

BLACK APRIL

THE PROBLEM WITH WELFARE REFORM



In early April we wrote a series of short pieces around the incoming changes to the social security system. At different points in the month, the Government introduced a replacement for council tax benefit, a levy on spare rooms in social housing and an overall cap on the total amount of benefits a family could receive. The new benefit uprating bill came into effect, limiting increases in various benefits to 1% per year. April also saw the first pilots of the Personal Independence Payment, the proposed replacement of the Disability Living Allowance.

Based on our review of the April package, we draw five lessons.

1. Don't muddle reform with the need to save money. Good reform takes time and money to design and implement. It is often judged to be wise – including, as with universal credit, by this Government – to spend money now to get a better system later. Unless employment increases, the more that reforms aimed at altering behaviour succeed, the less money they are likely to save.
2. Don't pretend that money can be saved without hitting the blameless: the obviously 'bad' claimants are tiny in number. If savings must be made, holding down benefit rates is the clearest and cheapest way to do it. 'All in this together' should mean pensioners are hit too. Also, if it is right to hold down benefits when wages are stagnant, it is right to let them rise when wages recover.
3. Treat big increases in benefit spending as a warning but don't mistake symptoms for causes. Housing problems lurk behind several of April's reforms. But employment and earnings (the economy), demographics (an aging working-age population) and social change (long term trends towards two adult working families) are heavily implicated too.

4. Tackle underlying problems directly rather than via benefit reform. If benefit recipients are only a small part of the problem (e.g. under-occupation), tackling it by only targeting benefit recipients limits effectiveness. If the problem is not solved, reform is either cruel (because recipient have to take the hit) or counter-productive (because the problem crops up elsewhere).
5. Don't mistake Treasury savings for public sector savings. From the economic point of view it is the latter that matters. As a shock absorber, the benefit system should be anchored to the point where the shock can be absorbed most easily, at the centre, supported by tax payers at large.

One last point: we reach these conclusions on the basis of a review of the April changes but they are not just a criticism of the Coalition government. More than six years ago, we started pointing out, in our annual Monitoring Poverty and Social Exclusion report for the Joseph Rowntree Foundation, that as the number of children being lifted out of poverty by tax credits was going up, so too was the number whose families seemed to need tax credits in order to do so.

On the basis of conclusion #3 above, this should have given cause for concern and a search, as per conclusion #4 for the underlying problem and answers to it. Instead what happened was that the government continued to use the benefit system, chiefly tax credits but later housing benefit too, in pursuit of its child poverty target.

So while we are very critical of most of the April package, it would be quite wrong to imagine that this Government's mistakes are unprecedented. On the contrary: the over-estimation of 'welfare reform' has been a mark of all UK governments for at least 25 years. Genuine reform, usually low key, of the benefit system is a proper business of government. But this obsession with 'welfare reform', as the answer to one of the problems, reflects a deep weakness in British politics, namely that this system is one of the few institutions over which government has at least some control.

This conclusion points to a completely different answer: instead of subjecting the same old institutions to ever more drastic reform, whether to 'end child poverty' or 'make work pay', what Britain badly needs is new institutions.

Our blogs look at these reforms in turn but from a particular point of view – that it was not enough to oppose the reforms simply because they hit the poor. Next we explain why we took that approach.

WHY IT IS NOT ENOUGH TO OPPOSE REFORMS SIMPLY BECAUSE THEY HIT THE POOR

In March, we published, with the Joseph Rowntree Foundation, a [report on council tax support](#). It attracted a lot of attention and was an easy story to tell: 2.4 million of the poorest households in England – 70% in poverty already – face an average rise in their council tax of £140 a year. Almost two million households have to pay the tax ‘for the first time’. But is this type of argument enough? Is it sufficient to oppose a reform simply because it hits, sometimes even exclusively those with very low incomes, in or near poverty? We don’t think so.

Firstly, and most obviously, it appears not to be a particularly persuasive argument. With ‘welfare’ accounting for around 30% of all public spending, it was inevitably going to be in the firing line once the Coalition had succeeded in winning popular consent to the idea that the budget deficit had to be cut.

Defenders of those on the lowest incomes failed to establish the idea that the poor should be spared, even in part. The kind of line needed – “if your back is to the wall, even a pound is too much” – is clear but if anything like it was ever attempted, it failed to gain a foothold. In fact its antithesis, the overall benefit cap, is [one of the Coalition’s most popular policies](#).

From the June 2010 budget onwards, the Coalition promoted the idea that a ‘fair’ program of cuts would be one with a broadly uniform proportional impact across the range of incomes. This approach was endorsed, at least implicitly, by that most influential of independent commentators, the IFS. Once this measure of fairness is established, it is impossible to oppose any individual reform simply because it hits the poor.

Attempts to frame things differently have not always been helpful either. We have great reservations about the rhetoric of the squeezed middle, because it is politically ambiguous. If the squeeze is ‘from above’ then the politics points left, whereas if the squeeze is ‘between’ (rich and poor) then the politics point right. But regardless, if the middle is being squeezed, the idea that the bottom should be spared is asking a lot indeed. Similarly, attempts to show, quite correctly, that many benefit recipients are in work merely extend the definition of deserving poor, making those out of work look ever less deserving of support.

It also seems that the entrenched defence of the poverty line left important building blocks of the benefit system dangerously exposed. When the government abandoned the long-standing rule that working-age benefits should be uprated in line with inflation it did provoke a storm of protest. When it abandoned the rule that those benefits would not be required to cover either rent or council tax it did not. This is presumably because the latter took effect through the very obscure concept of the ‘applicable amount’. Yet for those affected, the undermining of the applicable amount is more important than the retreat on uprating.

Against this background, opposition to any specific welfare reform needs other, more technical arguments, such as whether it will really save money or what the adverse, unintended consequences might be.

But even arguments like this may not be enough because they imply that what is being proposed is wholly without merit. Yet as we think about April’s changes in some cases at least, a genuine problem motivates and so justifies the reform. When this is so, a merely reactionary opposition both strikes people as unrealistic and pits the interests of those who are poor against social progress. This is highly damaging.

We now take the reforms one at a time. In each case, we look at the rationale for the reforms and ask whether such policies can achieve their stated objectives. We begin with council tax support.

COUNCIL TAX SUPPORT - SIMPLY A BAD REFORM

Council Tax Support (CTS) is the locally designed replacement for the national system of council tax benefit (CTB). Affecting only working-age households – government having said that pensioners should be protected as they were under CTB – the reform in reality is limited to England after the Welsh and Scottish government decided that CTB rules should still apply. Our study of the impacts of CTS, published by the Joseph Rowntree Foundation, can be found [here](#).

Let's first look at the costs. This reform had an explicit saving built into its design, with the total amount of money for CTS schemes being 10% less than had previously been spent on CTB. After allowing for the transitional grant, the saving adds up to £400m in the first year.

But this is a saving for the Treasury in London. For the 58 English local authorities – and the Welsh and Scottish governments – who have decided to stick in effect with the CTB rules, at least for a year, the Treasury's saving is their cost. For the public sector as a whole, which is what matters from an economic point of view, the net saving here is zero.

In 41 local areas there will be a minimum charge of more than 20% of the applicable council tax. Across the 232 local areas where the CTS scheme means a minimum payment for all, there may be a net saving. But these have often been costly schemes to design, are likely to be costly to administer and it is uncertain how much will actually end up getting collected. All this can make for a 'business case' for the local authority simply to take the hit. Here is [Wandsworth's](#):

“Any reduction in maximum benefit levels will, due to Wandsworth's distinctively low Council Tax, see the need to collect very small levels of Council Tax from households that are by definition on low incomes and in many cases could be receiving reductions in other welfare payments. The size of these amounts in respect of Council Tax would in many cases be uneconomic to recover, with the costs of collection, including legal recovery costs which fall to the Council being higher than the bill, and would in all likelihood have to be written off when the debt is uncollectable which would mitigate against the savings made on reducing the level of support.”

But is there perhaps a deeper problem that is being tackled here? One part of the case for CTS is that local authorities can use the flexibility to tailor support in their area for those who need it most and to better encourage people to take up work.

Yet where is the evidence to explain why disabled people in one area, say Huntingdonshire, should be treated differently under CTS from similar people in next door Peterborough? Or why those in work and getting CTS in Brentwood merit a slightly better financial incentive to work extra whereas those in Trafford merit a slightly worse one? Lacking such evidence, or any reason to believe that local authorities can alter individual behaviour in this way, the supposed 'problem' being addressed here is a fantasy that actually ushers in the worst form of tinkering, arbitrary, state micro-management.

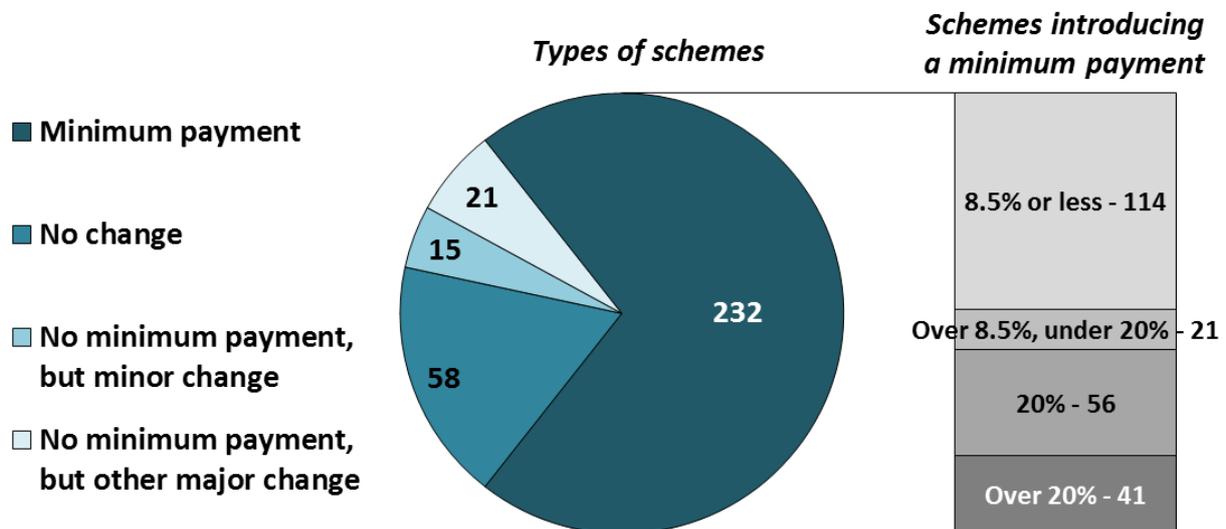
What about the likely consequences? We have frequently been told this past week that spending on CTB has grown sharply. With an extra 0.75 million working-age households getting CTB since 2008, indeed it has. But in times like this, that is exactly what is supposed to happen. CTB is a shock-absorber, to help people who have lost their jobs or suffered a reduction in paid hours cope with council tax.

For the individual, CTS is still a shock-absorber, albeit a less effective one. But here is the point: with CTB, the shock was absorbed at the centre, the Treasury picking up the tab. Under CTS it is absorbed locally, first by the council and eventually either by local tax payers or by service users. In this way, local areas are given a financial reason to want to keep down the number of poor people living there.

In itself, CTS is small beer. But it is the first step on a road and there is at least one local authority which, following this logic, has introduced a residency requirement on CTS entitlement. If, say, in five years' time, other bigger benefits are changed so that their risks and rewards are borne locally too, then the social cohesion of England – and it is only England that is taking this road – will start to be called into question.

If this reform is so bad – and try as we might we can find no merit in it – what would be better? The reform of council tax itself has much greater potential for improvement; for example, introducing extra bands at the top and the bottom or looking again at the single person discount. If the thrust of reform is towards greater localisation, there is ample scope within such changes for allowing local discretion. If one wanted to keep the details of the council tax national, such changes should at least be on the table.

As a result of the reforms, in 58 councils low income households will pay no council tax. In 41 councils, they will pay over 20% of their council tax bill



BEDROOM TAX: A MISSED OPPORTUNITY

The “bedroom tax” – officially the under-occupation penalty – affect working age households living in social housing with a spare bedroom. Under this new penalty, such households will have their housing benefit cut by 14% (or 25% if they have more than one spare bedroom).

Will this reform save money? In fact, the potential savings are not the main reason for introducing this policy; its aim is to make better use of the social rented stock. However, the [DWP Impact Assessment](#) does claim that the policy is intended to contain Housing Benefit expenditure in the social rented sector. The savings would result from cutting housing benefit to 660,000 households by an average £14 per week, saving £480million in the first year. But this would only be achieved if people stay put and bear the cut and as such it would be at the expense of the goal of making better use of the social rented sector.

Alternatively, if an affected household swapped with an over-crowded household the housing benefit spent would be unchanged (although each household would be more appropriately housed). If smaller social rented accommodation was not available the other option would be to move into a smaller private rented home, where rents are typically higher. In that case the housing benefit paid to that family would increase as a result of the bedroom tax.

The main reasons for the policy are twofold; to encourage greater mobility within the social rented sector, and to make better use of available social housing stock. These aims are worthwhile. If there is demand for social rented housing we should try to make sure the resource is fully utilised.

But the bedroom tax won't achieve these goals to any significant degree as it only covers 29% of under-occupiers in the sector. Some 38% are exempt because they are of pension age and another 32% are exempt because their incomes aren't low enough to be on housing benefit. A policy that includes all under-occupiers rather than only the poorest would surely be more effective.

Moreover, a household's benefit is cut even if there is no alternative social rented accommodation available. So the policy penalises people for not living in housing that they are unable to access and it provides little incentive to social landlords to build smaller accommodation for under-occupying households to move into.

Another reason given by DWP for the bedroom tax was that it would improve work-incentives. But work incentives hardly change as a result of the bedroom tax. In fact the group who will see the greatest increase in their incentive to work are those with high enough incomes to only get partial housing benefit (i.e. those already working).

The concern that we should make better use of the social rented sector is legitimate: 8% of social rented households are overcrowded while 40% are under-occupied. But this policy is the missed opportunity to deal with some of these issues in a more effective way. So what might be better?

Firstly any policy should apply to everyone in the social rented sector rather than only those in receipt of benefit, for example, by increasing rents for all under-occupiers. Secondly, if a penalty is imposed it should only be applied to the tenant if they have refused reasonable alternative accommodation (and this should take disability requirements into account). If there is no such alternative, any penalty could apply to the social landlord for failing to provide this option and to provide an incentive to build more appropriate sized dwellings.

All of which deals with individual incentives. But the connected problems of under occupation and overcrowding are systemic, and require broader changes. In the longer-term more flexible tenancies are required, where rights to social rented accommodation are retained, but not the right to a particular dwelling. This should be flexible to respond to the changing needs of the household, offering support to families when they move.

Finally, there is a very basic issue of supply. With housing waiting lists long and growing, and rising private rents pushing up the housing benefit bill, investment in affordable social housing would solve more problems than the bedroom tax ever could.

DLA AND PIP: HOW NOT TO CUT

Having looked at three big changes separately we now look at two together. One is the replacement of disability living allowance (DLA) by the personal independence payment (PIP) for those of working-age. This is a process that will take several years to implement. The other is the decision to restrict the up-rating of most working-age benefits by just 1% in April instead of the 2.7% which (based on the rate of consumer price inflation) is what the previous rule would have implied.

Over time, both of these changes save a lot of money, well in excess of a billion a year in each case. This compares with just over £1 billion in total from the other three changes considered earlier –council tax support, the bedroom tax and the household benefit cap.

But as ways of saving large sums of money, the two could not be more different. The replacement of DLA by PIP is a major reform affecting a group of people, some of whom are very vulnerable indeed. Following the consultation and the government's response to it, Spartacus produced a report of its own, [Responsible Reform](#), written and researched by sick and disabled people and their supporters.

In line with our theme here, this report did not oppose the reform just because it would hit people who were poor or disabled. Nor did it oppose reform of DLA; on the contrary. But it did challenge both the government's interpretation of key evidence, the process it had followed and its subsequent response to consultation. For a reform affecting any group so profoundly, such criticisms must be taken seriously.

Government is entitled to question whether benefits are working and whether reform is needed. It is also inevitable that politicians will use hard, even extreme, cases to do so. But alongside this right, Government also has an abiding duty to undertake reform in a measured way, seeking to accept reasoned objections and to accommodate them if at all possible. If a better DLA had really been the over-riding goal, a critical but reasoned document like Spartacus' would have been seen as helpful in moving towards it.

Even if this 'better DLA' had been required to make a small saving, reform would still have been possible. But the actual requirement, imposed in the 2010 Budget, for a saving of 20% made this impossible. It meant that DLA to PIP could only be an exercise designed to reduce support without regard to its adequacy or the need for it. To present a deep and arbitrary cut as 'reform' is simply dishonest.

By contrast, the decision announced in autumn 2012 to restrict the annual up-rating of working-age benefits to 1% for three years, was not a reform. This restriction was widely opposed, not least because (contrary to the impression given by the Government) it impacted on working as well as workless households.

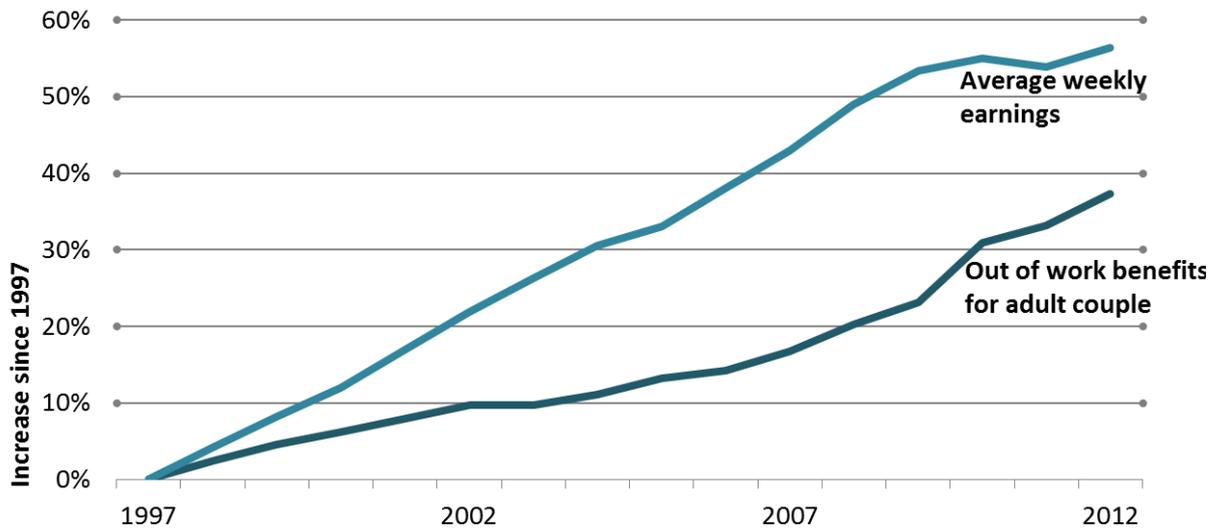
While we understand that if a government decides that it must save money on the benefit bill, this is the best way to do it. It does not muck up or undermine reform. It does not cost anything to implement. Nobody suffers an absolute, sudden or large cut in their money. Rather it is just that the relief on the squeeze they have suffered from inflation is less than it would have been. There is time to adjust. Applying to a large number of people, a small reduction can still yield a lot of money in total. It is honest.

We actually think the government should have gone further. First, why exempt pensions and pensioner benefits? With pensioners accounting for roughly half of total benefit spending, extending the restriction in this way could be expected to double the yield. Political reality rules this out, we expect to be told, because pensioners are powerful. But if the need is imperative, a strong politician would still make the case.

Second, the government’s argument for restricting working age benefits appealed to the fact that wages had risen more slowly than benefits in the previous few years. Although this has certainly not been true over the longer term, it is true at the moment. If it is sustained for more than a year or two, such a difference strikes us as dangerous. The government’s argument was a reasonable one.

But if ‘all in this together’ means this, as it does, then it should also mean that when the economy eventually recovers and wages start to grow again, benefits should start to rise in line with earnings. Political reality rules this out, we expect to be told, because the poor are too weak. But if justice is imperative, a strong politician would still make the case.

Rises in the value of out of work benefits have been greater than earnings in the last couple of years but much less when compared over a longer periods



THE OVERALL BENEFIT CAP: MORE POLITICS THAN POLICY

The Overall Benefits Cap is designed to prevent working-age households from receiving more than average earnings from benefit payments. This is equivalent to £350 a week for single childless adults and £500 a week for couples or those with children. The benefit cap is designed to affect those who are workless, and so those receiving Working Tax Credit (WTC) or who work enough hours to be eligible for WTC are exempt.

The benefits counted for the cap include the main out-of-work benefits and means-tested benefits such as housing benefit, child benefit and child tax credit. Most disability and some sickness-related benefits exempt the recipient from the cap (there’s a full list [here](#)).

DWP estimates that 56,000 households will be affected by the benefit cap, and the average loss is £93 a week. In cash terms, this is expected to save around £275m in 2013-14 and 2014-15 (£270m and £265m in 2012-13 prices). However, [a leaked letter from Eric Pickles' office](#) to the Prime Minister suggests that the cost estimates do not include those borne by the local authorities from the increase in homelessness and temporary accommodation. In fact, the letter notes 'we think it is likely that the policy as it stands will generate a net cost.' The letter said that the overall benefit cap could produce 20,000 additional homelessness acceptances.

One of the intended consequences of the overall benefit cap is that low-income families will move out of expensive areas. In fact, there is some evidence of this already happening in the private rented sector, where a similar cap was introduced in 2011. One could expect this to be repeated with the introduction of the overall benefit cap.

But the policy is also intended to send messages; of all the changes brought in this month, it is the most political. To that end, it has been successful – it is frequently cited as one of the Coalition's [most popular policies](#). Examples of families claiming £50,000 or even £100,000 per year under the previous system are frequently rolled out, irrespective of their rarity in real life. The change actually affects very few people, but the signals it sends out are strong.

The cap further erodes the idea that housing benefit will fully cover rent, leaving the personal allowance to be spent on everything else. This is an extension of the principles in both the LHA cap and the introduction of council tax support, so in itself is not a new principle. What is really new about this cap is that it restricts the amount of money payable in child support. Beyond a certain family size, the amount received in benefit stops increasing.

Putting to one side whether or not these principles are correct, the second of them at least has never really been made explicit. If the amount of child support families can claim is to be capped at – say – four children, the government should say as much. This is a big change.

The cap is currently set at the level of average household earnings. Coincidentally, the cap of £500 is more or less the poverty threshold before housing costs for a couple with four small children. This is certainly more generous than, say, job seeker's allowance for two adults without children, which comes nowhere near the poverty line.

Whether the level of the cap is problematic is at least debatable. Whether the way the change is being implemented is not. Suddenly cutting the amount of money a family receives by more than £90 a week on average is a huge hit which leaves them with stark choices to make. That a family should move house is a consequence the government would clearly be happy with. That it might be more economical for that family to split up is surely not. If ever a change should be made with long transitional arrangements then the introduction of a limit on the number of children for which the state will offer support must be it.

In any list of welfare reforms, restricting the amount paid to a small group of people would not be our priority. It is lamentable that such a policy has been allowed to dominate any meaningful discussion of social security. At some point, a government will have to come along – history shows that it could be of the left or the right – to sort out the mess caused by reforms designed to serve political rather than practical ends.