

POLICY EXCHANGE

WELFARE MANIFESTO

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Policy
Exchange 

#WELFAREMANIFESTO

“ The UK is at the cutting edge of welfare policy, discovering, facing, and solving issues which have not been addressed anywhere else in the world. The challenges we face are unprecedented, and the solutions unclear. In short, there is no roadmap for how to fix the problems in the welfare state.”

BY 2020 BRITAIN SHOULD AIM TO...

Create a system which reduces both dependency on government, and poverty

Ensure that the welfare state is trusted and fair

Make the welfare state more affordable

Restore the concept that contributions count

Make the welfare system simpler to understand and use

ABOUT THE ECONOMICS AND SOCIAL POLICY UNIT

Policy Exchange wants to see a high growth, enterprise led economy in the UK with freer markets driving growth and opportunity. Where individuals, families and communities are encouraged to take responsibility and are able to flourish. We are optimistic about the country's future and the power of freedom and responsibility to improve people's lives.

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ACKNOWLEDGEMENTS

Policy Exchange would like to thank the wide range of individuals, businesses and other organisations that shared their ideas, perspectives and insights during the course of our work. Thanks in particular to the Hadley Trust for partnering with us on this project, and on the work over the last few years that forms the basis of the manifesto.

We would also like to express our gratitude to the Policy Exchange alumni of Ruth Porter, Ed Holmes, Matt Tinsley, and Matt Oakley for their various contributions. Any errors or omissions remain our own.

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INTRODUCTION

The British welfare state is in the middle of a once in a generation upheaval. Ensuring that social security provision comes out of it strengthened requires politicians and policymakers to have an honest debate about the issues. An effective welfare system is an integral part of a fair society.

Across the developed world, social security is undergoing a profound transformation. Nowhere is this truer than in the United Kingdom. An ageing population, the changing nature of employment, and weak public finances all mean that whoever wins the general election will have to answer serious questions about how they can guarantee a fair and effective welfare system for years to come.

Not many people would disagree with the principles that should guide the design of the welfare state. Providing a safety net is integral to creating a just society. Helping people into work provides them with dignity

and personal fulfilment. Supporting the elderly and vulnerable is the right thing to do. Reducing dependency and poverty is not simply an abstract exercise in statistics, but a real way that lives are changed and improved.

Building a system reflecting these principles, however, is easier said than done. Nevertheless, the Coalition has implemented policies that improve work incentives, offer more comprehensive employment support for the hardest to help, and provide greater long-term financial sustainability for the public purse.

Some of the most radical changes include: the advent of Universal Credit, limiting the

marginal effective tax rate a welfare recipient will face to 76.2% of their earnings¹; the introduction of the Work Programme as one of the most advanced pieces of commissioned employment support in the world, with estimates that 2.1 million people will be referred to it by March 2016²; and, the increase in the State Pension age being brought forward, saving tens of billions of pounds in future years.³

In short, progress is being made, and now we need to look at what is next, and to ensure that the welfare system is fit for the 21st Century.

In doing this, the public needs to be convinced that the provision of welfare is becoming fairer. There is strong support for social security and safety nets, with a 2012 poll finding 70% of respondents agreeing with the sentiment that the welfare state is “one of Britain’s proudest achievements.” However, the same survey found widespread concern about the state of the system, with some 64% thinking that the benefits system could be improved quite a lot, or needs to be completely overhauled.⁴

When a 2013 poll asked why the welfare state is facing severe problems, 32% of respondents said that politician mismanagement was

chiefly to blame. They were viewed as more culpable than UK benefit claimants for falsely claiming benefits (20%), benefit tourists (16%), or the European Union (15%).⁵ No party outranked the answer “none” when asked “which of the main parties do you trust most on the issue of welfare benefits?”.

The media has an obvious role in informing public perceptions. Sometimes, however, these perceptions can be divorced from reality. A 2013 poll found that, on average, respondents believed that 41% of the welfare budget was spent on unemployment benefit, and that 27% of the welfare budget was claimed fraudulently. Respectively, the true figures in monetary terms are 1.8% and 0.7%.⁶ although the nature of fraud was not defined by respondents.⁷

That these misconceptions exist does not mean that they are trivial issues that should be ignored – entirely eliminating fraud, for example, would save enough money to increase the Personal Tax Allowance by £200.⁸ It is also true that policy changes that have a relatively small impact on the public finances can become totemic in the welfare debate, with the Spare Room Subsidy and Household Benefit Cap being particularly relevant recent examples.

However, reducing fraud and error has to be a two way street. While claimants are required to meet conditions to receive payments, government should keep its side of the bargain in administering them efficiently, and communicating changes clearly. A recent inquiry found that the single biggest reason for food bank referrals was the poor administration of benefits.⁹ This is not good enough.

In the past few years there has been an enormous appetite for testing and learning. From government to charities to individuals, there is an enthusiasm to be smarter, more effective, and more innovative. That is why, come May 2015, every party must have a plan and vision for welfare, and a knowledge of what this means practically. This vision should include five key values – a welfare system that:

- Is effective at reducing both dependency on the state, and poverty.
- Ensures trust and fairness.
- Is affordable.
- Recognises the concept that contributions count.
- Is simple to understand and use.

EFFECTIVE

The welfare system should act as a safety net, encourage self-sufficiency, aim to reduce dependency and poverty, and protect the vulnerable.

The problems faced by each person in receipt of state support are different, and a one-size-fits-all approach will not always work to tackle them. Equally, issues should not just be dealt with after they have become acute and with the bare minimum of support, but identified and addressed as early as possible.

Some people will just need a little help or a push down the right path; some will need large amounts of assistance, or direct intervention. This is especially true for welfare to work policy. Greater personalisation will reduce unemployment, which will in turn reduce government expenditure. It will also mean the system is fairer, by ensuring that claimants get the help that is appropriate before being faced with a conditionality regime. More generally, finding people employment of any kind, meaning that claimants cycle in and

out of short-term work, can sometimes be of questionable value (See Chart 1). Sustained employment should be the ultimate aim.

The government's Work Programme recognises this, operating with a remit to offer increasingly specialist services to around 2.1 million people between 2011 and 2016.¹⁰ It works on a "payment by results" basis, with a focus on sustained job outcomes, meaning that providers receive most of their fees only after jobseekers have held employment for a set period of time. However, it still has a way to go before its potential is realised. As with all commissioning of this scale, there are many inbuilt design issues, and there are question marks hanging over how new contracts will work alongside the transition to Universal Credit.¹¹

Tailored support does not simply mean improving services for the hardest to help, but providing more appropriate support at every level.

The biggest problem that the Work Programme faces is that financial incentives for providers are not properly aligned with a claimant's distance from the labour market. Known as "creaming and parking", help is focused upon those that are closest to the labour market (the creaming), and less resource is applied to those unlikely to enter sustainable employment and generate a fee for the contractor (the parking). Put another way, the payment for getting somebody with many barriers to work into sustained employment does not reflect the difficulty of achieving it. This is not a criticism of providers, who are taking the rational course of action to deliver the best outcomes for the highest number of individuals, but does highlight that the most vulnerable claimants may not always receive the most effective support from the Programme's current design.

Whoever wins the next election will have to make decisions over the next round of Work Programme contracts, and set a course for how employment support should be delivered in the near future. This is not an insignificant set of decisions. Payments to Prime Contractors on the Work Programme are set to total £2.8bn between 2011 and 2020, which is forecast to realise £450m of benefit savings.¹² In purely financial terms the stakes

are high, and they are even higher when the waste of human potential through welfare dependency is considered.

Tailored support does not simply mean improving services for the hardest to help, but providing more appropriate support at every level. For those closest to returning to work this may mean a lighter touch approach which allows them to focus on finding employment; for others it may be expanding the New Enterprise Allowance scheme so they can start their own business. Personalised support means exactly that – a focus on tackling the unique barriers each individual has.

Sitting below the big pieces of commissioning, there have been some attempts to move social policy to more targeted interventions. The Troubled Families Programme, for instance, has the potential to better address a range of influences and barriers, including domestic violence, relationship breakdown and physical health problems.¹³ With a move towards devolution through the establishment of City Deals there is an opportunity for cities to bid for greater autonomy over the functioning of Jobcentre Plus, commissioning of the Work Programme, and support for the hardest to help. This would allow a much more effective joining up of support locally, so that specific community and family issues can be addressed. Ultimately,



CHART 1
Proportion of JSA claimants leaving benefit and entering sustained work

there are very different labour market needs across the UK at regional, sub-regional and community levels (see Chart 2).

At the heart of this is creating a system of appropriate incentives and focussing on long-term solutions rather than short-term fixes. This necessarily means incentivising Jobcentres, external providers, and individuals to find and maintain employment. The way to do this is to fundamentally reconsider what success would mean for an individual and their family, and to evaluate what this should mean for the government. It will mean focussing on the destination rather than the journey, and on outcomes, not processes.

To understand the destination requires a better way of the government measuring its progress. The Child Poverty target is a case in point. Focussing on relative income measures has the potential to skew policy responses that have guaranteed effects on household incomes (in this case, redistribution through Tax Credits).¹⁴ This type of target runs the

risk of identifying only the symptoms rather than the deeper causes of poverty. We should look at the full range of the needs of children, not just measurement of incomes. Measured outcomes should include, at least, quality of housing, family debt levels, and educational attainment.¹⁵ In short, effective policy requires a proper understanding of the problem.

Recommendations

1. **Support should become more personalised.** Different people face different issues which prevent them from finding work and being self-sufficient. As part of this, the Department for Work and Pensions (DWP) should continue with its attempts to develop a diagnostic tool that segments claimants on how they are likely to respond to different interventions. This should be based on the Job Seeker Classification Instrument used in Australia, which analyses 49 questions to identify 18 risk factors of long-term unemployment.

FACT 1

“11 per cent of adults (5.3 million people) in the UK experience, at any one time, three or more of six areas of disadvantage (poor educational attainment, health, employment, income, social support, housing and local environment).”¹⁶

FACT 2

The DWP estimates it will cost £2.8bn to refer 2.1m people to the Work Programme by 2016. It is estimated that this will save £450m in benefit spending.¹⁷

The risk factors range from access to transport to phone contactability. Where particular barriers are identified further assessments are undertaken so that the claimants can be referred to the most appropriate service.

- 2. Future iterations of Work Programme contracts should have better incentives to help the hardest to help.** Contracts should be based around claimants’ distance from the labour market, rather than just primary benefit type and claim. This ultimately means that differential pricing is used to reflect claimants’ degree of barriers to work. Providers should likewise be incentivised to place some claimants in “mini jobs” below 16 hours a week, which could play a role in supporting the hardest to help back into the work place. To better support the Programme’s ability to adjust for local labour market conditions, alternative arrangements such as commissioning on Local Enterprise Partnership boundaries should be explored.

- 3. Specialist provision for those who have not so far found employment through the Work Programme should be established.**

Creating a ‘Route2Work’ scheme would help around 65,000 people who exit the Work Programme each year. Unlike the Work Programme, social enterprises and specialist charities would be paid upfront to provide intensive and personalised employment support services, to avoid the cashflow problems that smaller providers experience in a payment by results system. This could include building employment skills by working in a social enterprise, or joining up health and social care with employment and skills support. In general, groups in the community who understand the local labour market will be better placed to provide people the help they need to find work.

- 4. Local approaches should be enabled by making funding follow individuals to a suitable provider of their choice, rather than commissioning services directly.** A system which funds local

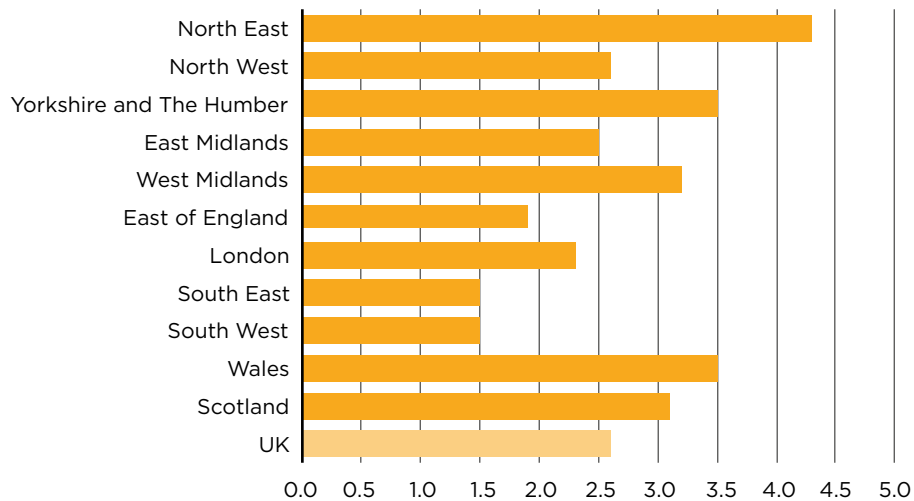


CHART 2
 ONS: Claimant
 count rate by
 region

and innovative approaches is preferable to directly commissioning large-scale programmes. It allows providers to be more responsive, increases the options available to individuals, and avoids the pitfalls of large-scale government commissioning.

5. Measures of success for Jobcentre Plus (JCP) and other providers should be evaluated on the basis of sustainable employment rather than how many people leave benefits.

Measures could include outcomes payments tied to the individual's future earnings, tied to a sustained period in work, or tied to measures such as being off Universal Credit and out of poverty. While short-term measures can be useful in public policy to achieve a desired aim quickly, we should encourage interventions with long-term gains, rather than temporary outcomes.

FAIR

People in receipt of out of work benefits should do everything they can to try to find employment. There should be an accepted set of rights and responsibilities, backed up by a fair system of enforcing them.

The concept of rights and responsibilities is at the heart of our welfare system. It is fair that the most vulnerable in our society are protected, but it is also fair they are asked to do whatever is feasible to reduce their dependence on the state and taxpayers.

It should be emphasised that the large majority of the unemployed are making great efforts to find employment, and it is only a small minority for who this is not the case. Despite this, it should not be possible to get something for nothing, and it is reasonable to place conditions on the receipt of benefit. Having a system of conditionality necessarily means that there must be sanctions for those who do not fulfil their side of the bargain.

At their best, sanctions can influence behaviour by stimulating short term participation in programs that may assist claimants' attempts to find employment. But longer-term negative effects on earnings and hardship have been regularly identified. The implication of these findings is the importance of applying sanctions as fairly as possible, and ensuring that they are aimed at maximising the shorter term positive effects, and minimising any of the problematic long-term effects.¹⁸

Sanctions and conditionality do not exist for their own sake. Their purpose is to be part of a wider strategy to return people to work as quickly as possible. People should only be sanctioned when they have not met the requirements placed upon them,

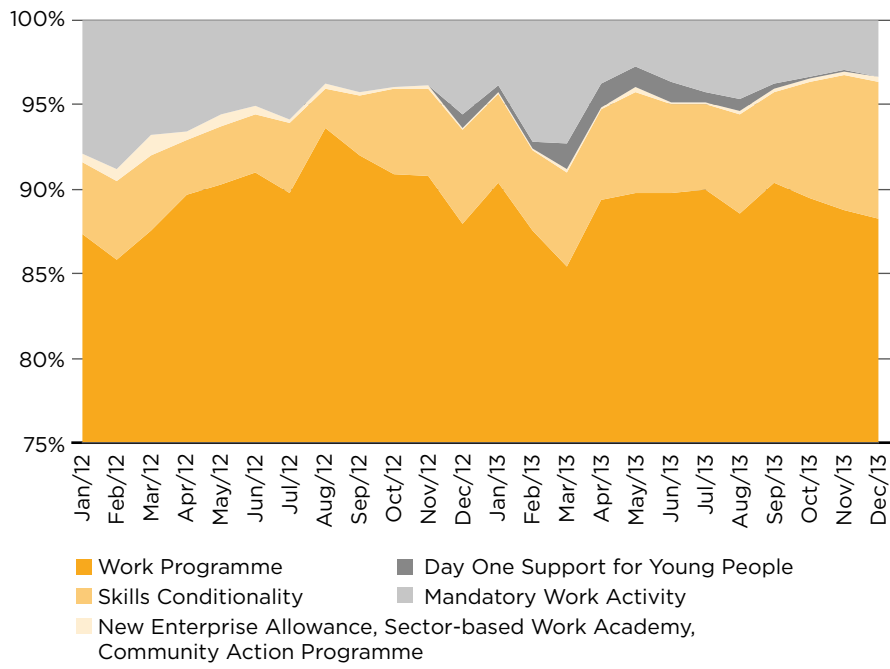


CHART 3
Oakley Review of Sanctions: Decisions to apply sanction for those on mandatory¹⁹ schemes, by scheme

and the sanctions should be proportionate. This becomes even more important under Universal Credit, with the prospect that those in-work will be subject to some form of conditionality. Policy Exchange has estimated that around 1.3 million people could be affected.²⁰

These are not trivial issues, and Policy Exchange has previously estimated that around 14% of the claimant count is referred for sanctions, and 6% sanctioned each month.²¹ This means the requirements placed on claimants need to be clearly communicated, ensuring that sanctions are only received by those who are not making genuine efforts to find work.

The government has made progress in this area, with the introduction of the Claimant Commitment to make expectations of claimants explicit.²² Similarly, attempts to simplify

the system may help reduce confusion, and the government has focused on how to deal with a number of discrete issues, from the communication of sanctions for those on the Work Programme (see Chart 3),²³ to how to implement in-work conditionality.²⁴

These moves reflect a desire to get the system, and decisions, correct the first time. However, this is not always the case. For example, Policy Exchange has previously estimated that around 68,000 people a year wrongfully receive a ‘first, lower tier’ sanction that is later overturned. This amounts to around 29% of people within that category (See Chart 4).²⁵ If decisions are consistently wrong, then something needs to be done to mitigate the impact of those wrongful decisions.

There is also a wider risk that sanctions can have a counterproductive effect for certain groups – causing them to become distracted

FACT 3

49% The percentage of the public who believe that those who refuse job offers or interviews should “lose a large amount of their benefits, say half, but keep enough to cover their basic needs.”²⁶

FACT 4

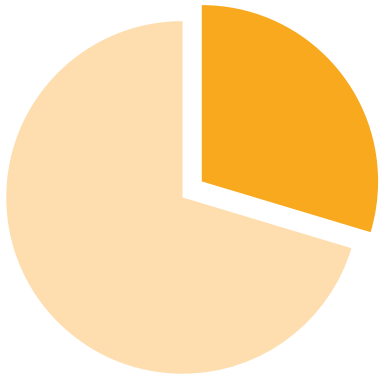
There were over 890,000 adverse sanctions decisions applied between July 2013 and June 2014.²⁷

from their jobsearch. This does not mean that the principle is wrong, but rather that the form the sanction takes can be inappropriate in certain circumstances. Whilst most do not contest the principle behind them, there is an open question as to whether they could be improved.

Of course, perceptions of fairness are arbitrary to an extent, and perceived unfairness in the welfare system can take many forms. Somebody over the age of 25 can receive income based Jobseeker’s Allowance at a rate of £72.40, the same amount as somebody that receives Contributory Jobseeker’s Allowance that reflects work history. This could be regarded as unfair. As could the policy that some people’s benefits are capped at £26,000 (which, depending on your view point could be too high a cap, or an unjustified way of controlling benefit expenditure on individuals with high housing costs and large families). It is the responsibility of government to justify why the welfare system is constructed in the way that it is. Not doing so fosters resentment; this, in turn, can result in bad policy decisions.

Recommendations

- 6. Conditionality should continue to be at the heart of our welfare system, with rights and responsibilities communicated effectively.** In return for receiving support, it is reasonable to require individuals to do all they can to find work. This means setting proportional conditions on benefit receipt, based around encouraging actions to help people return to work. A system of conditionality cannot work if people do not understand what is required of them, and why they should carry it out. The Claimant Commitment is a welcome step towards ensuring they have the necessary knowledge, and similar steps to publicise and explain the welfare system should be undertaken.
- 7. Non-financial sanctions should be considered as part of enforcing the conditionality regime.** Removal of benefits for minor offences can cause hardship, with evidence suggesting that a significant proportion of food bank referrals result from benefit



Of those who lose their jobseeker's benefits for a minor first time breach of conditions:

29% are found to have been wrongly sanctioned

That means

68,000

people a year see their benefits withdrawn for as long as 4 weeks

CHART 4

The amount of people incorrectly sanctioned

stoppage. There are several options for non-financial sanctions – such as increasing sign-on requirements, paying benefits on ‘yellow cards’, or different work activities. The important aspect is ensuring that these approaches are properly trialled and the feedback is used to inform future policy choices.

8. **The DWP should pilot different interventions to determine how claimants will respond to in-work conditionality.** A stated aim of government welfare policy is to help claimants of in-work benefits to sustain their jobs for longer and increase their earnings. However, existing evidence tells us that this can be extremely difficult for individuals with relatively low levels of qualifications, and for employees in low-income jobs.²⁸ There are three areas in which DWP should undertake pilots to inform future policy decisions:

testing variations in signing-on regimes that in-work claimants face; financial incentives for claimants, such as shares in any benefit savings realised from in-work progression; and, financial incentives for jobcentre advisers that help claimants to progress in-work.

9. **External contractors such as Work Programme providers should have a greater level of flexibility in applying conditionality.** Currently, at least some issues with incorrectly applied sanctions arise because Work Programme providers are contractually obliged to report attendance and compliance issues. They can apply no discretion about minor breaches of conditionality. Frontline advisers should have more flexibility in applying the conditionality regime, which would make the system more effective.²⁹

AFFORDABLE

Welfare accounts for around 30% of all government expenditure each year, and this figure is set to increase. Commitments to deficit reduction over the course of the next Parliament have triggered a debate about social security spending in the short-term, but an ageing population necessitates a debate about social security spending in the long-term as well.

The repair of the public finances has dominated the economic debate in the current Parliament, and is likely to continue to do so after the General Election in 2015. The Coalition has performed well at checking the historic increase in welfare costs (See Chart 5), but at around a third of all state expenditure, the cost of social security programmes will have to be considered in any future government's attempts to achieve spending reductions.

The majority of welfare expenditure is justifiable, but we need to make sure that resources are being spent as effectively as possible.

Saving small sums of money whilst ridding the system of anomalies is worthwhile, if only to help reduce negative perceptions of the welfare state. For example, limiting the award of the Winter Fuel Payment to people living in warmer countries than the UK will only reduce the welfare bill by around 0.0001%, but doing it makes for a fairer system.

Universal benefits are also an area that can create perceived unfairness. Some argue that switching from universality to means testing would stigmatise those that continued to be eligible, and would be a complicated

74% of people believed that Winter Fuel Allowance should only be available for those with income or savings below a certain level.

process. The simple fact is, though, that universal benefits are currently paid to some people that do not need the support. Universal pensioner benefits are a prime example. Despite general public support for the nature of the payment, there is some public acknowledgement that they are too generous: in 2012, 74% of people believed that Winter Fuel Allowance should only be available for those with income or savings below a certain level.³⁰

Entirely eliminating quirks and reforming universal payments will not, however, alter the long-term outlook for the public finances in a meaningful way. An ageing population will see the State Pension – and as a consequence the entire welfare bill – growing as a share of GDP in the coming decades.³¹ Indeed, the State Pension already consumes over 40% of everything that is spent on welfare (See Chart 6).

The Office for Budget Responsibility has said that upward pressure on State Pension spending over the long term will come from the “Triple-Lock” method of uprating.³² The government has argued that this is justified because pensioners cannot easily adjust their circumstances to gain further income, as someone of working age would be able to do.³³ While other benefits are frozen or capped, and while annual inflation and

earnings growth are currently running below 1.5%, the State Pension is guaranteed to rise by at least 2.5%. There have been calls from across the political spectrum for this system to be scrapped to save money, with both the Fabian Society and the Institute of Economic Affairs questioning its viability.³⁴

Beyond changing eligibility or limiting payments, the government can reduce welfare spending by addressing its fundamental causes. Government expenditure on Housing Benefit is expected to be £24.6bn in 2014/15, up from £15.6bn in 1994/5, driven by an increase in market rents.³⁵ Addressing the UK’s housing supply shortage could have positive impacts for this area of government spending. In general, there needs to be more recognition of how changing eligibility in one part of the system may impact on other areas of government spending, such as Local Authorities.

A cap on welfare spending from 2015/16 to 2018/19 was introduced in the 2014 Budget. If it is forecast that the cap will be broken, the Government must explicitly either increase the cap, explain why the breach is justified, or reduce the welfare spend. This should provide greater transparency on what the state actually spends on social security, but several benefits are excluded from inclusion, including

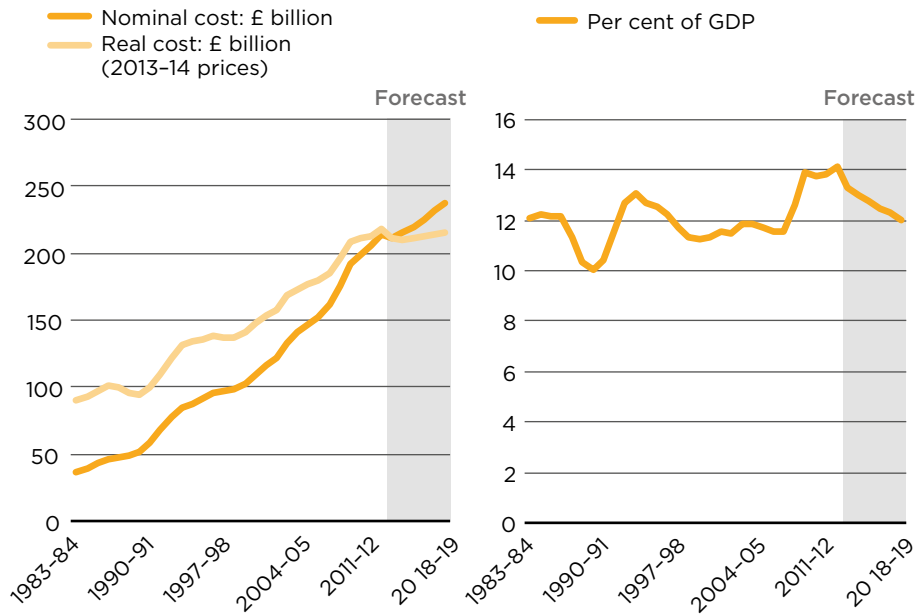


CHART 5
Total welfare spending in the UK³⁶

Jobseeker’s Allowance, passported Housing Benefit, and the State Pension.

Confronting the costs of welfare is not optional, either in the next Parliament or over the next ten Parliaments. As a start, we should aim to root out waste and increase fairness, regardless of whether that saves the Exchequer tens of millions, hundred of millions or billions of pounds. But even entirely eliminating waste would not be the end of the story; the older the population gets, and the more of national income that pension costs consume, the more there needs to be a debate about what we want our social security system to be.

Recommendations

10. The State Pension should be included in the Welfare Cap. It makes sense that Jobseeker’s Allowance and Housing Benefits should be left outside of the

Cap because spending is dependent upon the economic cycle, and is more difficult for the government to control. The costs of the State Pension, however, can be controlled by government. This does not mean limiting increases in the State Pension, but does mean that a more accurate picture of welfare expenditure would be presented.

11. Greater use should be made of the City Deals process to pilot and test new ideas that save money. Under this model, local areas could keep benefit savings that are realised by pilot programmes that get people into work and off welfare. The intended consequence of this would be allowing local areas the freedom to be innovative when reducing the benefits bill. As an example, benefits over a multi-year period for whole cohorts of claimants could be rolled up and given in a lump sum to a local commissioner

FACT 5

Welfare payments will take up 28% of all Government expenditure in 2015/16.³⁷

FACT 6

The State Pension is projected to rise in cost from 5.5 per cent of GDP in 2018–19 to 7.9 per cent of GDP in 2063–64.³⁸

of services. This could apply to specific types or groups of benefit claimants, or the benefit costs of particular areas or estates. Commissioners would then hold responsibility for coordinating and joining up support services and reimbursing DWP for any benefit costs over the contract period. Any savings from large portions of the group moving into work could be kept by the local organisation: providing sharp incentives to provide effective services.

- 12. Eligibility for child benefit should be capped at four children, and the payment level tapered from the first child to the fourth.** Some evidence suggests that the marginal cost of an extra child reduces as family size increases³⁹, which is inconsistent with the design of the current system where every child after the first is awarded an equal payment. Polling suggests that public opinion believes that Child Benefit payments for an unlimited number of children are unfair. This reform could be introduced at a point in the future so that potential recipients are fully aware of the number of children that would be eligible when making decisions over family size.

We estimate that this policy would save approximately £1bn by 2019/2020, if introduced in 2016/17 and accompanied by uprating limits.

- 13. The Winter Fuel Payment should be changed to an opt-in system.** This would maintain universality, as everybody currently eligible still would be. But it would bring the payments in line with other parts of the welfare system, where eligible recipients have to make a conscious choice to receive them. Currently, the majority of these payments are made automatically meaning that they are passively received. To protect low income recipients, those in receipt of Pension Credit could retain automatic payment. This has the potential to save the Exchequer £400m per year.
- 14. The Benefit Cap could be changed to a two-tier system to reflect regional differences in incomes and housing costs.** The cost of living varies across regions, and both Labour and the Conservatives have indicated that regional differences in the cost of living could be reflected in welfare design.⁴⁰ The first stage in creating a regionalised

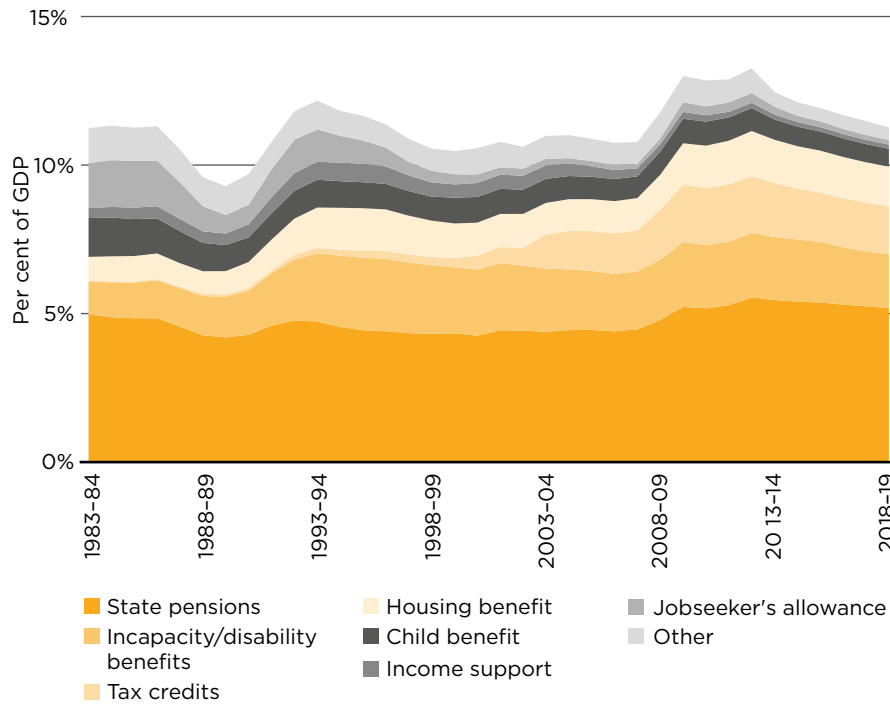


CHART 6
OBR: Welfare spending by type of benefit⁴¹

system would be to create two levels of Benefit Cap, one for London and the South East where average incomes within the UK are highest, and one for the whole of the rest of the UK. The level of the two caps could be set to reflect the relative difference between the lowest average income region in

London and the South East, and the highest average income region in the rest of the UK. There would be a choice of what level to put the higher cap area at. It could be the £26,000 currently in place; it could be higher or it could be lower.

REWARDS CONTRIBUTION

There is a lack of faith in the welfare system, with many feeling that the contributions that they put in do not count. A sustainable system has to reward what people have put in, whilst not compromising a base level of welfare.

The role of contributions in working age welfare has been eroded over a number of years (see Chart 7). Alongside this, the government's method of funding contributory benefits – with the large majority of the cost attributed to the State Pension – has essentially become “pay as you go”. National Insurance (NI) revenue meets benefit expenditure for the same year, rather than pay for the benefits of the contributing individual in the future.⁴² NI is now a form of taxation, rather than a system of insurance.

The contributory principle is supported by the public. 49% of respondents to a 2012 poll believed that unemployment benefits should “only be available to those who have

contributed into the system⁴³ ... regardless of their level of need,”⁴⁴ and a 2013 poll suggesting that 68% of people believe that “you should only benefit from state services if you have been paying into the pot which funds them.”⁴⁵

Perceptions that those on welfare are receiving ‘something for nothing’ have grown. Six in ten people think that benefits are “...too high and discourage [the unemployed] from finding jobs”, more than twice the proportion that thought the same thing 20 years ago.⁴⁶ This has resulted in politicians paying an increasing amount of lip service to restoring contribution, with little action. The Labour Party has gone the furthest, with a

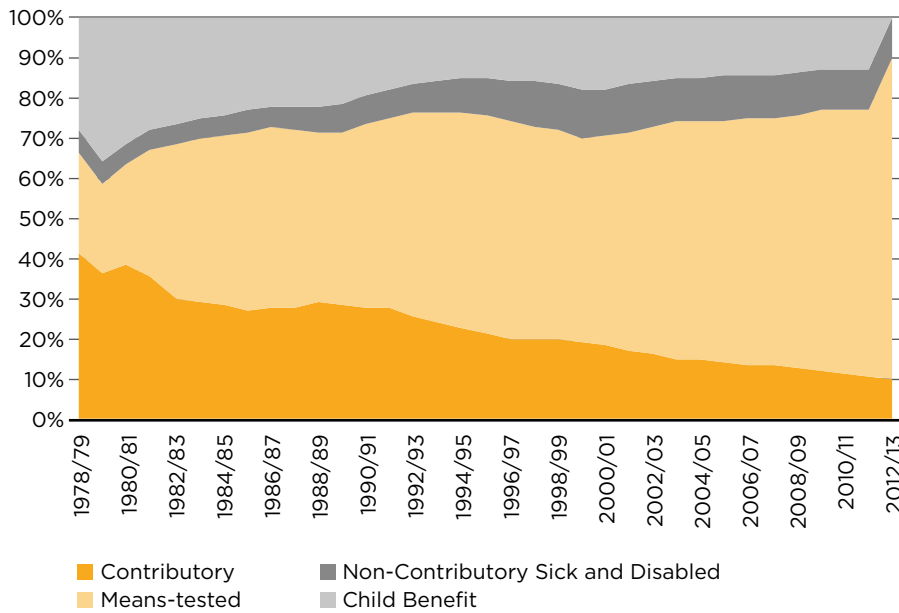


CHART 7
Historic expenditure on working age welfare

proposal to increase Contributory Jobseeker's Allowance by £20–£30 a week for a set period if a recipient has worked for more than five years.⁴⁷

But this is little more than tinkering. If we are to properly restore the principle that contributions count, it is necessary for there to be a complete step-change in how we view welfare and contributions. An entirely new design needs to be introduced, which utilises a combination of personal welfare accounts and a system of collective private insurance (see Chart 8).

Under this system, every worker in Britain would contribute a small proportion of their weekly earnings into both a new nationwide unemployment insurance scheme and a personal pot called *MyFund*. To make sure workers do not lose out, the government would offset the cost of participating

in the scheme through a reduction in NI for employees.

The insurance scheme, run by the private sector but guaranteed by the government, would cover the costs of the first three months of unemployment. Should a person remain unemployed after three months then they could draw down the contents from their *MyFund* account to support themselves, or – if their funds were insufficient – they would be supported by Universal Credit.

People would be able to build up their fund over the course of their working lives, drawing down on it in times of need, such as to retrain for a new profession. Upon retirement, any money left in an individual's account would go towards their pension package. In order to ensure that the system recognises employment rather than ability to pay, the funds put in after purchasing

FACT 7

49% think that unemployment benefits should “only be available to those who have contributed into the system, regardless of their payment into the system.”⁴⁸

FACT 8

Contributory benefits accounted for 41% of the working age welfare bill in the late 1970s, in comparison to 10% now.

insurance would be split equally between all workers' accounts. In short, the contribution of each week's work would be recognised in the same manner, regardless of their job or net pay.

The accounts would also give the individuals a greater degree of control and ownership, creating a recognisable area where their contributions count. This type of approach is necessary; trust must be restored to the system, and any further erosion of the contributory principle would render it almost non-existent outside of the State Pension. A new design, which promotes self-reliance, individual contribution, and a tailored approach would be the best way to reverse this decline.

Recommendations

15. Contributory Jobseekers Allowance should be replaced by a new system of individual accounts, with a 1% reduction in the main National Insurance rate to offset the impact on workers. This would allow individuals to build up a

specific 'pot' which belongs to them and represents their contribution into the system. The funds in these accounts should be used for two purposes: purchasing short-term compulsory insurance against unemployment, and providing a 'pot' of resources which can be drawn on. At initial unemployment benefits would be drawn equally from both, followed by the pot being gradually drawn down.

16. The system should recognise employment rather than ability to pay.

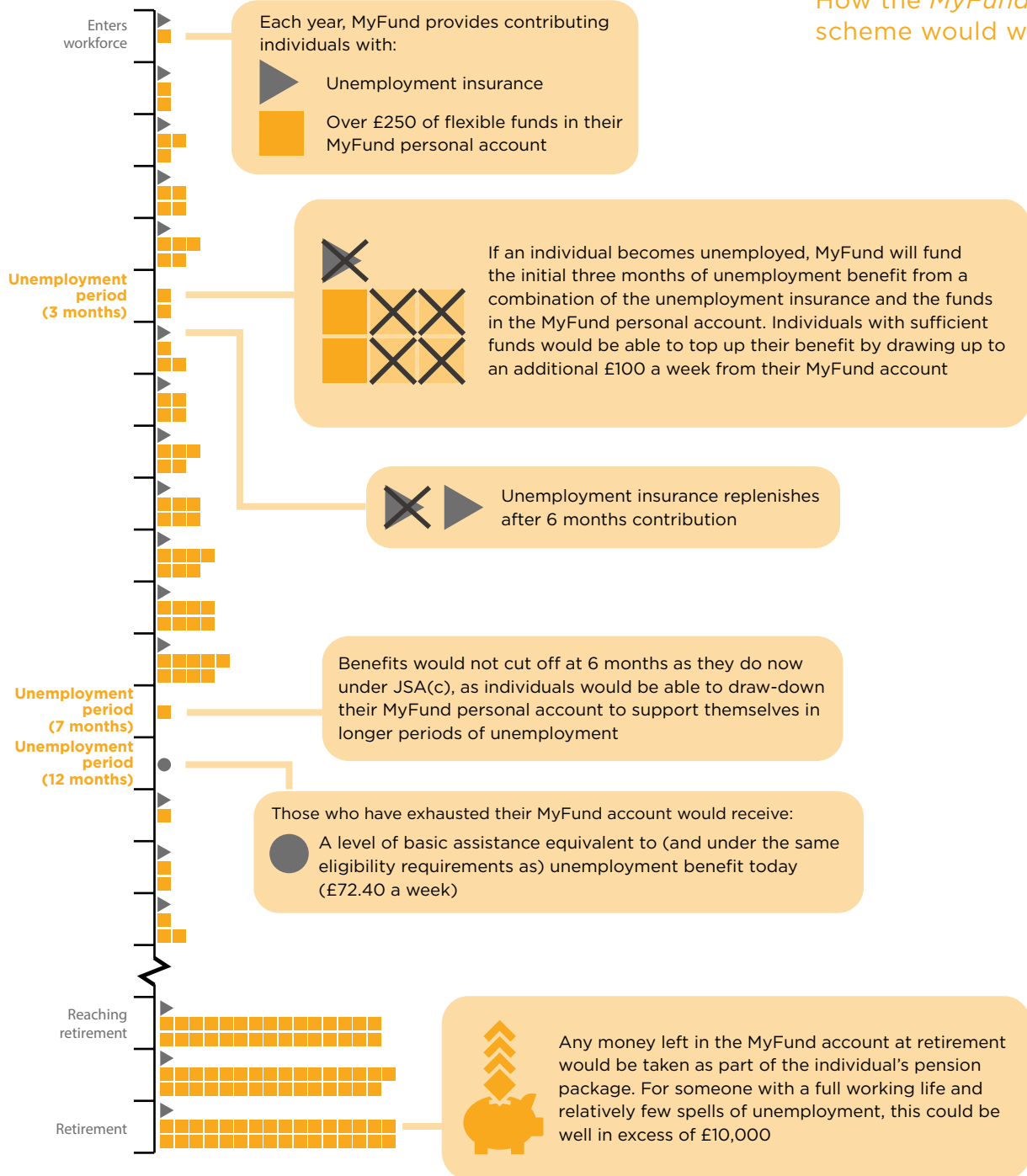
To achieve this, the funds which do not go on the insurance program should be split equally between the accounts of all those contributing, ensuring that the system remains redistributive and rewards a week's work identically for anyone who is part of the scheme.

17. This system should be used to provide extra flexibility and tailored support for individuals. The pot could be drawn down to provide more flexible support, including retraining, purchasing of goods in an emergency, or to cover interim costs when returning to work.

Working Life Timeline
(each section denotes 1 year)

CHART 8

How the *MyFund* scheme would work



18. This system should be integrated into Universal Credit, in order to become part of a welfare system suitable for the 21st century. For those not eligible for Universal Credit, drawing down elements of their pot would be optional, and for those eligible these payments would be deducted pound for pound from Universal Credit eligibility until they were exhausted.

19. The value of the pot should be preserved and converted if it is not used by the time an individual retires. This would provide a vital boost to pension pots for those who did not draw down their pot, and would be taxable under normal pension rules. This would help reinforce the concept of contribution and a tangible reward for those who have put into the system.

SIMPLE

Rather than facing endless complexity, people should be able to clearly understand the principles of the welfare state, and how it operates.

In the past, anyone who did not have extensive experience of the benefits system would be forgiven for finding it utterly bewildering. A myriad of forms and referrals would characterise a claimant's attempts to receive the credits, benefits, and services they were entitled to, often being administered by separate government departments.

Not only this, but the lack of integration meant it could actually cost money for someone to leave benefits and enter employment. In some cases, the interaction of welfare payments and earnings resulted in benefits being reduced by one pound for every extra pound earned.⁴⁹

Universal Credit is a landmark attempt to solve both problems, combining a series of benefit payments into one with a consistent

withdrawal of state support as an individual's earnings rise. The aim is to ensure that it will always be financially worthwhile to increase hours worked or to enter employment. The "taper rate", which dictates the speed that state support is withdrawn as earnings increase, is currently set at 65% before tax, and at a maximum of 76.2% after tax (See Chart 9).

The principles that underpin Universal Credit have support from across the political spectrum, but problems with its implementation have attracted criticism. Overly ambitious timetables for roll-out, IT failures, and poor project governance have all delayed introduction.⁵⁰ Full roll-out is not now expected to be completed until the end of 2019, two years later than originally planned.⁵¹

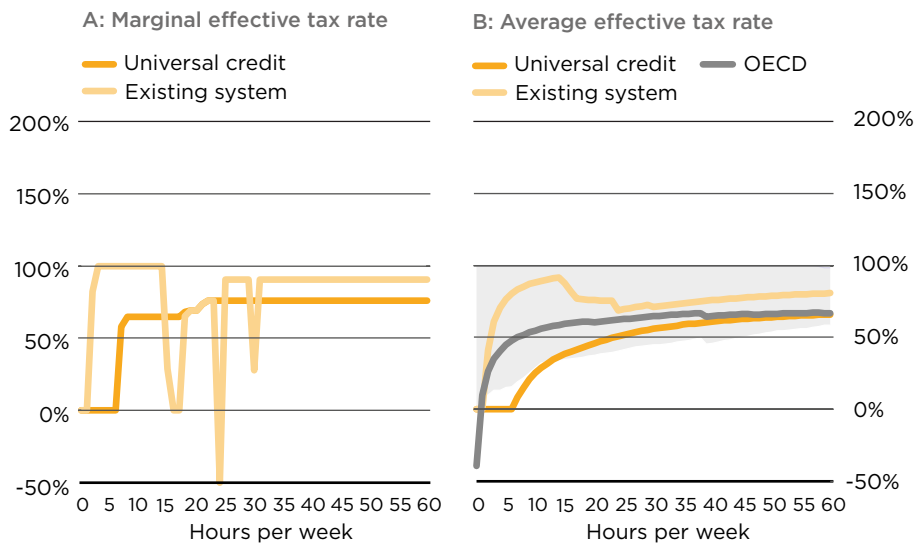


CHART 9
 OECD charts of Marginal Effective Tax Rate, and Average Effective Tax Rate for the primary earner in a couple with two children⁵²

The Labour Party has said that it would “pause” Universal Credit implementation, should it be elected, so that the National Audit Office can assess it for taxpayer value for money. While regular external monitoring of roll-out makes sense, whoever takes office should recognise the additional trust in the system created by Universal Credit is hard to quantify in a traditional cost/benefit analysis. Its introduction means that claimants can have faith that they will always be financially better off in work than out of work, and that changes to their circumstances will be more effectively and efficiently dealt with.

While the priority for Universal Credit within the next Parliament should be a smooth roll-out, there is still an opportunity to research possible design improvements. The project has embraced a “test and learn” approach so far in its existence, and this should continue. In addition, understanding how to incorporate any of the 21 benefits that remain outside of the Universal Credit framework - before

passport benefits, such as Free School Meals and Free Prescriptions, are even counted⁵³ - could both save the Exchequer money and make the system simpler.

While Universal Credit is the flagship initiative to simplify the welfare system, there is plenty that needs to be done - and can be done - to reduce complexity outside of its influence. The way in which an individual claimant interacts with the organisations that support the welfare state is particularly convoluted. At present, the institutions that provide access to benefits, employment support and training are a baffling hotchpotch, which lead to poorer outcomes for some individuals (See Chart 10). Users of the welfare system should be able to better identify how they can access state support.

A jobseeker might suffer from a diverse range of overlapping issues that prevent them from finding and sustaining work. Often, these issues are not effectively addressed within the current system. Claimants can be referred

FACT 9

Under the pre-Universal Credit system 700,000 individuals in low paid work lost more than 80 per cent of an increase in their earnings because of higher tax or withdrawn benefits.⁵⁴

FACT 10

Only 18 per cent of JSA claimants felt that the service that they received from the Department of Work and Pensions needed no improvement.⁵⁵

to a variety of different services that operate independently of each other. For example, someone suffering from a lack of training, mental health issues and who has been out of work for a long period of time, might receive support from six different providers including the jobcentre, a work programme provider, an external charity, the local authority, and health services. The extent to which these services then work together is limited, meaning cross-cutting issues are sometimes not addressed effectively. This is confusing for the user, and expensive for the government.

Moving towards a one-stop-shop for accessing services and benefits would be one way of making this journey simpler, more understandable, and more accessible. It would also help reflect the changing nature of support - not simply making jobcentres somewhere for the unemployed - but a wider place where services are accessed by the population. The approach has been adopted in Canada, where *Service Canada* provides a single point of access to a range of government services and benefits, and could be used as a blueprint for the UK.

Recommendations

- 20. Citizen Support Centres should be established as a single point of contact for government services.** In general, Jobcentre Plus performs well at the administration of benefits and getting some people into the labour market. However, where there are individuals with more complex barriers to overcome before entering work question marks hang over how effective it is at dealing with them. Jobcentres should be completely overhauled, and replaced with Citizen Support Centres. These centres should roll in the referral functions for other services such as skills, career, or local authority support. This would allow a customer to access the services they needed quickly and easily. Co-locating this body in community spaces, such as libraries, would make the system more accessible.
- 21. The next Government should continue to support the principle of implementing and rolling out Universal Credit by 2019.** After years of iterative changes to the welfare system, this is a bold reform that underpins a much needed simplification.

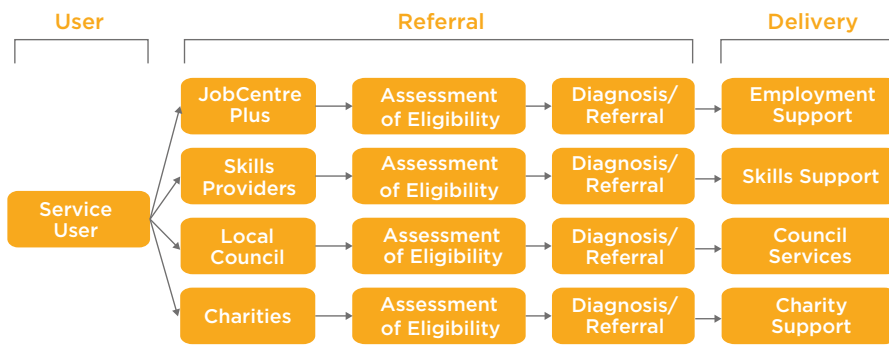
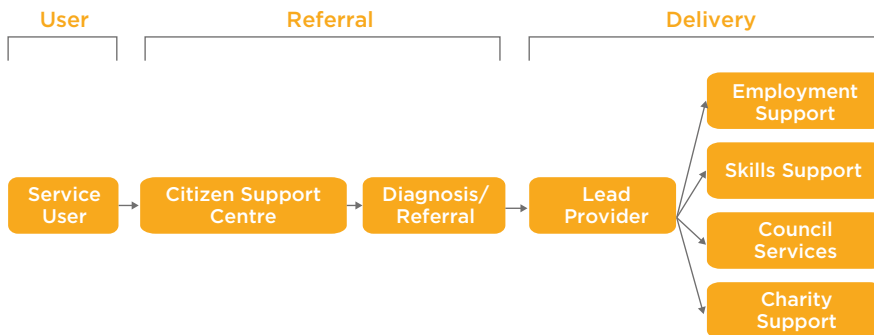


CHART 10
Simplifying the service user journey⁵⁶

A. Approximated customer journey under the current system



B. Approximated customer journey under the proposed support system

Reversing all or part of its implementation would be a retrograde step. The alternative to backing Universal Credit is the status quo of complexity, perverse incentives and sticking plaster reforms.

22. The next Government should explore which benefits outside of Universal Credit could be incorporated into the system and provide the rationale for doing so.

There are several possible justifications for bringing those benefits that sit outside of Universal Credit into the system. These include: better administration, Exchequer savings, and improved incentives. A full understanding of the impacts of such changes would be necessary, but the principle should be that Universal Credit can grow.

23. Government should take advantage of increased capacity to test, adapt, and improve Universal Credit. There is a willingness and enthusiasm to tweak and amend welfare policy in different ways. With increased capacity to monitor hours worked, moves into and out of employment and so on, it will be easier to run effective randomised controlled trials. This should become the standard for new policies. More specifically, experiments should focus on how adjusting the taper rate or work allowance within Universal Credit might improve work incentives. These approaches should be piloted within the next Parliament.

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