

## Welfare Reform and Work Bill: Second Reading

This briefing addresses the Welfare Reform and Work Bill in the form in which it will be read to the House of Commons on Monday 20<sup>th</sup> July 2015. It does not aim to be a comprehensive overview, but instead provides analysis of the parts of the Bill where JRF has particular expertise.

If you would like to arrange a meeting with one of our experts to discuss the questions raised please contact:

**Tom Peters:** Senior Public Affairs Officer

tom.peters@jrf.org.uk / 07972 773963 | 020 7520 2080/ @jrftom

---

### Key points

- Jobs statistics can mask important variations between groups. The Government's full employment target is right but to monitor performance and encourage the right interventions it would be helpful if it also reported to parliament on who is getting these jobs.
- The proposed changes to the Child Poverty Act 2010 are at best a step sideways. The government should build upon the 2010 measures to provide a more extensive picture of poverty in the UK, rather than change them to look at that picture from a different angle. We urge the Government to retain an income measure, ideally linked to a cost of living measure, to give a proper focus on families' real ability to afford the basics of life in a decent society. The UK needs a strategy to reduce poverty across all ages, otherwise poverty is likely to rise.
- The long term aim to improve productivity and support a higher wage economy is right but progress is bound to be gradual, and closer attention must be given to pay and progression at the lower end of the labour market. In the meantime, the income shortfall facing millions of families is now bigger as a result of the Summer Budget.
- Reducing social rents by 1 per cent per year will give a welcome boost to some current social tenants, but it is likely to impact on the supply of new homes available to households on the lowest incomes.

## Clauses 1-2 (Reports on apprenticeships and employment figures)

The Government's 2015 Manifesto set a target of 3 million new apprenticeships and the creation of 2 million additional new jobs in pursuit of full employment, the former partly funded by a new levy on large employers and by lowering the household benefit cap.

---

### Full employment

- The Government's aims are right but it would be useful if in its reports to parliament it also included statistics on the types of jobs being created as well as its progress against the target of halving the disability employment gap.

The big labour market story over the last couple of years has been the rising number of people in employment. However, at the lower end of the labour market work also now offers less of a guarantee of a decent living standard than it did in the past. This suggests a need to look more closely at both the amount and type of work available to each household, as both these will influence whether people can reach an acceptable living standard through earned income.

Specifically, one of the significant trends underneath the long term picture of jobs growth over the past five years has been the increase in self-employment, especially part-time self-employment. The overall jobs statistics also mask variations between different groups of people: disabled men and women are much less likely to be in employment than non-disabled men and women and are also much more likely to be low paid, even with the same level of qualifications as non-disabled adults.

### Apprenticeships

- The 3 million apprenticeships target is ambitious but the Government should aim to also show whether the places being created will help to meet labour market needs and are available to those who most need the opportunity.

JRF welcomes the Government's focus on young people. It's clearly better to help people get decent jobs from the moment they leave school or college, as there is evidence that pushing unemployed people into poor-quality work can reduce their chances of getting better jobs later, meaning that they remain dependent on in-work benefits.

However what works in one place may not work somewhere else – wages, job security and distribution between occupations differ vastly between places. Unless training opportunities allow young people to gain skills that match the needs of employers in the local labour market, and are targeted at those who need them most, it may not help them to get and stay in work. City Deals can provide a platform for this localised skills provision. For example, the Sheffield City Deal included a £23.8 million adult skills and

apprenticeship budget, which is being used strategically to create a 'demand-led system', particularly to train 2,000 employees with the skills needed by local businesses and create 4,000 more apprenticeships. This type of approach depends on good analysis and strong partnerships, which can take time to develop. The challenging national target must not be allowed to come at the expense of developing quality schemes that genuinely improve outcomes.

## **Clauses 4-6 (Repeal of the Child Poverty Act)**

The social mobility section of the Bill makes provision for the repeal of the Child Poverty Act 2010, and the replacement of the measures contained therein with a new set of 'life chances' indicators.

---

### **Removing the relative income targets**

- No measurement of poverty is perfect, including those set out in the Child Poverty Act 2010. However, they captured a central indicator of poverty - inadequate income – which is no longer included in the Secretary of State's reporting requirements. Because of this omission, we do not believe that the proposals in this Bill represent a step forward in tackling poverty, but at best a step sideways. We therefore urge the Government to retain an income measure, ideally linked to a cost of living measure, to give a proper focus on families' real ability to afford the basics of life in a decent society.

Under the Bill the Secretary of State will be required to report on indicators reflecting levels of worklessness and educational attainment, as opposed to the four income and deprivation measures enshrined in the Child Poverty Act 2010. In so doing the government has rightly recognised that escaping poverty is not simply a matter of a household stepping over an income line set in relation to median incomes. However the two new proposed measures will miss the many families who have one or more parents in work but have very low incomes which damage children's lives now and prospects for the future.

We know from the evidence that a decent job is the best route out of poverty, and that there is a link between educational attainment in childhood and prospects in later life. However, these drivers must be considered as part of a wider picture which includes measures which highlight whether people have sufficient income, housing conditions and affordability or the nature of work at the lower end of the labour market.

Arguably, the government has replaced one narrow set of indicators with another, in the process limiting its understanding of what drives poverty. Our evidence shows that over half of the households in poverty have someone in work, and two thirds of children in poverty have parents that work, suggesting that stepping over the line from worklessness to worker will not guarantee an exit from poverty.

We therefore call upon the government to add to the measures of poverty included in the Bill to enable a deeper understanding of poverty, rather than replace one narrow set of measures with another even narrower set.

This approach should reflect a dynamic understanding of poverty over the life course, one that recognises that the path out of poverty is not always marked by clear cut transitions between fixed states, but can be often be a process of gradual changes and transitions. Most importantly, we urge the Government to work with business, employers and civil society to develop a comprehensive all ages approach to tackling poverty, otherwise it is likely to rise and jeopardise other central components of the Government's plan to reduce the welfare bill and improve productivity.

## **Clauses 7-15 (Welfare Benefits)**

The Government expects to deliver £46.5bn in savings from the welfare budget over the remainder of the parliament, with £12bn over the next two years. The largest contributions to this total come from significant cuts to tax credits and by increasing the rate at which benefits are withdrawn as a person's earnings increase (£20.5bn); freezing in cash terms the main DWP benefits from April 2016 to March 2020 (£11.3bn) and cuts to specific tax credits aimed at families (£5.4bn).

---

### **A risk to low income living standards**

- The increases in the personal tax allowance to £11,000 and the new National Living Wage for those who are eligible are welcome measures but for many low income families the gains will not make up for the losses from cuts to in and out of work support.

Each year JRF publishes research tracking how many people are falling short of the Minimum Income Standard – a benchmark compiled by members of the public, based on what they think is needed for a minimum socially acceptable standard of living. An unsurprising finding is that the risk of falling short of a decent standard of living decreases as the amount of employment in the households increases. To take a couple with two children as an example, 88 per cent of households where neither parent is working lack a decent standard of living, compared to 9 per cent of households where both parents work full time. As such, ensuring those that are able to work have the opportunity to do so is clearly important.

However as was noted above work offers less of a guarantee of a decent living standard than it did in the past. Many families have seen their risk of falling short of a decent living standard increase sharply. For example a couple working full time on the minimum wage with two children will now find themselves £75 a week short of what the public say they need to reach a socially acceptable standard of living.

The above decline has been brought about by the cost of essentials rising rapidly for successive years, at a time when wages have been stagnant and in-work benefits, such as tax credits, cut. While the low inflation of recent months has brought some respite, there is significant ground to make up. As such these further cuts represent a major gamble. Although the higher personal tax allowance and new national living wage will help some to narrow the gap between incomes and needs that widened during the recession, there is little evidence to show the extent to which low earners supported by the increase in pay are members of low income families affected by cuts to in-work support. The Government has published a new productivity plan that aims for a higher wage economy. But progress is bound to be gradual and closer attention must be given to pay and progression at the lower end of the labour market. In the meantime, the income shortfall facing millions of families is now bigger as a result of the Budget.

## Clause 19 (Reduction in social housing rents)

Between April 2016 and March 2020 social rents will be down rated by 1% a year in cash terms.

- Reducing social rents by 1 per cent per year will give a welcome boost to some current social tenants, but it is likely to impact on the supply of new homes accessible to households on the lowest incomes.

The Government is right to attempt to bring down the Housing Benefit bill, but the only way to do this sustainably is to increase supply. Over the last Parliament, the Government cut Housing Benefit by £2 billion per year, but the bill to the taxpayer was still £1 billion higher at the end of the Parliament as a shortage of genuinely affordable homes pushed up the cost. Our research shows that we need to be building at least 200,000 homes per year in order to prevent poverty rising. 80,000 genuinely affordable homes are needed to meet demand and provide stability to low income families.

Reducing social rents by 1 per cent per year will give a welcome boost to some current social tenants, but it is likely to reduce supply, particularly in combination with other housing proposals being developed. Housing Associations and Local Authorities will lose at least £1.4 billion per year by 2020 as a result of the policy, which means that 14,000 fewer homes will be built by 2020 (OBR, 2015).

It should also be noted that social tenants who have their rent paid through Housing Benefit will not see any increase in their income. Indeed, Local Housing Allowance is amongst the benefits that will be frozen for four years. Private rents will not be frozen or subject to any control over this period - in fact we expect them to rise by 90% in real terms by 2040 (Stephens et al, 2014), more than twice as fast as incomes - so it is likely tenants will have to find more of their rent from within incomes set aside to meet their living costs.

## Bibliographic References

- Creutz, H. (2010) *The money syndrome: towards a market economy free from crises*. Peterborough: Upfront Publishing
- Dabla-Norris, E. and Wade, P. (2001) 'Rent seeking and endogenous income inequality', IMF Working Paper WP/01/15. Washington: International Monetary Fund
- Devins, D., Bickerstaffe, T., Mitchell, B. and Halliday, S. (2014) *Improving progression in low-paid, low-skilled retail, catering and care jobs*. York: JRF. Available at: [www.jrf.org.uk/sites/files/jrf/employment-progression-skills-full.pdf](http://www.jrf.org.uk/sites/files/jrf/employment-progression-skills-full.pdf) (accessed on 4 March 2015)
- Esping-Anderson, G. (2005) *Social bases of changing income distributions*. Barcelona: Department of Political and Social Sciences, Universitat Pompeu Fabra
- European Social Survey, 2012. Available at: [www.europeansocialsurvey.org/docs/findings/ESS1\\_5\\_select\\_findings.pdf](http://www.europeansocialsurvey.org/docs/findings/ESS1_5_select_findings.pdf) p.10 (accessed on 13 May 2015)
- Förster, M., Llana-Nozal, A. and Nafilyan, V. (2014) 'Trends in top incomes and their taxation in OECD countries', OECD Social, Employment and Migration Working Papers No. 159. Paris: OECD Publishing
- Green, A, Sissons P, Broughton K, de Hoyos M, Warhurst, C and Barnes, S (2015) *How cities can connect people in poverty with growth*. York: JRF
- Padley, M, Valadez, L and Hirsch, D (2015) *Households below a minimum income standard 2008/09 to 2012/13*. York: JRF
- Hirsch, D (2015) *A minimum income standard for the UK in 2015*. York: JRF
- Stephens, M., Leishman, C., Bramley, G., Ferrari, E. and Rae, A. (2014) *What will the housing market look like in 2040?* York: JRF

---

## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an endowed foundation funding a UK-wide research and development programme.

We work for social change in the UK by researching the root causes of social problems and developing solutions. Together with the Joseph Rowntree Housing Trust, we use our evidence and practical experience of developing housing and care services to influence policy, practice and public debate.

All research published by JRF, including publications in the references, is available to download from [www.jrf.org.uk](http://www.jrf.org.uk)