

One for all: active welfare and the single working-age benefit

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Introduction

Interest in the prospect of radical benefit reform is high. Ministers have been talking about it, the House of Commons Work and Pensions Committee has discussed it (2007), and a Government-commissioned report on welfare reform has devoted an important chapter to it (Freud 2007).

The seeds of this emerging interest in radical change were probably sown in a short chapter on long-term benefit reform in the Government Green Paper *A new deal for welfare: Empowering people to work* published in early 2006. Having set out its proposals to reform Incapacity Benefit (IB), the Green Paper delivers a stark judgment on the structure of the social security system in this country:

‘The present benefits system for people of working age is too complex. The many different rules make sense in isolation, but together they make for a confusing and incoherent picture.’ (Department for Work and Pensions 2006a: 92)

It is difficult to think of any reason to disagree with this diagnosis (unless of course it is to argue that it is an understatement). The Green Paper suggested that one way forward would be to move ‘...in the longer term towards a single system of benefits for all people of working age, with appropriate additions for those who have caring responsibilities and those with a long-term illness or disability’ (2006: 92), an idea raised prior to the Green Paper in Stanley (2004). But what that ‘single system of benefits’ might look like was left tantalisingly undeveloped (although see Sainsbury 2006 for some analysis). This has been the case even since the publication in March 2007 of David Freud’s report into the future of welfare-to-work policy, commissioned by the Department for Work and Pensions (DWP).

Whereas Freud was clear in his recommendations for the future provision of employment services, he was more circumspect in his views about benefit reform: ‘whether the answer [to the complexities of the current system] is a single benefit system may still be a matter for debate – but that debate should certainly take place’ (Freud 2007:100). Freud himself usefully contributes to the debate by discussing ‘three broad options’ for a single system of benefits, to which we will return shortly.

It is fair to say that a single benefit system is not a totally new idea but it seems that there is a strong case for assessing its pros and cons again. There are two principal reasons for this. First, the current benefit system presents barriers to people who want to move towards and into work (as acknowledged by the Government itself in its 2006 Green Paper) and current reform plans will not radically alter this. While the benefit system demonstrably hinders the Government’s welfare-to-work agenda, there is a compelling argument to change it. Second, its structure generates problems for both benefit claimants and benefit administrators; the structure is dysfunctional and consequently wastes public money, as comprehensively evidenced by the National Audit Office (2005) and the Public Accounts Committee (2006). These two conclusions about the benefit system are now so widely accepted that we will not rehearse them again here. Rather we will look at how they can be addressed.

In this chapter, therefore, we want to examine the case for a single working-age benefit. We will conclude that this offers perhaps the best prospect of achieving a benefit system that actively supports welfare-to-work policy (in a way that neither the current system nor the imminent changes to IB does), is greatly more responsive to individuals’ needs than the current system, and matches a rights and responsibilities agenda of the kind discussed by Graeme Cooke and Stuart White’s chapter (Cooke and White 2007).¹ We

1. We acknowledge that there are other radical reforms that might go even further, such as integrating the tax and benefit systems and the idea of a basic income to replace social security benefits. However, neither of these appear to have any current political or public momentum. Indeed, as a means of promoting work incentives, the integration of tax and benefits was rejected by the current government early in its term of office (see HM Treasury 1998) in favour of the system of tax credits that was introduced in 2003.

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also attempt an early assessment of the likely costs of our ideas for a single working-age benefit to address the legitimate question of whether such radical reform is at all within the bounds of the possible.

Our conclusion is that a single working-age benefit seems not only desirable, but also feasible, not necessarily as a short term reform, but certainly within a 10-year time frame.

Welfare-to-work and partial benefit reform

Welfare-to-work programmes have been one part of a wider social policy agenda aimed at helping people into work and to stay in work. The minimum wage and tax credits have been aimed at ‘making work pay’ and anti-discrimination legislation has been introduced to address some of the barriers that disabled people, women and older workers experience in the labour market. But there is one piece of the jigsaw that has, until the last year or so, been missing – benefit reform. It has long been recognised that the social security system itself has presented a range of difficulties for people who want to move towards work and for people like personal advisers who are there to help them. And it has long been recognised that benefit reform is necessary to support welfare-to-work policy. It is no particular criticism to say that benefit reform has lagged behind. Getting welfare-to-work programmes up and running and high-level administrative reforms in place have been understandable previous steps.

One of the major changes to the machinery of government was the amalgamation in 2001 of the former Department of Social Security with the Employment Service to form the Department for Work and Pensions (DWP). This merger gave effect to the aim of the New Labour government to ‘join up’ employment and social security policymaking and delivery, and to move from a passive benefit system that provided a safety net for people towards an active system that works in support of employment policy.

That aim, as noted above, has taken a long time to come to the top of the policy agenda although the ‘problem’ of IB – that is, the large increase in the number of recipients – had been recognised much earlier (see Stanley 2004). It is possible to see the problem of IB as actually worse than it just being a passive benefit, failing to provide support for employment programmes. For many people it has been a hindrance to making progress into work, discouraging them from doing so, and could even be viewed as punishing anyone who tried to make such progress. Furthermore, IB was part of a complex social security system that itself made it ‘harder to move into work’, in the words of the Government Green Paper of early 2006 (DWP 2006a).

The Government is currently in the process of replacing IB with a new benefit, the Employment and Support Allowance (ESA). An attempt has been made to show the differences between the current system and ESA in Table 1, with the caveat that the details of ESA have not been set out in the Welfare Reform Bill, but will eventually emerge in Regulations.

The logic behind ESA is apparently straightforward. The aim is to increase the work-related requirements placed on people awarded the ‘employment allowance’ of ESA, who are projected to be the great majority (over 90 per cent) of ESA recipients, and to create a new sanction for people who do not meet the requirements of the Action Plan they devise with their Personal Adviser. Although it is hard to see how ESA will deal with some of the problems of IB and the current system, it is also possible to view it more constructively as a stepping stone towards a single working-age benefit (a theme to which we will return later in this chapter).

One of the criticisms of the current system is the problem for benefit recipients (and administrators) of moving between benefits, principally IB and Job Seeker’s Allowance (JSA), when a health condition or

Table 1: Key characteristics of Incapacity Benefit and Employment and Support Allowance

	Incapacity Benefit (IB)	Employment and Support Allowance (ESA)
Who can apply?	Working-age people out of work due to a health condition	Working-age people out of work due to a health condition or disability or disability
How do you qualify?	Score 15 points in the Personal Capability Assessment (or 10 for mental health conditions)	Undergo a new, revised Personal Capability Assessment
What are the possible outcomes of the Personal Capability Assessment?	EITHER you qualify for IB OR you do not, and therefore should make a claim for Job Seeker's Allowance (JSA)	(a) You meet the criteria for the 'support allowance' element of ESA, OR (b) You do not meet the criteria for the 'support allowance', but do for the 'employment allowance' element of ESA, OR (c) You do not meet the criteria under (a) or (b) and therefore must claim JSA
How much do you get?	IB is paid at one of three rates, increasing with the time spent on the benefit, ranging in 2007 from £59.20 to £78.50	No figures have been given yet, but the 'support allowance' will be higher than the 'employment allowance'
What are the ongoing conditions for receiving the benefit?	<ul style="list-style-type: none"> – In most areas of the country, nothing – In areas covered by the Pathways to Work² pilots, mandatory attendance of a series of 'work-focused interviews' – However, IB recipients can always participate in employment programmes for disabled people voluntarily 	<ul style="list-style-type: none"> – None for recipients of the 'support allowance' (though voluntary participation in employment programmes is possible) – 'Employment allowance' recipients must complete an action plan and undertake specified 'work-related activity'
Are there any sanctions?	Yes for IB recipients in Pathways areas. Failure to attend a work-focused interview may result in loss of benefit	Recipients of the employment allowance may have their benefit reduced if they do not comply with their action plan

2. The Pathways to Work pilots are back-to-work programmes for IB claimants, which began in 2003. By the end of 2006 the programme was available to claimants in 40 per cent of the UK.

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disability changes. Under the ESA reforms, people will still be moving between ESA and JSA, and there is the added possibility of moving between the ‘employment allowance’ and the ‘support allowance’. Also, the current system has been criticised for ‘incentivising’ sickness by paying higher benefit amounts to people on IB and furthermore an enhanced rate to people on IB for a year or more. ESA seems to maintain the perverse so-called incentive to be sick. Another concern is the effect of having to administer ESA on the relationship between personal advisers and their clients. As noted above, the review of welfare-to-work programmes identified the importance of this being a constructive and mutually trusting relationship, and the negative consequences when people experience the relationship as coercion.

To summarise briefly, in replacing IB with ESA, there seems to have been something of a missed opportunity for thinking creatively about what a benefit system could (and should) comprise if it is really going to be joined up with employment policy. But, following the Freud report, the opportunity has clearly not disappeared completely. In addition, JSA and Income Support (IS) have remained largely unreformed over the last decade and progress in reducing claimant levels appears to have plateaued. This is therefore a highly opportune time to present a vision of what a truly active benefit system might look like. The next section attempts just that.

The principle of the single working-age benefit

In this section we introduce some ideas for replacing the confusing and complex range of benefits available to out-of-work people with just one benefit for people of working age. The Freud report raises this as one ‘broad option’ for benefit reform, the others being (a) minor adjustments to the current system and (b) a single system with a short- and long-term rate (Freud 2007). In our view, these options would offer few of the advantages that a single working-age benefit would. Minor adjustments would simply save the fundamental problems inherent in the current system for another day and would therefore be of little benefit to either current or future claimants. A single system with two rates would perpetuate the perverse incentives to seek to claim the higher rate, and would retain unnecessary complexity.

The current system is built on two principal features: it pays income replacements to people who are not in paid employment, but the type of benefit and the amount people get will vary according to a number of factors. These include the reason for not being in work (such as sickness, disability, or caring for children or dependent adults), National Insurance contribution records, and length of time out of work. There is a range of income replacement benefits that are familiar: JSA, IS, IB and Carer’s Allowance.

There are also a number of needs-based benefits that contribute to meeting the additional financial burdens created by, for example, having a family or being disabled. Child Benefit and Disability Living Allowance are examples of needs-based benefits in the social security system. However, as well as specifically needs-based benefits, the income replacements benefits also have elements that reflect extra costs (in additional premiums and long-term rates).

A single working-age benefit would separate the two functions of social security more clearly and establish one benefit that deals with income replacement (the ‘single working-age benefit’), and transfer the function of recognising extra financial needs as far as possible to a range of needs-based benefits. Below we address income replacement first, then turn to needs-based benefits.

The essential features of the single working-age benefit would be:

- A single set of rules
- Benefit paid at a standard basic rate

- Benefit remaining the same over time (so with no higher, long-term rates).

The single benefit would replace JSA, IB and IS and could also incorporate Carer's Allowance.³ There is a range of advantages to this vision of a single working-age benefit that deal with some of the problems of the current benefits (and particularly the links between them) that certainly exist and that look likely to continue after the introduction of the ESA. The problems associated with moving between benefits would disappear. There would be no risk to a person's benefit if they tried going to work because the benefit would be the same before and after a period in work. There would therefore be no need for the little understood 'linking rules', which currently allow people to return to their former rate of benefit if they cease working. It could also be expected that the stigma and possibility of subsequent discrimination that have been associated with the notion of disability benefits would be reduced. Importantly, there would be no financial gain of claiming one benefit over another or of remaining on benefit for a long period. Overall, a single working-age benefit would not only be less complex and easier to understand than the current array of working-age benefits, it would be easier to administer, too.

The Gateway

The possible advantages of a single working-age benefit are greater even than this. We suggest that part of the claiming process for the single working-age benefit should be to ask new claimants two questions, which we might call 'gateway questions'. These are:

- 1) Do you think you will be able to work at any time in the future?
- 2) Do you want to work in the future?

We know from a number of sources that the majority of people asked these questions, including many with long-term health and disabling conditions, would answer 'yes' to both (see, for example, Stanley and Regan 2003). When this happens two things should follow:

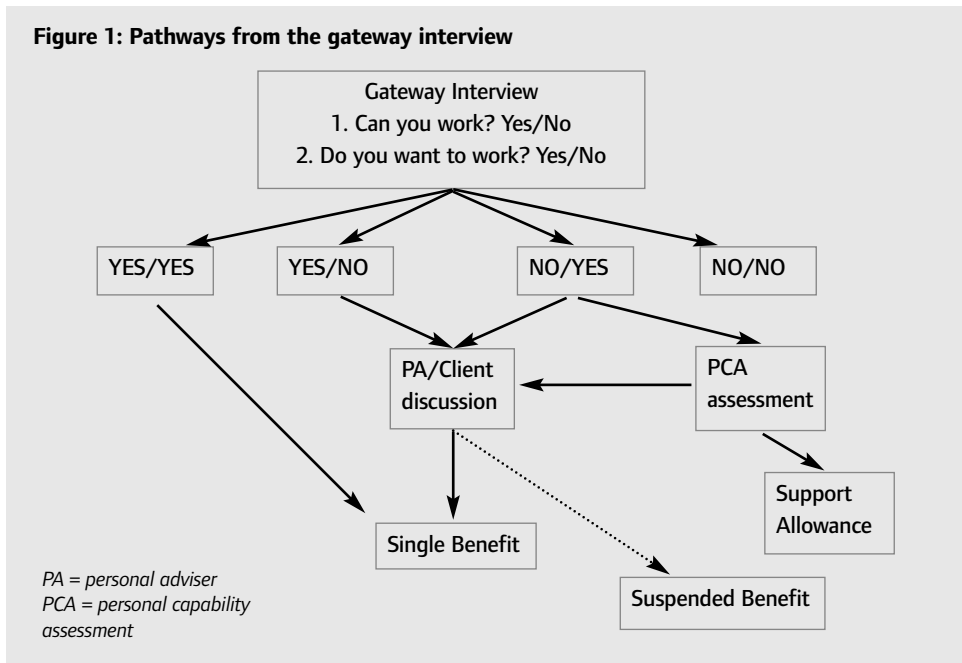
- The single working-age benefit should be put into payment.
- The claimant begins to work with a personal adviser to plan how the goal of paid employment can be achieved.

This will involve exactly the sort of dialogue that personal advisers in Jobcentre Plus offices already have with claimants: discussing work aspirations and goals; assessing skills, knowledge and experience; assessing barriers to work such as skills gaps, caring responsibilities, health and disabling conditions; putting an action plan in place with a mutually agreed timetable; and accessing appropriate help and support.

The pathways from the gateway interview are described in Figure 1, following page.

This approach builds on the lessons learnt from experience of the welfare-to-work programmes that we discussed above. For people answering 'yes' to both questions a process is set in motion that starts from a positive base – a mutual understanding between claimant and personal adviser that paid employment is the goal. To establish this understanding it is important that both 'gateway questions' are asked. Answering 'yes' to the second question – 'do you want to work?' – demonstrates the sort of motivation and commitment from the claimant that has been found to be important in moving people towards work (Hasluck and Green 2007).

3. Carer's Allowance can currently be claimed by people who are providing care for 35 hours a week or more for a person in receipt of middle or higher rate Disability Living Allowance, Attendance Allowance, or constant Attendance Allowance. Under a single working-age benefit carers would receive the same benefit as other claimants but their return-to-work plans (see 'The Gateway' above) would necessarily reflect the amount and timing of the care they provide.



A further advantage of the single working-age benefit is that access to employment support ceases, by definition, to be dependent on which benefit a person is receiving. Whatever help is needed, or whatever individualised package of measures is needed, can be accessed (assuming capacity is in place; see the following chapter by Harker and Oppenheim). The benefit breaks the connection between entitlement to benefits and entitlement to employment support. This means this benefit will be more flexible than the current system in its ability to respond to people’s needs on an individual basis (rather than as a member of a group such as lone parents or disabled people).

While it is conventional to refer to JSA, IB and IS as ‘out-of-work benefits’, certain forms and levels of work are permitted under IB and IS rules. A single working-age benefit could similarly adopt a set of rules around permitted work for all claimants. Research from the Institute for Employment Studies (Dewson *et al* 2005) shows permitted work within IB to be working well, with no major problems when work must stop at 12 months. Under the single working-age benefit more people would be able to take advantage of the opportunities that permitted work allows.

A final advantage of a single working-age benefit is that for the purposes of claiming benefit the reason a person has no paid employment becomes irrelevant. A claimant does not have to decide whether to claim as a disabled people, or a lone parent, or a carer. A major advantage of this is that for the yes/yes respondents with a health or disabling condition there would be no need to obtain a doctor’s certificate. People’s health or disabilities would of course be highly relevant in considering a route back to work but claiming benefit, for most people, would effectively become ‘de-medicalised’ (see also Mabbett 2003).

But what if someone answers ‘no’ to one or both of the gateway questions? It is important to point out that answering ‘no’ to the first question would be an entirely legitimate response for people in a range of circumstances, particularly those with some types of disability, long-term health conditions or caring responsibilities. The social security system has always recognised that for some people it is right that they

should not be obliged to undertake work-related activity as a condition of receiving benefit. The proposed revised personal capability assessment (PCA) under the ESA will perform a similar function to what would be needed for a single working-age benefit.⁴

Having said that, we know from welfare-to-work evaluations, for example of the New Deal for Disabled People and Pathways to Work pilots, that some people have negative perceptions of their own health and capabilities that initially prevent them from considering the possibility of work, but that can be changed to more positive perceptions by personal advisers or through engagement with the Condition Management Programme element of Pathways. So, an answer of ‘no’ to the first question – ‘do you think you will be able to work at any time in the future?’ – would initially start a different dialogue with a personal adviser to investigate the reasons for saying no. This might lead to a PCA-type assessment that might exempt a person from committing to an action plan or might lead to changing the answer to a ‘yes’ (as indicated by the dotted line in Figure 1).

This may lead to a residual number of cases in which someone says they can work but they do not want to, or someone says that they want to but then fails, with no good reason, to undertake the actions to which they have signed up in the action plan. These scenarios would not be caused by the introduction of a single working-age benefit; personal advisers in Jobcentre Plus offices deal regularly with such situations already and have a range of responses open to them (from encouragement and persuasion to sanctions). In such cases, it is ultimately not reasonable to expect the state and its citizens to continue to support people who refuse to fulfil their side of the rights and responsibilities contract (see Chapter 2/ Cooke and White 2007).

We have set out very briefly the broad principles on which a single working-age benefit might be based. In developing those principles the advantages of such a benefit have emerged. To sum up:

- A single working-age benefit can address many of the disadvantages of IB and its interactions with other benefits that are not addressed by the imminent ESA. Specifically, it promotes access to employment support and movement into work, and sees people as individuals rather than simply members of a client group.
- It can promote and enhance the type of relationship between claimants and personal advisers that have been identified as one element of ‘what works’ for welfare-to-work programmes.
- Through the two gateway questions it promotes the sort of ‘work first’ message that has been argued by Ministers as important in developing the ‘rights and responsibilities’ contract between citizens and the state⁵.

Eligibility

There are, of course, still many issues to consider that go beyond the in-principle argument for the benefit and the way in which it is framed. Central among these is the question of the conditions of eligibility. Specifically, should the single working-age benefit be means-tested or based on National Insurance contributions, or a combination of both? Consideration should also be given to whether eligibility is based on a household or an individual level. Other central questions are what level should the

4. In the longer term it might even be possible to envisage being able to abolish the PCA altogether if personal advisers working within multi-disciplinary teams were sufficiently highly skilled to develop action plans to reflect capability including a ‘do nothing’ option.

5. See, for example, the speech from the Minister for Welfare Reform, March 2007 (Hutton 2007)

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benefit be set at, and how should any extra needs, such as those currently covered by disability, caring premiums or child-related premiums, be treated within a single working-age benefit.

It is not possible to address these questions comprehensively in the space available here, but below we set out some ideas in these areas to guide thinking about next steps in developing the notion of a single working-age benefit.

Eligibility for the current range of out-of-work benefits is based on a mixture of National Insurance contributions and means tests. There is significant support for the contributory principle. However, the value of this principle in building support for the benefits system is tempered by public misunderstanding of it and the lack of an actuarial link between contributions paid in and benefits paid out. Further, almost identical out-of-work benefits can be drawn by people with no contributions history as by those with an unbroken contributions record. Establishing a new single working-age benefit would provide an opportunity to create a more transparent and easily understood system.

In developing a new system of entitlement, consideration should be given to a range of objectives including creating a system that is seen to be fair and that uses resources in an efficient way. There is also a need to minimise administrative complexity and the time taken to get people onto the benefit in order to avoid poverty, reduce costs and expedite people's access to employment support.

There are many systems of entitlement that might go some way to achieving these objectives. We highlight just one possible system here. The contributory principle could be removed from the system of out-of-work benefits for the reasons given above. A new system might comprise a time-limited universal entitlement to out-of-work support, followed by a means-tested period to better target resources. The cost calculations below assume a 12-week universal entitlement followed by a means-tested period based on the current means test for IS.

A universal entitlement to 12 weeks' support for those of working age who are out of work⁶ would minimise the administrative burden to both individuals and Jobcentre Plus. Many people would move off the benefit within the initial 12-week period. For example, in the year from February 2004 more than 46 per cent of JSA claimants moved off the benefit within 12 weeks (DWP 2005). Claimants who previously would have claimed IS or IB may take longer to move off the benefit. Those who did not move off the benefit and into work so quickly would be assessed against a means test in order that only those in significant financial need would be eligible for longer-term support. Income from working-age contributory benefits also tends to be more heavily focused on people who are higher up the wage distribution compounding inequalities (Jones 2007).

Employment support would be open to anyone who was out of work, whether or not they were eligible for the benefit. This system could be more effective in both supporting people into work and in alleviating poverty at times of need. Of course, there are other options but this is one that has particular merit.

Eligibility for many benefits is currently also calculated on a household rather than an individual basis. There are good reasons for this. Most importantly, it enables resources to be better directed towards those who live in households below a given income level. However, an individual entitlement would have a number

6. The benefit would also include the small number of people who do work (for a duration of less than 16 hours a week) but are eligible to claim IS.

of benefits. It would better reflect the diversity of financial arrangements within households and recognise the importance of women's financial independence (Bennett 2005). It would reduce the need for people to register certain changes of circumstances (a requirement that contributed to claimant error leading to £150 million of overpayment in 2005/06 (DWP 2006b)). It would also reduce the incentive for couples to claim falsely that they are not living together (which contributed to £240 million of fraud in 2005/6 (DWP 2006b)). But perhaps most significantly, household-level calculations generate significant disincentives for the second earner to work longer hours. This is because of the high rate of withdrawal of benefits and tax credits once a second earner is working more than part-time hours.⁷

There is a strong case for making a serious assessment of the costs and benefits of individualised entitlement. Of course, this is already the basis of the tax system. Evidence emerging from Belgium, which has recently moved towards an individualised system of tax credits (Rubery *et al* 2004), should be closely monitored and the Treasury and DWP should model a move from household to individual benefits (and tax credits). As we have said though, this is just one possible option and the appeal of the single working-age benefit is not dependent on the implementation of this particular system of entitlement.

Level of the benefit

We now turn to the thorny question of the level of the benefit. Clearly, the level at which the benefit is set has to be based on a political judgment balancing this against other demands on the public purse and overarching political objectives such as ending child poverty and increasing the employment rate. However, it should be possible to structure the overall package of benefits that are available to working-age people in such a way that a range of objectives can be reconciled.

In order to achieve this, certain principles should guide the development of the overall package. The benefit should be set at a level that does not significantly adversely affect work incentives for the majority of people who are out of work. There should be a clear separation of payments for earned income replacement and additional costs that are incurred, for example, as a result of disability or caring responsibilities. This means that the level of the benefit is not affected by the need to meet additional costs. All existing premiums for additional costs could be transferred to other redistributive vehicles such as tax credits and Disability Living Allowance (see Stanley 2004 for a fuller discussion of the case for an enhanced Disability Living Allowance). This would ensure that people who are unable to work as a result of a disability or caring responsibilities would not be worse off as a result of these changes, even if the level of the benefit was set at a lower rate than current levels.

We estimate that the amount of IS expenditure which is accounted for by 'extra costs' premiums was £1.8 billion in the year from May 2005 (see Reed 2007 for details). This amount could be transferred to cover these costs via tax credits or an enhanced Disability Living Allowance.

The cost of this overall package of benefits will be important in assessing its viability as a proposal. In the next section we present some early estimates of the financial effects, in terms of additional benefit costs and possible benefit savings, of a single working-age benefit. We do not calculate the costs of this wider package of reforms, though they should be regarded as elements of the overall reform package that would need to accompany the introduction of a single working-age benefit.

7. The Freud report is enthusiastic in principle about the individualisation of benefits generally, but acknowledges concerns about costs and additional complexity (Freud 2007).

Costing the single working-age benefit

We have modelled some of the likely costs of making these reforms (Reed 2007⁸). The costings assume the single working-age benefit would replace: IB, IS (adult component), contributory JSA and income-based JSA, and that the benefit is structured in line with the suggestions made in the section above. We have not included Carer's Allowance in these calculations. Data constraints and conceptual issues mean that the analysis makes a number of simplifying assumptions (which should be taken as assumptions only for the purpose of examining the feasibility of a single working-age benefit rather than being in any sense recommendations). The key assumptions are summarised in Box 1 below.

Box 1: Key assumptions

- The rate of the single benefit is set at £60 per week and awarded on an individual rather than a household basis.
- All other features of the benefit system operate in conjunction with the single benefit in the same way as they operate in conjunction with existing means-tested benefits. Changes in the level of the benefit are not 'clawed back' through downward adjustments and are reflected in changes in the thresholds for eligibility for other means-tested benefits.
- Take-up of benefits remains unchanged under the single benefit, as does the flow onto and off benefits. However, there is a good case for thinking that the introduction of the single benefit could increase take-up of benefits if the benefit system were seen as more straightforward, and that off-flows would increase given greater alignment of the benefit system with welfare-to-work objectives.

Our costings are based on the single working-age benefit having been introduced in May 2005, and we look at what benefit expenditure would have been a year on from its introduction to give an idea of the first year costs of the introduction of the single benefit. In the long run, the existing caseload of IB claimants will gradually reduce as they move off IB, or reach state pension age and move onto state pension and other benefits.

We have costed both the minimum extra costs implied by changes under these assumptions and the maximum extra costs. In the 'minimum extra cost scenario' we assume:

- The maximum possible savings from replacing non-means tested IB with means-tested single benefit for new claimants
- The maximum possible savings from replacing contributory JSA with means-tested single benefit for new claimants.

This would correspond to a situation in which everyone in a position to claim non-means-tested benefits had too much income from other sources (or too much capital) to be eligible for the single benefit. In this scenario, overall benefit expenditure rises by two per cent, largely due to the extra payments made to claimants under 25, couples and the 12-week period of universal entitlement (which results in increases in expenditure of around £560 million for IS and £330 million for JSA).

8. Costings are by Howard Reed and a full paper is available at www.ippr.org. The analysis uses May 2006 data from the DWP's Work and Pensions Longitudinal Study (WPLS), which is a 100 per cent sample of benefit claimants. The one exception is the analysis of the costs of moving from JSA to the single benefit, where the DWP's five per cent sub-sample of WPLS has been used because it distinguishes between Contributory and Income-based JSA.

In the 'maximum extra cost scenario' we assume:

- The minimum possible savings (i.e. nothing) from replacing non-means tested IB and JSA with a partially means-tested single benefit.

This would correspond to a situation in which everyone in a position to claim these non-means-tested benefits had such a low income from other sources that they maintained an entitlement to the single benefit instead. In this scenario overall benefit expenditure rises by 5.1 per cent.

In summary, the projected costs from introducing the single benefit under our assumptions suggest an increase in expenditure of between two per cent (or £400 million) and 5.1 per cent (or £1 billion) on current expenditure. It is not possible to be more precise than this at this stage and the 'real' figure might be anywhere between these extremes. If the single benefit were introduced, some people who were eligible for IB or JSA would not be eligible for the single benefit and vice versa. But without further analysis using micro-data, it is impossible to say how many people would be ineligible or eligible.

It is worth noting that if we do the same analysis but do not individualise entitlement, retaining household-level calculations, this reduces the additional cost to between 0.2 and 3.2 per cent on current expenditure (£35 million and £633 million).

The benefit changes discussed here are only one part of a wider set of reforms, which would include investment in increasing the capacity of active labour market programmes and employment support and enhancing needs-based benefits such as Disability Living Allowance. This would clearly also require additional spending.

Clearly these costings are only very preliminary and there are a great many variables that we have not been able to model within the resources available to us. We have not, for example, taken into account the benefits that are likely to accrue from these reforms as a result of having a system that is more supportive of people gaining employment. The next step would be to undertake thorough and detailed modelling work to assess the likely costs and savings in moving to a single benefit (as recommended in the Freud report (2007: 105)), and investigate the likely distributional impact of the changes. In doing this work it would be necessary to make certain assumptions about how we might move from the benefit system we have to one based on a single working-age benefit. The next section suggests one possible way of making this transition.

Next steps

The Government is committed to implementing ESA from 2008. We have discussed why this reform will be inadequate in meeting the challenges of supporting many more people into work. However, rather than being the end of the reform process, the implementation of ESA could be the beginning. ESA could become the basis for the development of a single working-age benefit.

This would mean modifying the way in which ESA is implemented and then, over time, opening it up to new claimants who would have moved onto JSA or IS, as well as those who would have gone onto IB. The name of the benefit could remain the same. In contrast to scrapping ESA along with the other benefits, this approach would enable administrative costs to be vastly reduced as the single benefit was implemented.

ESA would need to change in several ways in order to lay the right foundations for the single benefit. The way in which ESA was framed would be crucial. Personal advisers would use the gateway questions described above to frame the development of action plans and ensure understanding and commitment to

a realistic set of actions. This would be supported by opening up all employment programmes to claimants rather than just a narrow range of programmes related to disability. This would ensure a much wider range of opportunities for claimants and enable a more tailored approach (as proposed in a forthcoming paper by Harker and Oppenheim). Over time, the levels of the different benefits would be aligned and resources redistributed from earnings-replacement benefits to extra-costs benefits. The sooner the steps were taken to move all new benefit claimants onto the ESA, the sooner advantages would stack up, for example, by reducing the incentives to get and stay on one benefit over another.

These changes would require consideration of the way unemployment and economic inactivity are counted. Clearly, it would be important that these structural changes, designed to support more people into work, were not undermined in the public's view by an apparent increase in the unemployment count.

Conclusions

In this chapter we have sketched out the architecture of a benefit system that would meet the welfare-to-work aims of social security as they have developed over the last 10 years or so. We have also suggested how we might get there. Is the notion of a single working-age benefit fanciful and unrealistic? We think not and take encouragement from developments in New Zealand where a similar idea has become part of government policy. There, the potential of what they call a 'core working-age benefit' is that it '...will remove the tangle of rules and entitlements that have become a barrier to people moving into work'. New Zealand's aim is to introduce the new benefit in 2008 or 2009 (Ministry of Social Development 2005).

The New Zealand government also emphasises that the 'core benefit' would promote greater simplicity into its benefit system. We have argued above that the rationale for a single working-age benefit in this country is not primarily simplification but to promote an active benefit system that supports welfare-to-work policy rather than confounds it⁹. Simplification is a powerful additional motive for introducing a single working-age benefit, though. The complexity of the current system is well known and the source of problems for claimants, advisers and administrators alike (National Audit Office 2005, Public Accounts Committee 2006) and a key area of current DWP activity. The 2007 Inquiry of the House of Commons Select Committee on Work and Pensions into benefit simplification also reflects the emergence of complexity and simplification as important policy concerns.

It is a coincidence of timing that current interest in fundamental benefit reform comes 65 years after the publication of the Beveridge report (Beveridge 1942). Is it therefore time to retire Beveridge (with enormous thanks and respect) and to tackle afresh the types of questions he was addressing in relation to social security: what do we want from the welfare system as a whole and how can we construct a system that is feasible, workable and affordable? If the argument for a single working-age benefit is persuasive enough then perhaps we should not be asking if we can afford it but considering whether we want to afford it. That leads us into a new, challenging but potentially groundbreaking set of questions. How can we afford this? And what needs to happen for us to make sure we can afford it? Beveridge embraced these questions in 1942 and was painstaking in answering them. If we can answer them satisfactorily in 2007, the type of fundamental reform represented by the single working-age benefit might just command the sort of broad support that Beveridge achieved.

9. This would also go with the grain of European trends promoted by the Lisbon Agenda for active social security and investment in active labour market programmes.

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