that seek to *optimise outcomes*. Surely ‘doing better’ should be preferred to simply ‘doing more’; productivity and well-being matter more than punching in on the time clock.

But the question is primarily concerned to get feedback on the discussion in the Green Paper on ‘conditionality’ on page 29. These discussions are clearest where they are put as part of the change in approach to encourage participation at levels below 16 hours a week. It is true that current incentives to do such work are very weak and that so-called ‘mini-jobs’ of less than 16 hours can be positive enhancers of employability and promote later moves into more regular, part-time or full-time employment (Bell *et al*., 2007). Imposing conditionality for these new groups of people who receive ‘out of work’ benefits alongside earnings should help to ensure wherever possible that such very short-term hours become over time more productive employment, subject to several caveats outlined below. However, for a wider group of those who work 16 hours or more then conditionality that aims to solely enforce additional hours of work rather than additionally promoting upskilling and higher wages could be mistaken unless very carefully set up to match reasonable assumptions about what an ‘optimal’ profile of labour market participation was in each and every case.

Those who are really at the margins of employability and have significant constraints on the amount of work they can perform would benefit from the basic approach of supporting work for less than 16 hours a week as part of a medium to longer-term employment plan that included some conditionality to review and up participation where possible. Many who are currently not employed for health or other reasons may well be a ‘long way off’ in both time and capabilities from being able to hold down a job of significant hours of work. It seems sensible to support these people in retraining and upskilling alongside small-hours part-time work. However, this approach should be harmonised with the ‘therapeutic earnings’ approach to ensure consistency and equality of treatment and approach. But it is not sensible solely to see such opportunities as regular short-term hours as those who are at the margins of work may actually be best supported in short-term periodic working, of encouraging one-off days/weeks of work. Such an approach alongside regular short hours would be more flexible and would give a more balanced approach to promoting longer-term re-engagement at higher levels of employment. Additionally, the promotion of periods of voluntary activity could also be encouraged as part of a return to work strategy to provide improved employability, but subject to conditionality that clearly laid out agreed expectations of subsequent job search for paid employment. This sort of approach to conditionality could also be widened to encourage the development of self-employed trading that over time builds into a productive and well-paid livelihood.

However, when considered more widely, and for those who have significant levels of ‘part-time earnings’ of 16 hours or more, there are some real dangers in conditionality on increasing stipulated hours. First, the whole discussion in the Green Paper seems to view the problem as purely of an extended period of job entry – of the routes into employment. The low-paid labour market is not like that, with much job changing, much instability of earnings in employment and high likelihood of hours being reduced or of job exits. In addition, there are many valid reasons to move jobs to fewer hours for many people – to lower costs of travel and childcare associated with jobs. Many women returners to the labour market choose lower paid jobs with shorter hours when they start working after having a child. The situation is *not* one solely of job enterers upping their hours over time – this would probably represent a minority of cases receiving in-work benefits alongside low earnings. ‘Conditionality’ in these cases would be best as a supportive conditionality. Essentially, the conditionality that makes sense is permissive and is part of a job advancement and retention approach and this chimes well with the Coalition Government's explicit support of greater equality of opportunity. Conditionality in work that was more 'career' rather than 'work' (job entry) focused may have much to offer. The problem is, however, that the Green Paper elsewhere talks of tougher conditionality on job entry more generally, which will result in worse job matches, lower earnings and more churning. The two approaches together potentially make for a schizophrenic approach to employment conditionality, where the in-work conditionality was mopping up the unintended externalities of out-of-work conditionality.

The other main question about conditionality that seeks to increase hours is that any increases in hours will not have large increases in earnings at the margin. Against any taper that is greater than the marginal rate of income tax and National Insurance Contributions, conditionality to increase earnings would be transparently seen as 'unfair'. The Green Paper's illustrative tapers of 75 per cent would mean that making benefits conditional on an additional 10 hours at the minimum wage would lead to only £14.82 net gain – and a conditionality that enforces an effective wage rate of £1.48 an hour would be very contentious and undermine the Coalition Government's statements on fairness in taxation. Indeed, any consideration of conditionality to increase earnings would have to be framed in terms of 'beating the poverty trap'; however, the technical profile of such a trap emerges from the changed design of benefits and of raising tax thresholds. The latest Tax Benefit Model Tables for 2009 show that a couple with two children aged under 11 living in averagely priced rented accommodation have their Working Tax Credit taper out at gross earnings of £340 per week (see page 91 of the 2009 Tax Benefit Model Tables) or the equivalent of 59 hours a week at the national minimum wage. Certainly, any reform of working-age benefits and taxation can improve the marginal rates of the tapers and the level at which tax and National Insurance Contributions start. But conditionality that pushes additional hours of work to levels that remain under the tapered withdrawal of the new benefits will be of no particular result and the costs and benefits of such a service would have to be seriously considered. However, any approach, based more on improving the underlying wage rate rather than hours and that lifted families off benefits and into income tax would seem far more sensible and economically productive. Conditionality in this regard cannot be just considered in terms of gains from hours of work, should never be based on the gains from ‘marginal hours’ and should be based on fundamental assumptions of promoting job progression that makes a real difference to the living standards of the families involved.

But another part of the Green Paper’s proposals also works against any positive outcomes from conditionality in work to improve hours of work. The proposal to move to a ‘real time’ adjustment of in-work benefits as earnings change would make the underlying marginal tax rates of any taper immediately apparent and undermine effective in-work conditionality to support higher earnings. Gains in earnings from fluctuating earnings should have a time disregard (from a fixed period of award) and not be immediately adjusted in real time. Such an approach minimises the effect of any high marginal rate and would enable in-work conditionality from personal advisers to encourage increases in earnings to function. Indeed, my advice would be to base any reassessment of conditionality in-work to coincide with the end of a fixed term award, enabling the effects of earlier changes in earnings to be reflected on and new job opportunities considered as part of the reconsideration of any claim.
Martin Evans, Department of Social Policy and Social Work, University of Oxford

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?

Summary

- In the private rented sector, the proposed reforms may not bring down rents.

- The whole funding system for affordable housing, including emerging schemes like intermediate renting, is underpinned by Housing Benefit payments to service loan debts. This also extends to the ability of housing providers to attract private finance, which is also dependent on the attractiveness of Housing Benefit as a revenue stream and social housing providers as a regulated body.

- Housing supply is already below that required to meet needs.

Introduction

Chapter 4 of the report (paragraph 10) recognises that the benefits and Tax Credit system also impacts on and interacts with a number of other mechanisms designed to help those in need e.g. training for skills and employment. Singled out in this regard is: 'Government support for the provision of affordable housing and sub-market rents. We recognise the imperative to increase the supply of new homes, including new affordable homes and to ensure sustainable funding for the affordable homes that we already have' (p. 31).

Question 10 is about affordable housing (and not just social housing). It also stresses the implementation of reform – i.e., will the transition impact on and perhaps impede new supply and pre-existing arrangements for affordable housing already built, owned and/or in management? The question necessitates also that we think about the impact and effectiveness of current arrangements and speculate on how the direction of travel of reform (i.e., single universal benefits or a single taper) might affect affordable housing. In this light the proposals already announced to reform

Housing Benefit are very relevant and indicate where DWP wants to go.

Role of Housing Benefit in the housing system and affordable supply

Housing Benefit is the principal form of housing subsidy in the UK and has systematically replaced bricks and mortar subsidy over more than 20 years as demand-side (personal) subsidies have supplanted supply-side (producer) subsidies. It is estimated that around 82 per cent of attributable public expenditure on housing is Housing Benefit[3] (Wilcox, 2009, figure derived for Great Britain only from Table 122 for 2006–07 data). Figures from the DWP (June 2010) for caseload and proportion of households by tenure who receive Housing Benefit indicate that 4.765 million receive Housing Benefit (3.255 million of whom are passported from other income-related benefits like Income Support), around 3.3 million are social tenants and 1.463 million are private tenants. The annual expenditure on Housing Benefit is of the order of £16.6 billion (Wilcox, 2009, Great Britain 2008–09 plans, Table 114).

How does Housing Benefit work? At a fundamental level there are two related but distinct models. The general model pays 100 per cent of eligible housing costs to those households with income no more than their relevant income threshold. Income in excess of that threshold is tapered at 65 per cent, reducing Housing Benefit by an equivalent amount until it runs out. Note that when rents increase, Housing Benefit rises to match it (and if 100 per cent eligible housing costs are met for those on very low incomes, their rent costs are zero). The Local Housing Allowance (LHA), targeted at the private rented sector, sets a ceiling on Housing Benefit by providing an allowance level for local properties, such that recipients have to pay all of any excess rents (regardless of their income) but can keep any savings. It is based on broad market rent levels assessed independently and, until recent proposals, was set at the median of the observed distribution of rents. In both cases, the actual system is much more complex and the devil is in the detail, but this thumbnail outline will suffice for our purposes.

Housing Benefit has become pivotal to the supply of affordable housing for the following reasons. First, as we have seen the great majority of social tenants are benefit-dependent and this is even more the case for new applicants. Second, the shift away from producer subsidy has led to a relative increase in social rents and while in part this is a good thing because it means there is more income for maintenance, it has affordability ramifications for those not on benefit or contemplating work that takes them out of benefit. Third, the principal way of delivering new social housing since 1988 has been through mixed funding of housing associations – combining a government grant with a private loan repaid out of rents. Along with the regulation of the sector, Housing Benefit has underpinned rental income cash flows, kept arrears down and encouraged billions of pounds of private lending. In terms of demand and need, Housing Benefit plays a dual role, supporting the long-term needs of low-income households effectively outside of the labour market (because of illness, age, long-term joblessness, etc.) but also providing a safety net in times, like now, of cyclical reductions in labour demand.

Going back to its origins in the late 1980s, commentators have repeatedly made the same series of structural criticisms of the Housing Benefit system. The main points being:

- Administrative complexity and potential for delay, error and fraud.

- Non-neutrality between tenures, both with respect to homeowners on low incomes but also across the different parts of the rental housing sector and intermediate housing.

- The 65 per cent taper of withdrawal of benefit contributing to the very high effective tax rates facing low earning households in receipt of benefit and ‘on the taper’.

- Further disincentives facing low-income households with savings (indeed incentivised not to save), since savings count as tariff income and reduce eligibility for Housing Benefit.

- The possibility of 100 per cent personal housing subsidy, allied to direct payments of benefit to landlords, insulating low-income recipients from any interest in their rent.

- Additionally, all Housing Benefit recipients (except for LHA recipients whose rent is above the allowance level) pay nothing at the margin as rents rise and have little incentive to economise or adjust their housing consumption as their household circumstances change.

A further important problem is the lack of joined-up policy between what is now the Department for Communities and Local Government (CLG) and the DWP with their respective housing policy and social security objectives, which often come into conflict and lead to path dependencies that are difficult to alter. For instance, one of the reasons why the Housing Benefit system is so designed is to complement and reinforce the particular way social security more generally works in the UK and to ensure that post housing cost incomes cannot fall below a given level. This significantly constrains the impact Housing Benefit can have as a tool of housing policy. At the same time, however, successive waves of housing policy have been premised on the broad shape and generosity of Housing Benefit remaining the same, for instance, to reassure private lenders. It is this tension, alongside public spending pressures, that helps explain why hitherto reform has been so difficult to achieve despite the wider acceptance of what is wrong with Housing Benefit.

Housing Benefit reform so far

The Coalition Government’s Emergency June Budget included important changes to Housing Benefit:

- From April 2011 the capping of LHA rates by bedroom size (i.e., if otherwise the local market rents distribution would suggest higher levels of support).

- From April 2013, Housing Benefit will be reduced to 90 per cent of its value after 12 months for claimants receiving Jobseeker’s Allowance.

- From 2013–14, Housing Benefit will be uprated by the Consumer Price Index.

- From October 2011, LHA rates will be based on the 30th rather than the 50th percentile of local rents.

- Other changes have increased generosity, or will do so, for instance, extra support for disabled claimants who have a non-residential carer.

These proposals save public expenditure and tinker with the existing system but they also suggest a direction of travel. In particular, the efforts to rein in the cost of LHA in high rent areas (such as London) and the decision to set it at the 30th percentile (depending on the local distribution of rents around the median) will reduce the upper level of support and may put downward pressure on private rents. The Secretary of State has defended this approach as a way of sorting lower income households into housing they can afford. Lower levels of LHA may well increase arrears and evictions and landlords could well respond at the margin by reducing their willingness to let to benefit recipients. How it will turn out is an empirical question but it does seem heroic to assume that this will relatively easily transmit through to the bottom end of the private rented sector (PRS). The decision to reduce Housing Benefit by 10 per cent after claimants have had 12 months of Jobseeker's Allowance is also controversial in that it confronts landlords with possibly increasing arrears and appears to put an onus on the housing provider to cope with the shortfall.

The tightening of rules relating to LHA in the rental market casts doubt on the government's belief that the PRS can play a wider role as a means to meet long-term need. While long-term leasing to help address homelessness is potentially significant, the reduced support promised for LHA and short duration tenancies in the rental market make it unsuitable for general needs housing solutions for low-income households. The announced cuts also suggest that the long-term reform of Housing Benefit may not be revenue-neutral – this is a key point to which we return below.

Delivering more affordable housing

Affordable housing is more than just social housing; it also includes shared equity housing, other forms of low-cost home ownership and mid-market renting. Housing Benefit, however, is a rental sector personal subsidy so it has less direct influence on shared equity products, although it is relevant to shared ownership (i.e., its rental component) and mid-market renting. The 'core' model funding new social housing – mixed funding of grant, loans and the association's own equity – relies on Housing Benefit, as we have seen. Similarly, where councils are building (e.g. the 3,000 homes recently started in Scotland), Housing Benefit also underwrites the majority of tenants' capacity to pay their rents and hence for these projects to remain viable and for low-income households to remain in their homes. Particularly in England, but also to an extent true elsewhere in the UK, social/affordable housing increasingly relies on planning agreements such that private developers make land or commuted payments available for new supply. While this is clearly a pro-cyclical policy, the evidence from JRF research is that capital subsidy is still required in these cases as is Housing Benefit, both for any residual loans but also to sustain the long-term demand of low-income tenants. This is why the long-term level of the average amount of Housing Benefit after reform is a key issue.

The UK is struggling to recover from economic recession and for social housing this is reinforced by the lack of affordable private finance, the squeeze on public funds and the housing market downturn. There is dwindling capacity in the construction sector (although there are also lower tender prices). The presumptions of the funding models of the last decade have been based on rising asset values and this is of course no longer justified, making land more scarce, along with fewer opportunities to cross-subsidise from ‘for sale’ and shared equity developments. The supply of private finance is much shrunken and on more onerous terms. While these conditions will not remain indefinitely, it is a difficult climate to promote affordable supply and in the short run at least, proposals perceived to even partially undermine the security of cash flows and rent repayments further reduces funding capacity. Moreover, new supply involves long-term funding – so lenders and providers will have to make long-term judgements now about the adequacy of low-income housing subsidies.

The consultation question suggests that reforming the benefit system can affect new affordable housing supply. This could be the result of changes to benefit levels increasing risks to the stakeholders involved but also as a result of the transition to the new system creating uncertainty. This sense of risk and of uncertainty arises from the evolution of a supply delivery system for affordable housing that has become closely intertwined with Housing Benefit. It is interesting to note in the consultation document the extent to which the DWP has thought through the interlocking nature of the different benefits in the UK system and how they might be simplified, merged and integrated in order to deliver their simplified benefit system objectives. It is not at all clear that there is the same recognition about changes to the security of the stream of cash flows over long periods of time that underpin all forms of long-term affordable housing supply.

To amplify the point, the proposals in the document offer potentially lower tapers although they say little else about the detailed impact on the design of the housing element in the different options suggested. Lower tapers do sharpen working incentives but the uncertainty over the general level of support to affordable renting and the possibility of Housing Benefit being subsumed within a wider cash benefit (raising questions about the future of rent direct arrangements) cannot reassure lenders contemplating investing in social housing or indeed others who may have come to believe that social housing represents dependable cash flows. It is critical that the government in working these ideas up take full account of the needs of the different parties involved in making long-term funding commitments for affordable housing. In particular, they need certainty over the long-term trajectory of Housing Benefit and its successors.

In its recent housing policy discussion document, *Fresh thinking, new ideas*, the Scottish Government provided a long list of possible ways to support or expand affordable housing supply in the current difficult private market and public finance climate. Several of these ideas, closely aligned to plans being discussed elsewhere, are wholly or partly reliant on Housing Benefit support to the low-income households being housed. How precisely this works in practice can make or break the effectiveness of the specific policy instrument in question. Indeed, one proposal, the National Housing Trust model, depends explicitly on the rent levels associated with the LHA in order for it to 'stack up' – prior to the recent reduction in the basic level of the allowance from the 50th to the 30th percentile.[4]

Sustaining existing affordable housing

Social housing affordability is also about the existing established housing stock. Council housing debt on the existing English stock in the next few years and as a result of Housing Revenue Account (HRA) reforms is likely to be in the realm of £12,000-£13,000 per unit, whereas the equivalent figure for the housing association sector is £20,000 per unit (Hall and Gibb, 2010 forthcoming).

In addition, social landlords have repairs and maintenance commitments and management costs to meet. Several million units were transferred through large-scale voluntary transfer (LSVT) and arm's-length management organisation (ALMO) arrangements in part to fund improvements so that housing could achieve the Decent Homes Standard. The funds for all these ultimately require to be paid from rents. Once again, social landlords have an expectation and have made long-term borrowing commitments (or ALMO councils and retained stock local authorities have accessed public capital), in part in the belief that Housing Benefit would continue to pay all or part of the rents of low-income households who increasingly are polarised into social rented housing (and this is magnified further among new applicants).

Social rents are regulated in England that limits the borrowing capacity (and the Housing Benefit bill) that could improve or build new stock. However, this does not in any way eliminate the moral hazard that creates incentives for parties to lend and borrow in the knowledge that Housing Benefit underpins the cash-flow risk and in a world of rising need (i.e., where demand-side risk is often non-existent). Again, the problem for Housing Benefit reform is that long-term contracts and housing programmes have been entered into in good faith. Other aspects of social policy within the built environment seek to grow and sustain mixed tenure estates and so-called mixed communities in order to help tackle wider problems of deprivation. Untutored reform runs further risks of undermining these sorts of policies if benefit restructuring in practice undermines years and decades of good work.

Conclusion

The aims of benefit reform are laudable in the sense that they recognise both the complexity and perversity of aspects of the system and its growing unaffordability. However, recognising the weaknesses with the current system and contrasting it with ideas more or less sketched out or modelled in simulations is a long way from producing a feasible and reasonable alternative that overcomes the key problems identified with existing measures. In this note we have focused on a related but different point – the principle of reform may or may not make sense in its own terms but it must properly address the other systems it directly affects, such as the housing system.

The point is repeatedly made in the consultation document about making work pay and increasing the conditionality of benefits. These points apply equally to many social and private low-income tenants receiving Housing Benefit. However, it is also true that many Housing Benefit recipients are not in the labour force nor able to work if of working age. There is a distinction between the permanently poor and those who will not or need not be out of work on a long-term basis. Reform to Housing Benefit has to be sensitive to the different needs and expectations of these two groups.

The big issue for both new supply and protecting existing investment in the housing stock is whether the direction of benefit reform substantively threatens the ability of the benefit system to underwrite loan repayments out of rents. Fundamentally, this depends on whether the goal is to design a better incentive-compatible system that retains the same levels of broad support to low-income households (perhaps looking more like the LHA but at similar levels to average Housing Benefit payments) or whether the cuts already planned for Housing Benefit prefigure a major retrenchment in Housing Benefit for fiscal affordability reasons. If the latter argument prevails, this could be the source of significant long-term difficulties for the affordable housing sector. It should be resisted not just because of its punitive impact on the weaker in society but because it fails to grasp the interdependence between benefit and social housing. The government should at least suggest a plausible alternative to funding and providing sub-market rent properties. Providing a different subsidy regime (including the personal subsidy element) for new build differentiated from the existing stock may be a way forward.

A final point is that if the long-term goal is to move to a much simpler universal type allowance with an embedded housing allowance within it, a single taper, and other incentive-compatible features, then the shift from one system to the new one has to be managed and the transition made acceptable to all parties. In earlier eras the Inquiry into British Housing, the Pensions Commission and other bodies seeking major structural reforms with significant numbers of winners and losers advocated phasing in reform over a period of time and even compensating the big losers. Housing Benefit reform on this scale directly affects the poorest in society but also the very bodies whose purpose is to provide aid and support to those people. If the outcome of reform is to make private finance even less accessible it will be self-defeating.

Kenneth Gibb, University of Glasgow

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

There are two main considerations to take into account: (a) the public interface and (b) organisational efficiency and effectiveness.

In terms of a public interface, then, a single point for access and information across all working-age benefits would be a minimum requirement for a reformed and efficient system that met the principles set out in the Green Paper. This single point for access will have to deliver all the relevant front-end aspects of calculation, determination and payment of transfers. Single claims and applications should be a minimum outcome of improving customer access and information.

There is no reason why such single points of access should be run by a single statutory body or agency across the country. The crucial thing is to have a unified, regulated and consistent system for calculation, determination and payment behind the public points of access. Such an approach would enable local authorities to provide such 'front-end' services if they so wished. But it is unlikely that any local authority would want to provide services for those living outside of its area and administrative geography is a poor indicator of proximity or convenience. Nationally based organisations running common interfaces that have no geographical basis (telephone, internet) have a clear advantage. However, it is not clear how far 'determination' services should be devolved to the front-end service. Legal consideration of regulations, appeals and other aspects of adjudication should be a distinguishable element of service to ensure consistency in interpretation of rules across all customers independent of their location or the provider of front-end benefit services.

The greater concern is how benefit payment systems and employment services are linked, as these could and should be separate front-end services but obviously need to be closely linked.

Improving organisational efficiency and effectiveness requires systematic integration behind the public interface. There would appear to be a sensible two-staged approach of first integrating the

separate elements of transfers (Tax Credits and income-related benefits) and of income-related taxation (within HMRC of income tax and National Insurance Contributions). Once these separate integrations have occurred then a second and more systematic integration of services across taxes and benefits should be considered so that all income-related issues of tax and benefits can be considered alongside. While it is fairly easy to see HMRC expanding its role to deal with benefits, it is more difficult to envisage them letting go of tax calculation (they could retain collection). Such administrative integration, that allows benefits and taxes to be co-calculated, should precede structural integration of taxation and benefits.
Martin Evans, Department of Social Policy and Social Work, University of Oxford

When thinking about how to best to organise delivery it is important that the *views of people who use services* are taken into account. Research into problems with tax and benefits for JRF (Finn *et al*., 2008) made a number of suggestions about what needed to be improved based on the experiences of people who use services themselves. It found that 'service users wanted *simpler ways of obtaining information* about entitlements and there was *considerable support for a system that allowed people to make a single (initial) application*, after which claimants would be informed of all the benefits to which they would be entitled and their attendant responsibilities' (p. xii, emphasis added).

Service users want more clarity about their entitlements. They want less complexity, shorter forms, less jargon and clearer and more easily understood communications.

They would prefer a tax and benefits system that was 'simpler, less changeable' and did not require them to know as much about the rules and conditions for receiving different benefits. Telephone services are popular, but a significant group of users either need or want the option of a face-to-face service.

When organising the delivery of a reformed system, having one single agency administering benefits rather than the DWP, HMRC and local authorities would be preferable; but it would also be possible to instead have one *single gateway* to in-work and out-of-work benefits that 'hides the wiring' for service users and makes it

easy for them to access what behind the scenes may be a more complex system. Being able to make a *single application* through this gateway that covers all of an individual's and household's circumstances and being able to report changed circumstances once through this system will be critical to improving service delivery for service users.
Jo Casebourne, Inclusion

Notes

1. One way of reconciling such an approach would be to move to fixed periods of award for out-of-work benefits for longer-term workless people that allows them to work at the margins. However, this would not fit the principle of moving to a 'responsive and immediate service'.

2. See the discussion of this programme verses other welfare reform programmes in the USA in Grogger and Karoly (2005).

3. Wilcox includes council subsidy, Housing Association Grant (HAG), private renovation grants, Income Support for Mortgage Interest (ISMI), Low Cost Home Ownership (LCHO) grants and Right To Buy (RTB) discounts in the total.

4. Proposals floated by the Scottish Government which are partly or fundamentally reliant on Housing Benefit include the council house building incentive scheme (£25,000-£30,000 per unit), innovative bidding arrangements to lower grant rates, a single capital pot for councils and associations, borrowing on the strength of social landlord pooled equity, raising new private finance from different sources including Europe, loan guarantees (the National Housing Trust mid-market rent proposal) and from the institutions.

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