

FABIAN POLICY REPORT

# WHERE NEXT?

*Reforming social security over the next 10 years*

*Andrew Harrop with Ben Cooper*

Kindly supported by Age UK, the Children's Society, Crisis, the Joseph Rowntree Foundation and the TUC

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Crisis is the national charity for homeless people. We help people directly out of homelessness and campaign for the changes needed to solve it altogether

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Like all publications of the Fabian Society, this report represents not the collective views of the society, but only the views of the individual writers. The responsibility of the society is limited to approving its publications as worthy of consideration within the Labour movement.

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The words in this report are mainly those of Andrew Harrop. The research with social security recipients was conducted by Ben Cooper.

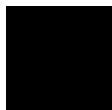
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All of the organisations which funded the project did so to stimulate debate and do not necessarily agree with the conclusions of this report. The views expressed here do not represent the positions of the partner organisations or the people who contributed ideas to the project.

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# Summary



The UK is scarred by poverty and our social security system is in crisis. So where do we go from here? This report asks how politicians should set about mending social security and tackling poverty over the next 10 years. It draws on evidence and insights from a Fabian Society research project that included commissioned expert articles, a half-day policy summit and a series of listening events with people in receipt of social security.

Poverty in the UK crosses generations, with 2 million pensioners and 4.1 million children living in poor households.<sup>1</sup> But we have two separate social security systems: one for pensioners and one for children and adults below pension age. The system for pensioners relies much less on means-testing and, while it is far from perfect, it is more effective than the system for everyone else at addressing poverty and securing decent living standards.

Social security for children and working-age adults frequently provides inadequate amounts for people to live on, it has become harsher and less generous during austerity and it is not trusted by recipients or the wider public. It needs urgent and wide-ranging reform – and is therefore the main focus of this report.

Poverty in the UK crosses generations, with 2 million pensioners and 4.1 million children living in poor households

## The voice of users

Listening events with recipients aged from their 20s to their 60s identified major concerns with social security today. Not enough money is available. Recipients are not treated with trust, dignity, respect and care. The system is constantly changing. There is insufficient information, advice and support. There are problems with the design and operation of universal credit. Health-related assessments are unfair. There is not enough help for children and caring. And there is no independent oversight.

We worked with four groups of social security recipients over two sessions to develop a 'people's charter' setting out what users want from social security:

## A FABIAN SOCIETY 'PEOPLE'S CHARTER' FOR SOCIAL SECURITY

**Security:** social security should stop poverty and provide enough money and support for people to meet their reasonable needs all the time

**Respect:** social security should treat people as individuals, with trust, respect, dignity and care. People using the system must have a voice in shaping its future and holding it to account

**Simplicity:** social security should be simple for people to use. There must be clear information in a variety of formats, people should be actively alerted to their entitlements and when there are changes in people's lives the system should be simple and responsive

**Consistency:** social security should be fair and consistent, with rules and decisions that ensure that entitlements go to those who need them

**Support:** social security should provide high-quality, personalised support for people to work, gain new skills or play a role in the community

## A nine-step plan of action

Drawing on all the insight and evidence generated during the project, the Fabian Society has developed a nine-step plan for social security over the coming years.

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## STEP 1: ACT FAST WITH IMMEDIATE REFORMS

Politicians should prepare both a ‘year one’ action plan and a long-term strategy for reform. Immediate actions should include ‘rescue’ policies to address the worst failings of the system. These should comprise:

- improving council tax support
- increasing payments for large families
- re-linking housing support to the cost of modest local rents
- providing more help to families during school holidays
- ending the five-week wait for universal credit
- reforming health assessments
- ending sanctions in most circumstances
- raising payments for couples where one partner is over pension age
- reforming local welfare schemes with national rules and funding

Immediate steps should also be taken to start raising the overall level of payments. We suggest a one-off increase of £5 per week for each adult receiving universal credit (and its predecessors) and each child receiving child benefit. An additional £5 per week should be paid for disabled adults, disabled children and babies under one. Most of this package could be funded by freezing tax-free allowances for one year.

A single policy for annually uprating benefits for all age groups should be introduced (ie the ‘triple lock’ or a variant of it).

A series of reviews and pilots should also be announced to test new approaches for the future.

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## STEP 2: PURSUE CLEAR AIMS AND FIGHT POVERTY FIRST

The government should publicly specify that the aims of social security are to: (a) prevent poverty, (b) alleviate poverty, (c) distribute money over our lifetimes to pay for childhood and retirement, (e) insure against unpredictable life events, (f) help with the extra costs that some households face, (g) redistribute money to reduce inequality and (h) support the economy and employment.

Social security should meet all these goals together and progress should be scrutinised through independent oversight arrangements. Importantly, not all these aims relate to poverty. For middle- and high- income households, social security offers valuable insurance, smooths lifetime income and re-allocates resources between people with similar incomes but different needs.

As the top priority, politicians should promise that social security policy will be designed to progressively defeat poverty, because adequate social security is essential for both the prevention and alleviation of poverty (alongside universal public services and fair labour and housing markets). For people without other income adequate benefit payments are the only real option for *alleviating* poverty at the point it arises. Good social security also *prevents* poverty by supporting children’s development and life chances; and by providing adults with a stable platform which enables them to take up new opportunities. Well-designed benefit systems also prevent poverty by supporting and rewarding work, learning and saving. Non-means-tested payments like the new state pension prevent poverty when they are sufficiently generous.



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### STEP 3: RESPOND TO THE FUTURE

Social security needs to be designed to reflect the Britain of the future and should not be the same as in the 1970s or the mid-2000s. In the next 10 years social security must respond to:

- *Labour market changes* – by providing better security during transitions, offering equal security for self-employed workers, supporting lifelong learning and helping people maintain stronger attachments to existing jobs
- *Housing market trends* – by providing a demand-led system that meets reasonable housing costs in each locality (other government action is also needed to make housing more affordable)
- *Demographic and health trends* – if the pension age is to rise in future, this should only be in line with increases in the healthy life expectancy of people with low incomes. Extra support should be available for people near the pension age who are unable to work. Disability benefits should reflect the growing incidence of disability and higher percentage of disabled people with mental health problems
- *Changing caring and gender roles* – by offering more support for carers both in and out of work, better entitlements when working part-time or flexibly, and support for equal parenting.

To promote *gender equality* social security policy needs to focus on individual women and men, not just households. The system must ensure that women have their own resources but without promoting unequal gender roles. This could be achieved for example by shifting the balance between household and individual-based payments and by improving financial support for parents with babies.

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### STEP 4: BUILD A PEOPLE-LED SYSTEM

The future of social security should be co-designed with citizens – both those currently using the system and those not – to secure public support and to ensure that services treat people with dignity and are responsive to their needs.

Social security must treat people well. This can be achieved through: (a) more consultation and involvement, (b) better customer ‘journeys’, (c) income maximisation strategies, (d) relaxing conditions and ending sanctions in most circumstances, (e) reforming health assessments, (f) improving employment support services and (g) offering adequate redress.

A people-led approach is also needed in the way reforms are implemented. Successful future reforms need to: (a) learn from past mistakes, (b) be designed around lived experience, (c) avoid taking big risks if possible, (d) be linked to measurable objectives, (e) be designed and presented so as to rebuild public trust and understanding, and (f) be delivered in ways that lead to policies becoming entrenched and institutionalised.



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### STEP 5: CREATE CONSISTENT, ADEQUATE PAYMENTS

Today there are huge inconsistencies in the standard of living provided by social security, depending on age, size of household and personal circumstances. Pension credit for single adults usually provides a sufficient income to avoid poverty (although around 4 in 10 of those who are eligible do not claim). Out-of-work benefits for working-age households pay far less. Payments for single adults aged under 25 are worth 35 per cent of the value of pension credit; and payments for families with children are worth 49 to 68 per cent of pension credit after adjusting for household size. Meanwhile the living standards of disabled people of all ages are lower than for non-disabled people because in most cases disability benefits do not meet all the extra costs of disability.

In future social security should be founded on principles of adequacy and consistency and the value of all payments should be examined from first principles. Through a process of public deliberation and expert debate, ministers should decide the broad circumstances that should lead people to fall into each of four categories, which we label level 1 to level 4 (see figure 1).

Everyone should have an income sufficient to avoid poverty (ie ‘level 2’) but this will be very expensive to achieve over a decade. Within 5 years politicians might aim to lift to this level every household where the adults are working a reasonable number of hours given their circumstances – ie to ‘end’ in-work poverty. Within 10 years the aim might be to ensure that households without work can also reach this level if they have children or a limitation on their ability to work.

As a minimum no one should have to rely on the very low minimum payments seen today (ie ‘level 0’, equivalent to under £100 per week for a single adult). The basic payment for people without work should therefore be increased by around 50 per cent. The introduction of the National Liv-

FIGURE 1: ADEQUACY LEVELS AND INDICATIVE WEEKLY INCOME IN 2019

Adequacy level	Households this might include within 10 years	Indicative weekly income in 2019 for a single adult (excluding extra costs*)
<b>Level 0: Insufficient to meet the most basic needs</b>	No one	<b>&lt; £100</b>
<b>Level 1: Sufficient to meet the most basic needs but below poverty thresholds</b>	Adults aged 18 to early 60s without work who don't have dependent children or limitations on their capability to work	<b>£100 - £145</b>
<b>Level 2: Around poverty thresholds</b>	Non-working households who have children, or have an adult approaching state pension age or with limited capability to work because of health or caring	<b>£145 - £165</b>
<b>Level 3: Over poverty thresholds but insufficient to meet all minimum needs</b>	Non-working adults who are severely disabled, have a child under one or are over pension age. Couples with children where 1 parent is working full-time on the national living wage and the other is not working	<b>£165 - £195</b>
<b>Level 4: Sufficient to meet all minimum needs ('minimum income standard')</b>	Households where all adults are working full-time on the national living wage or have good reason to be working part-time (eg health conditions, pre-school children)	<b>&gt; £195</b>

\* Extra costs include rent, council tax, disability related costs and childcare costs. For working households weekly incomes are achieved through a combination of social security payments and net earnings.

ing Wage means this will not pose risks to work incentives because the gap between out-of-work benefits and minimum full-time earnings is much higher now than in the past or in other advanced economies.

To achieve these proposed adequacy levels in all circumstances the costs of housing, large families, childcare and disability need to be covered by social security. Our listening events showed that benefit recipients support more generous payments designed to meet different needs. They largely favoured a consistent approach across different age-groups but were ambivalent about increasing payments for large families.



## STEP 6: IMAGINE A NEW WORKING-AGE HOUSEHOLD CREDIT

Politicians must re-imagine and re-design means-tested household benefits for children and working-age adults. The government faces a choice between whether to 'scrap' or 'reform' universal credit. A majority of the policy experts who contributed to our project argued against totally scrapping the principle of a single integrated benefit. But reform is needed on three fronts after which the benefit would be fundamentally different in character:

- Replace the toxic policies surrounding UC (ie step 4)
- Increase the level of payments (ie step 5)
- Transform UC's design and operation

Following these changes the benefit could be renamed and rebranded. Ministers should consider wrapping UC within a single non-stigmatising, all-age brand and portal for pensions and benefits to present social security as a universal public service alongside the NHS.

The key design and operational changes required are: (a) ending the five-week wait, (b) reforming the allocation of payments within couples, (c) routinely offering the option of two or four payments per month; (d) paying housing costs to landlords, (e) responding faster when payments are to rise, (f) responding slower when payments are to fall by smoothing changes over a number of months, and (g) routinely offering alternatives to digital.

In addition, council tax support should be added to UC. These comprehensive reforms to UC should greatly reduce the need for local welfare schemes. In future these schemes should have national rules and funding and should only be used to meet one-off or time-limited needs. Any

new system should ensure that pensioners are not disadvantaged because their partner is younger and receiving UC.

A review should follow after three years to assess whether the underlying principle of an integrated benefit has been made to work. Ideas for breaking up UC into different benefits should only be progressed if the measures adopted to implement steps 4, 5, 6 and 7 have failed to provide adequate, secure and diversified forms of income.

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## STEP 7: REINVENT UNIVERSAL AND CONTRIBUTION-BASED PAYMENTS

Looking to the medium and long term, universal and contribution-based payments should be reinvented to build a layered social security system with strong universal, contributory and means-tested elements, that can be presented as a single national service. A full-scale universal basic income should not be introduced as it cannot address poverty at an affordable cost. But there may be a role for a low-level partial basic income as part of a mix of policies.

*Universal payments* could form one layer of support sitting alongside means-tested universal credit to jointly achieve the adequacy levels proposed in step 5. This would require moving resources from existing tax-free allowances. Child benefit could be increased to around £30 per child per week and also return to being truly universal via the abolition of the high income tax charge. More controversially, all adults could receive £30 or £40 per week as a universal tax credit in place of existing tax allowances. Extra universal payments for pensioners should also be considered to reduce reliance on means-testing, especially for people who retired before the new state pension was introduced in 2016.

*Non-means-tested income replacement benefits* should be revitalised. Contribution-based benefits today account for less than 9 per cent of social security spending

Any new system should ensure that pensioners are not disadvantaged because their partner is younger and receiving universal credit

for children and working-age adults and just 4 per cent of unemployed people receive contribution-based jobseeker's allowance. The following reforms should be considered: (a) income replacement benefits should be paid in a wider range of situations and the government should pilot a new contributory benefit for training; (b) payments should be more generous and increased over time to match the new state pension; (c) statutory pay schemes should be expanded and made more generous, with new schemes for training and caring and the option of part-time statutory pay when people need to reduce their hours temporarily; (d) more flexible access to the state pension should be explored. In addition, national insurance eligibility rules should be less onerous and contribution-based benefits should become an addition to means-tested payments not just a substitute that is clawed-back pound-for-pound.

Child benefit could be increased to around £30 per child per week and also return to being truly universal





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## STEP 8. SLASH IN-WORK POVERTY AND SUPPORT EMPLOYMENT

Almost 8 million people live in poor working households today. The goal should be to end poverty within five years for all households where the adults are working a significant number of hours each week.

- *Adults without extra needs* who work full time should usually be able to reach a 'minimum income standard' well above poverty thresholds without receiving benefits. This can be achieved by setting the national living wage at 70 per cent of median hourly earnings (£9.61 per hour in 2019).
- *Families with children* should be able to achieve the 'minimum income standard' through a combination of social security and wages whenever the adults are working the maximum hours that can reasonably be expected of them. Households with children where the adults are working fewer hours should be able to avoid poverty.
- *Disabled workers* should receive more generous financial support so they can work part-time if appropriate (having

lost out significantly under the transition to universal credit).

The UK has high employment but there is still more to do to support people without a job into work (especially disabled people and parents looking after children). People also need to be supported to move on in their working lives by shifting to more secure, higher skilled and better paid work. Better social security can achieve this alongside good employment standards and strong public services (eg childcare, social housing, lifelong learning).

UC is intended to make work pay but many aspects of the social security system are detrimental to sustainable employment and work progression. There needs to be a major shift from 'stick' to 'carrot': (a) out of work conditions should be relaxed; (b) employment support services should become higher quality and more person-centred; (c) financial incentives to move into work should be improved, especially for parents; (d) financial incentives to increase earnings within work need to be improved; (e) in-work support and careers services should be developed without a new regime of work conditions.

UC is intended to make work pay but many aspects of the social security system are detrimental to sustainable employment and work progression

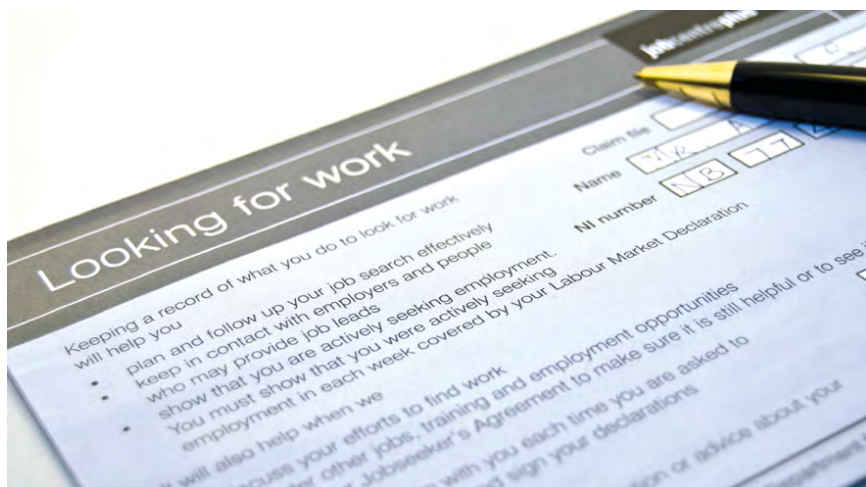
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## STEP 9. PLEDGE NEW FISCAL RULES TO GROW SOCIAL SECURITY SPENDING

The proposals in this report will cost many tens of billions of pounds but the money does not need to be found at once. Political parties should specify and cost their short-term plans for the first one or two years of a new parliament. After that sustained spending rises should be proposed for five or more years, but the pace and detail should be dictated by the health of the economy and competing political priorities.

After four years it might be possible to spend £45bn more than existing government plans if ministers both raise the share of GDP spent on social security to 2015/16 levels and also freeze tax-free allowances and recycle the money generated into social security. This strategy could raise social security spending for children and working age adults by up to 40 per cent over current plans.

New fiscal rules for social security should also be introduced. Given that spending on benefits is so inadequate at present, as a minimum there should be a floor to prevent social security spending falling as a percentage of GDP for at least 10 years. The government should also create a fiscal rule to measure the resources allocated to tax allowances and social security combined, to create a transparent context for gradually switching money between the two. A national housing account could also be created to present all housing-related spending and tax reliefs together.



# Introduction



The UK is scarred by poverty and our social security system is in crisis. At the start of the 2020s projections suggest that 15 million people will live in poverty.<sup>2</sup> So where do we go from here? This report asks how politicians should set about mending social security and tackling poverty over the next 10 years. The UK needs a long-term plan for social security that considers what we want to achieve in the coming years and what that should mean for manifesto promises at the next election.

This report presents evidence and insights from a Fabian Society research project conducted over the last six months 'Poverty and social security: where next?'. The project was a partnership with Age UK, the Children's Society, Crisis, the Joseph Rowntree Foundation and the TUC. The project comprised a series of listening events with people in receipt of social security; commissioned articles from policy specialists and politicians; and also involved a half-day policy summit with Margaret Greenwood MP, the shadow secretary of state for work and pensions. The project examined Great Britain-wide social security and did not consider Scotland-specific policy.

The report draws on the expert articles, the listening events and the summit to pres-

ent a Fabian Society agenda for the future of social security. We begin by presenting the voice of users. Then the report presents a nine-step plan of action to transform social security, which calls on politicians to:

1. Act fast with immediate reforms
2. Pursue clear aims and fight poverty first
3. Respond to the future
4. Build a people-led system
5. Create consistent, adequate payments
6. Imagine a new working-age household credit
7. Reinvent universal and contribution-based payments
8. Slash in-work poverty and support employment
9. Pledge new fiscal rules to grow social security spending

## Where we are today

Poverty in the UK crosses generations, with 2 million pensioners and 4.1 million children living in poor households in 2017/18.<sup>3</sup> But we have two separate social security systems, one for pensioners and one for children and adults below pension age. In general, the system for pensioners works far better than the system for everyone else.

While the pensions system is far from perfect, it provides a broadly adequate standard of living for people who claim their entitlements in full, it has become more generous in recent years and it is widely supported and trusted. By contrast the system for children and working-age adults frequently provides an inadequate amount for people to live on, it has become harsher and less generous during austerity, and many parts of it are distrusted by both recipients and the wider public. It needs urgent and wide-ranging reform and that is the main focus of this report.

*"I hope the next government will be radical and not keep its thinking only at the level of 'how can we improve universal credit?' That really isn't good enough." – Summit participant*

The systems for pensioners and for children and working-age adults have both undergone major changes in recent years. Under the 1997-2010 Labour governments, social security for pensioners and children became significantly more generous and poverty within both groups reduced as a result. But since 2010, reforms to the two systems have led in different directions.

**Social security for pensioners** is largely based on the state pension which is non-means-tested and contribution-based. It has become more generous in recent years, as a result of the 'triple lock' policy which guarantees that the main state pension payments will rise each year by the higher of inflation, earnings or 2.5 per cent. For recent retirees, reforms to the state pension introduced in 2016 are also bringing higher incomes for many people with low and middle lifetime earnings (although others receive less than under the old system). Under this new state pension most people who have a full record of contributions will receive enough money to avoid poverty or means-testing even if they have no private income.

The same cannot be said for pensioners receiving the pre-2016 version of the state pension. The basic pension is insufficient to prevent poverty and many people receive reduced payments as a result of incomplete contributions. People without a private income in these situations can usually avoid poverty if they claim all the mean-tested benefits to which they are entitled, but many do not claim. Only 19 per cent of pensioners in poverty receive pension credit and 21 per cent claim housing benefit.<sup>4</sup> Four in 10 people who are eligible for pension credit do not take-up the benefit.<sup>5</sup>

Pensioners who rent their home have been hit by the same cuts to housing benefit as younger households and couples where one partner is above pension age and one is below have recently been

**Under the 1997-2010 Labour governments, social security for pensioners and children became significantly more generous and poverty within both groups reduced as a result. But since 2010, reforms to the two systems have led in different directions**

reclassified as working age for the purposes of means-tested benefits. This has resulted in some pensioners being unable to access the higher levels of income available through pension credit.

All this means that while the system for pensioners is better than for younger age groups, it is far from perfect. In 2017/18

16 per cent of pensioners lived in poverty, compared to 20 per cent of working-age adults. Poverty among pensioners has been rising in recent years and the gap in the poverty rate for pensioners and working-age adults is much smaller now than in 2011 and 2012.

Additionally, the price to pay for more generous payments has been a steep increase in the age of eligibility for pensioner benefits, with the age at which women can receive the state pension and men and women can receive pension credit increasing from 60 in 2010 to 66 in 2020. This has resulted in a significant rise in poverty among women in their early 60s.<sup>6</sup>

**Social security for children and working age adults:** Since 2010 there have been major cuts to entitlements, caps on payments and the value of most benefits has increased by less than inflation. This has left working-age benefits far less comprehensive and generous than



they were in 2010. Everyone who receives social security has been left worse off by these changes, including all families with children. The Institute for Fiscal Studies reports that the average loss for families with children from reforms from 2010 to 2017 will eventually be £2,727 per year even after taking account of offsetting tax cuts. The poorest tenth of families with children will lose £4,283 on average (2017 prices).<sup>7</sup> Some groups have been hit particularly hard including large families, people living in the private rented sector

and people with moderate disabilities.

The government has also been merging six means-tested benefits and tax credits together to create universal credit. The process of designing and implementing the benefit has proved extremely difficult and universal credit will not be fully operational until at least 2023. Once it is in place, the new benefit will offer a single payment, that will be withdrawn smoothly as household earnings increase. The idea is that UC will create clearer financial incentives for people to increase

their earnings and ensure that households receive all the money to which they are entitled. However universal credit also comes with clear disadvantages and risks, when compared to the legacy benefits. Its introduction has also been tainted by other unpopular reforms, which are carried over from the legacy benefits to universal credit. These include discredited disability assessments, punitive conditions and sanctions, and the cuts, freezes and caps that have reduced the adequacy of many existing entitlements.

FIGURE 2: A TALE OF TWO SOCIAL SECURITY SYSTEMS

	PENSIONERS	CHILDREN AND WORKING-AGE ADULTS
<b>Design</b>	Based on the principles of the 1942 Beveridge report. The contribution-based new state pension is broadly sufficient to meet basic needs, except for rent and council tax (but it is only available in full to recent retirees with 35 years of contributions). The state pension is supported by means-tested benefits (accounting for around 10 per cent of total spending) and non-means-tested disability benefits.	The system is increasingly dominated by means-testing, which accounts for 60 per cent of expenditure. Some non-means-tested support is available (child benefit and disability and carers benefits) although for households with a high earner child benefit is offset by extra tax. Contribution-based entitlements are very limited.
<b>Integration</b>	Reforms over the last 15 years have aimed to build a layered system with separate tiers of support, working as an integrated system to meet numerous aims and work for all pensioners. The non-means tested state pension aims to both prevent poverty and provide a platform for workplace pensions.	Universal credit is a risky integration of means-tested payments, merging six existing benefits and tax credits. This major reform is creating a purer means-tested system, prioritising modest gains to work incentives and full take-up of entitlements over other goals.
<b>Adequacy</b>	Following 20 years of reforms, payment levels are broadly adequate to meet basic needs, when entitlements are claimed in full. This was initially achieved by generous means-testing, then by state pension reform & the 'triple lock' policy.	Payments provide very low levels of income for many groups, which do not adequately meet needs. Cuts, freezes and sanctions have reduced the system's ability to meet needs. More generous support for children introduced in the 2000s has largely been reversed. Payments are insufficient to prevent poverty, including for many working households.
<b>Concerns</b>	Pensioner poverty persists. The major problem with the system is that many people don't ask for support they need. The rising pension age and linked reforms have left many in their 60s vulnerable before they reach pension age.	Very significant problems with: <ol style="list-style-type: none"> <li>1. overall payment levels</li> <li>2. the way people are treated</li> <li>3. people being refused support they need</li> </ol>

## THE ARTICLE SERIES

We published 18 articles under our 'Poverty and social security: where next?' series, between February and April 2019. Quotations from the articles appear throughout the report.

1. **Where next?** Andrew Harrop series introduction
2. **Causes, not consequences** John Veit-Wilson (Northumbria University) ending poverty
3. **A female face** Mary-Ann Stephenson (Women's Budget Group) women with low incomes
4. **Missing morality** Rev Paul Nicolson social security and morality
5. **A timely lesson** Raji Hunjan and Marc Francis (Z2K) local welfare systems
6. **Leaving no one behind** Marsha de Cordova MP (shadow minister for disabled people) supporting disabled people
7. **Commanding public confidence** Claire Ainsley (Joseph Rowntree Foundation) public support for social security
8. **Smooth transitions** Christopher Brooks and Sally West (Age UK) new patterns of retirement
9. **Paths to universality** Baroness Ruth Lister universalism and contribution
10. **What works?** Anjum Klair and Kate Bell (TUC) in-work poverty
11. **Major repairs** Stephen Timms MP repairing universal credit
12. **The best investment** Louisa McGeehan (Child Poverty Action Group) child poverty
13. **Rising pressures** Jasmine Basran (Crisis) preventing homelessness
14. **Fair for the future** Sam Royston (Children's Society) how benefits should increase over time
15. **Bold and ambitious** Kate Green MP personalising social security
16. **Breaking ground** Sally Witcher (Inclusion Scotland) lessons from Scotland
17. **Hard truths** Mike Amesbury MP reinventing job centres
18. **The big picture** Fran Bennett (University of Oxford) series conclusion



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# The voice of users



## A FABIAN SOCIETY 'PEOPLE'S CHARTER' FOR SOCIAL SECURITY

**Security:** social security should stop poverty and provide enough money and support for people to meet their reasonable needs all the time

**Respect:** social security should treat people as individuals, with trust, respect, dignity and care. People using the system must have a voice in shaping its future and holding it to account

**Simplicity:** social security should be simple for people to use. There must be clear information in a variety of formats, people should be actively alerted to their entitlements and when there are changes in people's lives the system should be simple and responsive

**Consistency:** social security should be fair and consistent, with rules and decisions that ensure that entitlements go to those who need them

**Support:** social security should provide high-quality, personalised support for people to work, gain new skills or play a role in the community

The Fabian Society conducted two sets of listening events with four groups of social security recipients. The four groups comprised two drawn from existing campaign networks and two selected by a market research agency to reflect a diverse range of social security recipients (a group of women in their 60s and a group of parents aged under 30).

In the first meetings we asked the recipients for their views on social security today and how it could be improved. These findings informed discussion at the policymakers' summit and were used to develop a draft 'people's charter' for social security. After the summit we re-convened the groups to report back. The groups considered and further developed the 'people's charter'.

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## Recipients' concerns

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The listening events identified a series of fundamental concerns with the benefit system for children and working-age adults:

### 1. Not enough money is available

*"It's not enough. They assess it as the amount one needs to live on but I don't know in terms of who actually they calculate this on."*

*– Unemployed campaign group member, London*

*"It's shameful at the moment, they're just taking more and more off and that's why you're seeing more and more people at food banks. They're not giving them a standard at which they can live."*

*– Woman in her 60s, Coventry*

*"It's not a great amount for most people, especially those that are single claimants."*

*– Unemployed campaign group member, London*

### 2. Recipients are not treated with trust, dignity, respect and care

*"The system is deliberately cruel and deliberately harming people, and this is a diplomatic way of saying that, but we have to acknowledge there is hostile intent in the system."*

*– Disabled campaign group member, Manchester*

*"You go in there [job centre] and you're pre-judged already. You're automatically scum, you're automatically costing them money."*

*– Unemployed campaign group member, London*

*"It's the most impersonal, brutal system I've ever encountered. You never really talk to people. If you are good on a computer you end up organising your life by writing letters, that's what it is. You write a letter into the ether and then a letter comes back to you. It's totally impersonal."*

*– Unemployed campaign group member, London*

### 3. The system is constantly changing

*"They can't make their mind up what they're doing. It's constantly swapping, changing all of the time. Keep it to one thing and just keep it that."*

*– Parent aged under 30, Southampton*

### 4. There is insufficient information, advice and support

*"I don't think they give you enough [information] and explain it enough, because I don't think they know it well enough for themselves."*

*– Parent aged under 30, Southampton*

*"You literally can't phone a person that is in charge of what you need to talk about, you just can't do that."*

*– Disabled campaign group member, Manchester*

*"I got kicked out, with my three children and a new-born ... out of the blue, my landlord just gave me my eviction notice. I didn't know that I was in rent arrears, I didn't get told I was in rent arrears. I didn't have any letters come through to say that my housing benefit had stopped, so I had no idea at all until I had my eviction notice come through. I literally had maybe a month or two and then, with a new-born plus three other children, we had to go into temporary accommodation and it's just so much stress"*

*– Parent aged under 30, Southampton*

### 5. Problems with the design and operation of universal credit

*"I found it easy to apply for it but, on the application, it doesn't tell you that you have to wait at least six weeks for your first payment."*

*– Parent aged under 30, Southampton*

*"They expect you to use the computer. It's really bad that the older generation should be expected to be using computers, not only the fact that they can't do it, but there's an expense there."*

*– Woman in her 60s, Coventry*

*"Universal credit discriminates against people with learning difficulties. You've got to learn how to work a computer, and against people who cannot afford a computer. So it discriminates against the most vulnerable people basically."*

*– Unemployed campaign group member, London*

*"Participant 1: Another thing with the universal credit, from what I understand, they lump the husband and wife amount together ... It's like the man in that relationship could be abusing the woman and taking all the money ... because they lump it together ..."*

*Participant 2: Well, when you're working, you have your own wages, don't you? You have your own wages when you're working, it's a separate issue, so when you stop working through health, why have I suddenly got to depend on his money?"*

*Participant 3: It takes away your independence, doesn't it?"*

*– Women in their 60s, Coventry*



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## 6. Health-related assessments are unfair

*“Any day except Sunday a letter can drop through your letterbox and basically the implications of it is your life as you knew it is over; you’ve got a very difficult assessment to go through that’s going to make you sicker, going to make you worse in your impairment, and you might fail it and you’ll have to go through the court system, and while you’re doing that you can have your car taken away, you have no money to survive, some people don’t make it, many haven’t.”*

*– Disabled campaign group member, Manchester*

## 7. There is not enough help for children and caring

*“My daughter is nearly one so I’ve got to start looking for work soon, but I can’t get childcare for her until she’s two. But, even then, I can only get childcare for 15 hours.”*

*– Parent aged under 30, Southampton*

*“People caring for their aunts, uncles, mums, dads, whoever, are not getting enough money to live on. I care for the whole week, seven days in, seven days out, I ain’t got enough money. What’s £85? It’s nothing, and of that, I had to get him up, get him washed, his breakfast, then his medication, the same again at dinner, get him food and whatever, tea-time, supper, change him and give him his medication.”*

*– Unemployed campaign group member, London*

## 8. No independent oversight

*“If the DWP or any government department wants trust or faith in their policies, they’ve got to be seen to be accountable from outside. It’s not going to be whatever, MPs marking their own homework.”*

*– Disabled campaign group member, Manchester*

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## Positives

It is important to recognise that there was a diversity of opinion within the groups. Some features of social security were seen as positive by some people and negative by others – eg some of the new features of universal credit (including the online application process and the single monthly payment) and Jobcentre Plus’s employment support services.

*“I think one of the good things is that they pay monthly. So if you’re getting geared up to going back to work, that is how the real world works. You get paid monthly, you get a big wage, you pay your own way. I like the idea of it.”*

*– Unemployed campaign group member, London*

In each group, participants were able to identify aspects of the social security system that they viewed positively. A number of benefits were singled out for praise including winter fuel payment, child benefit, pension credit, carer’s allowance and housing benefit. There was also strong support for the aims and ideals of social security: ‘support in hard times’, ‘keeps a roof over your head’, ‘universal support at the point of need’, ‘helps keep people warm’, ‘helps working parents’. In general, the two groups drawn from campaign networks were somewhat more negative in their views than the two groups made up of randomly selected benefit recipients.

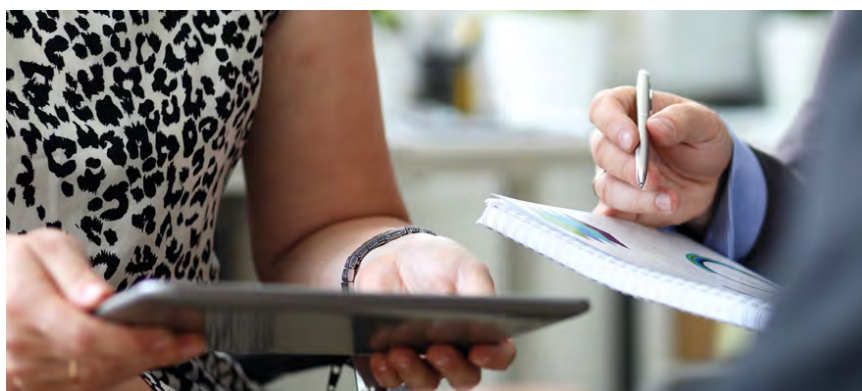
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## Writing a people’s charter for social security

Working with the groups of benefit recipients, we jointly developed our ‘people’s charter’ setting out the key features of social security that people using the system want to see.

These principles for the system start with the core aim of addressing poverty but after that their focus is on ‘how’ the system should work not what it should achieve. Many of the participants were cynical about the likelihood that a government would ever introduce a system founded on these principles.

The charter was created in a number of stages. First, we asked benefit recipients to suggest the key principles they would like to see in a social security system of the future. We took their words (which were mainly written on post-it notes) and other suggestions they had made at the listening events and used these to write a ‘draft’ charter. At each group’s second meeting we discussed the draft and asked each group how it could be improved and what they didn’t agree with. Following these discussions, we removed all the points where any groups had raised an objection and incorporated the new ideas, except where we thought the other groups might disagree.





# STEP 1: ACT FAST WITH IMMEDIATE REFORMS

Social security requires strategic long-term reform which cannot be rushed. Debate, evidence gathering, planning and gradual implementation will all take time. Yet immediate action is also needed because the system is in crisis and causing great suffering. Politicians must be ready to act on two-time scales:

**Short-term reforms** are needed for inclusion in election manifestos as fully costed policies. These should combine a combination of ‘rescue’ measures to resolve the worst immediate problems with the system, pilots to test new approaches, and initial steps to increase payments and signal the future direction of reform.

**Ambitions and medium-term reforms** should be presented in outline with the detail and pace of change to depend on further debate and the availability of future resources. Politicians should set out the role of working-age social security in defeating poverty over a decade through a process of gradual improvement.

Short-term reforms should comprise ‘rescue’ policies, initial increases in payments and pilot projects.

**1. ‘Rescue’ policies** are needed to address the worst failings in social security. These reforms are mainly required to repair ‘holes’ in the safety net in order to prevent hunger, homelessness and destitution:

## *Extra payments*

- **Council tax:** re-introduce compulsory 100 per cent maximum council tax discounts for means-tested benefit recipients without any other income
- **Large families:** repeal the 2-child limit and benefit cap and re-introduce payments to provide large families a

similar standard of living to other benefit recipients

- **Rent:** re-link housing benefit and the housing element of universal credit to local private sector rents with payments covering at least the bottom third of local private rents in all areas; also scrap the social housing bedroom tax
- **School holidays:** introduce a seasonal weekly payment of at least £12 per child to cover the extra costs of school-age children during summer holidays<sup>8</sup>
- **Pensioners with younger partners:** increase payments for mixed-age couples, for example by providing them a payment half-way between the value of the allowances for working-age and pensioner couples
- **Local welfare schemes:** introduce national requirements and funding for local schemes to address emergency and time-limited needs

## *Treating people better*

- **Delayed payments:** pay universal credit immediately following an initial claim being validated
- **Health assessments:** introduce revised disability assessments within one year, following a rapid consultation and evidence review
- **Sanctions:** suspend sanctions except in extreme circumstances, while wider policy on conditionality is reviewed
- **Split payments:** create a de fault of paying landlords direct and a presumption that main carers in couples will receive all or part of universal credit payments

- **Respect:** task frontline staff and benefit recipients to work together to identify immediate ways to increase trust, respect and personal support in the practice and culture of DWP and its supply chain

These measures will both raise the ‘level’ of the safety net by increasing payment amounts which are so inadequate that they put people at risk, and plug ‘holes’ in the safety net where people are not receiving even the minimum income that today’s harsh system suggests they need.

**2. Higher overall payments:** The government should also immediately introduce two new measures to begin to increase the generosity of the system, in advance of a full review of the adequacy of payments (see step 5).

**A one-off increase in key benefits** should be introduced in response to years of cuts. This could take the form of a £5 per week increase for (a) all adults in households receiving UC (or its legacy benefits) and (b) all children benefiting from child benefit. An additional £5 per week should be paid to (c) babies under 1 benefiting from child benefit, (d) disabled adults in households receiving UC or legacy benefits, and (e) disabled children benefiting from disability living allowance.

This package would cost around £6.3 bn and much of the cost could be funded by a one-year freeze to the tax-free allowances for income tax and national insurance, which would generate around £4.5 bn in revenue.<sup>9</sup> A cheaper version of the package costing around £4.8 bn would be possible, if extra payments for children was restricted to households receiving child tax credit or universal credit (see figure 3).

**A single policy for annually uprating social security** should be announced to stop further divergence between the

systems for pensioners and for children and working-age adults. Currently three different policies for uprating are in use (the 'triple lock' for the state pension and pension credit, CPI inflation for some disability and carers' payments and a cash freeze for housing payments, child benefit and most elements of universal credit). Between 2009/10 and 2019/20 child benefit increased by 3 per cent in cash terms, while the basic state pension rose by 36 per cent.

In future the 'triple lock' could be used for all age-groups. Alternatively, a modified 'triple lock' could be introduced that would always pay the higher of inflation or 2.5 per cent in a single year but increase benefits in line with earnings over the course of each five-year period. Payments designed to meet specific expenses should be annually increased directly in line with the underlying costs – eg social security for rents, council tax and childcare.

*"A fair social security system needs to address how social security provision rises over time, called "uprating". This shouldn't be done on an ad hoc basis, but put on a fixed, sustainable footing for the long term... It is surely strange that some benefits have been frozen whilst others are "triple locked" without any clear end-goal for where these different rules are intended to take different benefits' value over time... Over time, as the economy grows in real terms – simple inflationary increases are not enough. As society becomes wealthier, if they are uprated by inflation alone, benefit rates will increasingly lag behind typical living standards."*

– Sam Royston, *The Children's Society*

**3. Reviews and pilots:** Politicians should also quickly promise a series of significant reviews of policy, to develop medium-term proposals. The reviews should consider key areas addressed in the rest of the report:

- The adequacy and consistency of all benefit payments (see step 5)

**FIGURE 3: INDICATIVE COSTINGS FOR A £5 WEEKLY INCREASE IN SOCIAL SECURITY FOR KEY GROUPS<sup>10</sup>**

	Beneficiaries	Cost
<b>First adult – UC and predecessors</b>	6.6 m	£1.7 bn
<b>Second adult – UC and predecessors</b>	1.9 m	£500 m
<b>Each child – child benefit</b>	12.7 m	£3.3 bn
<b>[Each child – UC and predecessors]</b>	[7 m]	[£1.8 bn]
<b>Additional £5 weekly payments for:</b>		
<b>Babies aged under 1 – child benefit</b>	650,000	£170 m
<b>Households with a disabled adult – DWP means-tested benefits</b>	2.1 m	£540 m
<b>Disabled children – DLA</b>	500,000	£130 m

Indicative costings are based on the number of beneficiaries remaining unchanged

- The design, operation and brand of means-tested household benefits (ie universal credit) (see step 6)
- Future options for contribution-based benefits, universal payments and tax allowances (see step 7)
- The development of a non-stigmatising, all-age brand and portal for social security

The following pilots should also be introduced:

- Testing the impact of very low or zero conditionality for out-of-work benefits
- Removing in-work conditionality and the minimum income floor for self-employed people
- Devolution of employment support services to nations and city-regions
- New social security entitlements to

support lifelong learning

- Improved in-work employment services and careers guidance for UC recipients

*"Thinking more about the short term, in terms of manifestos, I absolutely agree that the first principle has got to be firefighting. There's obviously a collection of policies that need to be implemented as a matter of urgency: ending the [universal credit] five-week wait, abolishing the 2-child limit, dealing with LHA [local housing allowance], reviewing sanctions as a matter of urgency, dealing with childcare costs. There's a collection of policies there that needs to be implemented urgently. I think, beyond that politicians should commit to above-inflation uprating in order to unpick some of the damage that's been done by eroding the system over many, many, many years through caps and freezes. That should be the big living standard offer at the next election. So, you've got a collection of five specific asks, one big living standards pitch, and that's it. That would be hopefully achievable in terms of cost."* – Summit participant

## STEP 2: PURSUE CLEAR AIMS AND FIGHT POVERTY FIRST

To reimagine social security for the 2020s, politicians must start by defining what the system is there to achieve. Ministers should step back, examine the fundamental purpose of social security and redesign the system around those aims.

During our project the aims and objectives of social security were discussed by both policy specialists and benefit recipients. There was widespread agreement that the first aim of social security must be to tackle poverty. There was also support for a system that pursues a wide range of objectives beyond this.

The government should publicly set out that the aims of social security are to:<sup>11</sup>

- Prevent poverty by supporting efforts to tackle its root causes; and by providing appropriate non-means tested sources of income
- Alleviate poverty at the point it arises and within that eliminate destitution (eg hunger, homelessness)
- Distribute money over our lifetimes towards periods when our earnings are low or our needs are high (eg retirement, childhood)
- Insure against unpredictable life events when our livelihoods are interrupted or we go through change
- Help with the extra costs some households face (eg disability, children, unavoidably high housing costs) to equalise the living standards of households with similar initial incomes
- Redistribute money to reduce inequality between individuals, households and places
- Support the economy and employment



by increasing spending power across the country and over the economic cycle, and promoting high employment

*“The first [priority], we’ve put ‘poverty’, because above all else, poverty has to be dealt with, no matter what money is available.”*

*– Woman in her 60s, Coventry*

*“A social security system in which everyone has a stake cannot be limited to the relief of poverty alone but must have much wider goals. These include the sharing of risks to livelihoods (including unemployment, sickness and old age), as well as additional costs (due to disabilities or having children). This would be an embodiment of mutual solidarity in the face of an uncertain world. It would also help prevent poverty.”*

*– Fran Bennett, University of Oxford*

Social security should meet all these goals together and ministers should establish independent oversight arrangements to scrutinise the extent to which these aims are being collectively achieved. Importantly, not all these aims relate to poverty. For middle- and high- income households, social security offers valuable insurance, smooths lifetime income and re-allocates

resources between people with similar incomes but different needs.

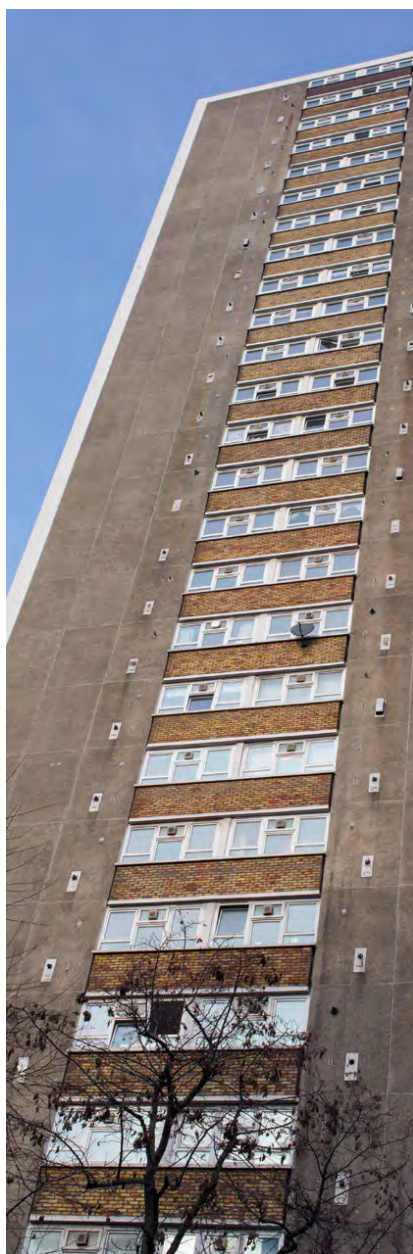
### Defeating poverty

Politicians should promise that social security policy will be designed to progressively defeat poverty. This is a far-reaching ambition. According to the standard DWP measure<sup>12</sup> more than 14 million people were living in poverty in 2017/18 and this is expected to rise further by 2020.<sup>13</sup> Poverty is therefore a mainstream cross-generational phenomenon not a fringe issue.

The official statistics show that 2 million pensioners (16 per cent) and 4.1 million children (30 per cent) live in poor households. Disability is strongly associated with poverty. On the government’s figures 5.6 million people in poverty live in a household with a disabled person. This number is still higher using measurement methodologies which take account of the higher cost of living that disabled people face (eg the measure developed by the Social Metrics Commission).<sup>14</sup> Work is no protection from poverty – 61 per cent of poor working-age adults and 70 per cent of poor children live in working households. Reducing in-work poverty and poverty related to disability must be a top priority.

*“There should be a poverty line that people are not allowed to fall under, so they’ve always got money for their rent, whether it’s paid directly by the government to the council or whatever. At least they’ve got a roof over their head and they’ve got money to heat and feed themselves.”*

*– Woman in her 60s, Coventry*



## UNDERSTANDING POVERTY

Poverty is ‘when a person’s resources are well below their minimum needs, including the need to take part in society’.<sup>15</sup> This understanding of poverty, which was shared by our expert participants, stretches beyond acute deprivation, hunger or homelessness. It describes when people are some way from having the money they need to meet their reasonable needs and participate in society on a normal basis.

*“Paradoxically, poverty can only be understood in... terms of not being poor — what is the not-poverty standard against which poverty is identifiable? The Minimum Income Standard (MIS) defines it as ‘a socially acceptable standard of living’ which enables ‘the opportunities and choices necessary to participate in society’. This criterion of not-poverty is not the poverty boundary (representing a serious lack of resources), so measuring against adequacy instead helps prevent poverty and repeated deprivations. It allows people to make lifestyle choices and be treated with the respect ordinary non-poor people expect in the UK.”*

*– John Veit-Wilson, Northumbria University*

The Joseph Rowntree Foundation has led work in recent years to improve the conceptualisation and measurement of poverty in the UK, particularly by commissioning minimum income standards measures which quantify how much money people need to participate in society and lead a healthy life based on the public’s views on minimum needs.

More recently the Social Metrics Commission has also undertaken valuable work on the measurement of poverty, examining the unavoidable extra costs people face in different circumstances.

In this report we have been guided by three measures of poverty from DWP, the Joseph Rowntree Foundation and the Social Metrics Commission which all share the same broad conception of poverty and all have fairly similar financial thresholds for poverty – for a single adult around £150 to £160 per week after housing costs (2017/18 data, 2019 prices).<sup>16</sup>

Our expert participants said that social security policy should seek to both address poverty when it occurs and act to prevent poverty. We therefore include the prevention and alleviation of poverty as separate aims for social security to distinguish them and reflect their equal importance.

*Alleviating* poverty means providing people in poverty with money or other resources to meet their present needs. Action to *prevent* poverty includes: (a) supporting people over their lives to acquire capabilities such as skills, good health and resilience; (b) enabling people to build incomes

and assets by helping them to work, creating a fair labour market and supporting saving; (c) reducing the minimum amount of money people need to avoid poverty by meeting needs with universal public services, designing fair taxes and reducing the costs of housing; and (d) providing people with social security to meet specific needs, on a non-means-tested basis, regardless of whether or not they are poor.

Social security is essential for both the alleviation and prevention of poverty – working alongside universal public services and fair labour and housing markets. For people without sufficient earnings or other



income, social security is the only real option for stopping the immediate manifestation of poverty. And when it comes to prevention, social security also plays an essential role. Income security supports children's development and future life chances, while in adulthood the security it provides is the foundation for personal agency, resilience, good health and being able to seize future opportunities. But the design of social security is critical. Poorly thought-through benefit systems can create 'poverty traps' that lock people into poverty, while good systems reward work and saving to lift people out of poverty and help them avoid it in the future.

*"An effective social security system can be part of the solution to the UK's high levels of poverty, if it also tackles the reasons why people need benefits, such as barriers to work, lack of skills and opportunity, high housing costs and low pay."*

*– Claire Ainsley, Joseph Rowntree Foundation*

### **Meeting multiple goals**

The state pension demonstrates how benefits can play a preventative not just an ameliorative role in tackling poverty. The post-2016 version of the state pension

## **Social security is essential for both the alleviation and prevention of poverty – working alongside universal public services and fair labour and housing markers**

provides enough money as an earned right for many people to avoid poverty. Non-means-tested benefits could be used far more widely in working-life to prevent poverty by delivering a secure income when people face high costs or interrupted livelihoods. This demonstrates how designing social security to prevent poverty can overlap with the pursuit of a wide range of goals unrelated to poverty, such as distributing resources across each individual's lifespan.

*"Social security should be thought of "not just as poverty alleviation, as implied by a means-tested safety net model for 'them', but as a means of providing us all with economic security through the social means of shared protection against a range of risks and contingencies that we might each face through the course of our lives – in other words poverty prevention."*

*– Baroness Lister*

Pursuing objectives that extend beyond

poverty alleviation is hard when the main policy tool is a means-tested household benefit like universal credit. UC is designed to top up low incomes, and the pursuit of aims such as insurance, lifetime distribution and support for high living costs has to be fitted into this framework. If means-tested benefits are flexible and wide-reaching achieving goals unrelated to poverty is achievable in part. But it would be much easier to advance these aims if more money was available through other benefits, that were explicitly geared to meeting them.

As things stand today social security for children or working age adults is failing to achieve any of the aims identified in this project. To turn this around it must be fundamentally reformed and made far more generous. The benchmark for successful reform must be how far it succeeds in achieving poverty alleviation and prevention, while also progressing wider goals including insurance, lifetime distribution and the equalisation of living standards.

## STEP 3: RESPOND TO THE FUTURE



The social security of the 2020s should not be the same as the social security of the 1970s or the mid-2000s. While our project uncovered huge dissatisfaction with the design and operation of universal credit, almost no one wanted to simply return to the benefits system of the past. Instead social security needs to be redesigned to reflect the Britain of the future.

In designing a new social security system, politicians should respond to the key social trends identified during the project:

**Labour market changes:** the UK has record high levels of employment (76 per cent of adults aged 16 to 64 are in work) and this reflects a structural not just a cyclical labour market change.<sup>17</sup> Nevertheless policymakers need to be prepared for future employment decline when the next economic downturn or recession comes. Self-employment is more common now than 20 years ago and there is rising concern about the impact of flexible and often insecure work. Demand for low-skilled work is declining and there is a continuing rise in the proportion of graduates and a greater need for lifelong learning and technical skills.<sup>18</sup> The average hours people work are slightly lower than 20 years ago.<sup>19</sup>

Median hourly real earnings have been stagnant since the financial crisis but the previously entrenched problem of low hourly pay is starting to be addressed by the national living wage.<sup>20</sup> Prospects for pay above this minimum are uncertain because productivity growth had been very low and collective bargaining in low-paid workplaces continues to decline.

**Housing market changes:** the proportion of households in privately rented housing (the most expensive tenure) has doubled over the last 20 years at the expense of social housing and homeownership and this trend is unlikely to reverse for the foreseeable future.<sup>21</sup> The real costs of each tenure are also much higher, compared to the 1990s.<sup>22</sup> Geographic inequalities in housing costs are much wider than in the past.<sup>23</sup> Increased volumes of housebuilding in the next decade are unlikely to reverse these trends quickly.

**Demographics and health:** Migration is likely to continue at high levels (whatever the outcome of Brexit) and the minority ethnic population will grow.<sup>24</sup> Life expectancies will probably continue to rise, although the pace of improvement has

slowed recently.<sup>25</sup> Working lives will also grow longer, with later entries into work and flexible retirements. Health inequalities will remain high, including inequality in life expectancy and healthy life expectancy.<sup>26</sup> There are also likely to be moderate increases in the prevalence of disability within each age-group.<sup>27</sup> The character of disability will shift gradually, with more people having mental health problems and fluctuating health conditions.

**Changing caring and gender roles:** the long-term rise in mothers working will continue, with ongoing pressures in balancing caring and working.<sup>28</sup> There will be a steep rise in demand for family carers, including among people aged under 65.<sup>29</sup> There will also be a slow but continuing rebalancing of the caring and workplace roles of men and women.

*“A system that was born of a form of collective social insurance against unemployment now has to grapple with a growing population that is living longer, more people with disabilities and fluctuating conditions, work not paying enough to meet minimum needs, and soaring housing costs.”*

— Claire Ainsley, Joseph Rowntree Foundation

The social security system of the future must therefore be designed to support people to have longer working lives and to save more for their retirements. It must be built on the expectation of part-time, flexible and sometimes insecure work not just permanent '9 to 5' employment. It should support caring roles, lifelong learning and the complex and changing nature of disability. Therefore, the future-focused social security system should:

#### *Labour market trends*

- 1. Provide secure incomes during transitions and interrupted earnings:** the immediate way to achieve this is to improve universal credit to end delays and errors, and also to amend the benefit so it responds faster when payments are to rise and slower when payments are to fall (see step 6). Other options include better non-means-tested income replacement benefits and statutory pay schemes for when people are out of work temporarily; and more generous universal benefits that are paid all the time – ie disability benefits, child benefit or a universal tax credit for all adults (see step 7).
- 2. Offer equal security for self-employed workers:** self-employed workers should be able to access contribution-based Jobseeker's Allowance when they have an appropriate contribution record. Statutory pay entitlements should have equivalents for self-employed workers where this is feasible. Alternatives to the UC minimum income floor for self-employed workers should be identified.
- 3. Support progression and lifelong learning:** improved in-work employment support and careers guidance services for UC recipients should be tested by the government or devolved administrations. UC conditions should also be adjusted to support learning:

enrolment on recognised qualifications should always be an acceptable reason for working part-time; and UC should be available for people without work and studying full-time in certain circumstances (eg young adults or people, studying towards particular specified qualifications). Ministers should pilot a contribution-based income replacement benefit and statutory pay scheme to support time off for learning (on both a full-time and part-time basis).

- 4. Maintain attachments to existing jobs:** improved statutory pay schemes are needed to support temporary time off or part-time work in order to sustain employment relationships in circumstances like illness, maternity, caring or re-training. UC can play a similar role by boosting people's income if they start to work part time or need to take unpaid leave.

#### *Housing market trends*

- 5. Respond to housing cost pressures:** housing-related payments are essential to prevent homelessness and to respond quickly when it arises. Social security should be demand-led and meet reasonable housing costs, reflecting local rents and annual price increases. This requires a substantial revision to the housing element of universal credit which should be pegged to modest local rents in all areas, with no artificial caps on payments, offering enough money for families to afford a safe, secure and suitable home in all areas. Activity elsewhere in government is required to reduce the cost of housing relative to earnings but this cannot be achieved through social security.

#### *Demographic and health trends*

- 6. Only increase the pension age to reflect rises in healthy life expectancy:** if increases to the pension age are to

take place in the future, they should reflect increases in the healthy life expectancy of people with low lifelong incomes. Planned future increases should be delayed if the recent stagnation in longevity growth continues.

- 7. Create flexible transitions at retirement:** a higher pension age means that fewer people are in a position to work all the way to pension age. Social security should offer a flexible approach in the years leading up to pension age to help those who aren't working because of health, caring or unemployment – ie a higher universal credit payment and reduced work-search conditions. Other options include early access to the state pension and better financial incentives to continue working after pension age.
- 8. Respond to changing patterns of illness:** benefits should be designed to ensure that people with a wide range of health conditions including mental health problems and cognitive impairments receive sufficient support. Evidence needs to be applied to the underlying design of benefits and the operation of health assessments so that disability benefits are well aligned with the extra costs different disabled people face. Universal credit should provide sufficient support both for people who are unlikely to work for the foreseeable future and for people who may only be able to work part time.

#### *Changing caring and gender roles*

- 9. Support carers both in and out of work:** out-of-work social security needs to support the rising number of carers through more generous carer's allowance and universal credit. Statutory carer's pay should also be introduced to provide better support to people who need a temporary break from caring or to work part-time to care

10. **Promote equal parenting** in the design of statutory leave and social security entitlements, for example with more paid baby leave for fathers/second carers and by designing social security without creating a default that there will be only one main carer.

11. **Enable people working part-time or flexibly to earn entitlements** through the design of contribution-based social security, statutory leave schemes and benefit eligibility rules. For example national insurance contribution rules should be reformed to ensure that many more people with limited or interrupted earnings qualify for entitlements.

Some social trends should not just be viewed as inevitable developments to which policy must respond. Where trends are negative the aim should be to reverse not just mitigate them. The recent introduction of the national living wage was cited during the project as an example of where policy had decisively addressed a major social problem. Other examples where the aim should be to reverse trends not just respond to them include tackling insecure employment conditions, rising health inequalities, the increase in housing costs relative to incomes and very high geographic inequalities.

*“One thing we’ve got to think about is how much you attack the labour market’s insecurities head-on, and how much you try to compensate for them.”*

– Summit participant

Most of the levers for addressing these problems sit outside the social security system, but the design of benefits can play a role in shaping social trends. Over the long term a more adequate social security system will improve children’s life chances, provide the security people need to sustain good health and share resources

## One of the key challenges for a future social security system is to reflect changing gender relationships and promote equality between women and men

and opportunities more evenly around the country. Specific design features can also be important. For example, features of universal credit currently incentivise very short hours and insecure mini-jobs.

### Gender equality

One of the key challenges for a future social security system is to reflect changing gender relationships and promote equality between women and men. To achieve this social security policy needs to focus on individual women and men, not just households, when thinking about the distribution of resources and economic power. Participants in the project spoke of the need to both ensure that women have independent resources and to create a system that is not based on traditional assumptions about gender roles.

*“Social security reform needs to incorporate gender analysis. This would focus not just on what resources are transferred between men and women, but also on the impact of such changes on gender roles and relationships, and gender inequalities within and beyond the household, both now and in the longer term.”*

– Fran Bennett, University of Oxford

The reforms introduced after 2010 have included elements which have significantly disadvantaged women. Universal credit comprises a single monthly payment for the whole household which increases the likelihood of an unbalanced distribution of resources between couples. Under UC women with a working partner also have very weak financial incentives to move

into work. Wider austerity policies have also transferred money from women to men, with cuts and freezes to benefits disproportionately harming women, while increases to tax allowances have benefited men more than women.

*“Social security in the decade ahead must recognise the importance of individual as well as household incomes. At the moment social security focuses on household income with little recognition that income may not be shared equally within households and that who receives income can affect who gets to make financial decisions.”*

– Mary-Ann Stephenson, Women’s Budget Group

One way to promote gender equality would be to rebalance social security from means-tested household benefits towards individual-based entitlements. This has the potential to both redistribute money between men and women within means-tested households and to provide an independent source of income to women irrespective of their household’s resources – for example more generous child benefit, carer’s allowance, contribution-based benefits or even a low-level basic income.

A social security system focused on gender equality and child development should also ensure that resources are targeted towards pregnancy, maternity and infant care (through a combination of child benefit, household means-tested benefits and statutory leave schemes). Providing more generous and longer-lasting support to babies and their main carers would obviously bring immediate financial benefits to women. A system that included better support for the father or second carer (eg reserved statutory pay for the second carer) would also bring long-term benefits if it created the conditions for a more equal distribution of caring throughout the child’s life.



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## STEP 4: BUILD A PEOPLE-LED SYSTEM



**S**ocial security should be designed around the lived experience of social security recipients and should have respect for users built into its core. This can be best achieved if all future reforms are co-designed with citizens, and if the system contains continuous opportunities for voice and participation. The process of reform itself must always put people first in the way changes are planned and implemented.

*“A social security system fit for the 21st century needs to be built and designed alongside people: the public who may call on it and whose support is required, those who use it, and those who interact with it, including employers.”*

*– Claire Ainsley, Joseph Rowntree Foundation*

### Co-design

Reform of social security should be designed in partnership with citizens – both those who are currently using the system and those who are not. People should be involved in deciding the aims, principles and outcomes of the system and how it should work in practice as it interacts with their lives. Involving people from disempowered, marginalised backgrounds helps bring to life their human rights and ensures that the service they receive treats them with dignity and is responsive

to their needs. Involving the wider public secures consent and builds a mainstream, non-stigmatising system.

During our project the recent development of the Scottish social security system was held up as a model of co-design that the rest of the UK could emulate:

*“A highly innovative policymaking model was adopted. At its centre was a ‘core group’ of diverse people with lived experiences of claiming benefits, brought together to co-produce a charter, describing what people engaging with the system should expect. Involved too were a plethora of third sector organisations, academics and assorted stakeholders... It is not just that the charter says how dignity and respect are to be delivered, but the way the charter was developed was rooted in these qualities... The development of the charter suggests it’s not just about being ‘people centred’ but ‘people led’; not about designing a system ‘alongside’ service users but their active participation in designing it; not about designing a system ‘around’ real lived experience but placing it at the core, right through to the peripheries. Because if policy does not achieve positive change to people’s lives, as defined by the people living those lives, then we are all wasting our time.”*

*– Sally Witcher, Inclusion Scotland*

In this project we have taken the principle of co-design on board by working with social security recipients to develop our ‘people’s charter’.

### Treating people well

Whatever else happens to social security, urgent reform is needed to ensure the system treats people well. This was a top priority for the members of our listening groups and most of our ‘people’s charter’ focuses on how the system treats people rather than the outcomes it achieves – with three of the five principles being respect, simplicity and consistency.

There was also broad agreement among the policy experts that social security for children and working-age adults needs a cultural ‘re-set’ so that it comes to embody values such as respect, dignity, trust, belief, understanding, service, support, compassion and care.

Participants in the project discussed the Social Security (Scotland) Act 2018 which seeks to develop a new approach for the elements of social security recently devolved to Scotland, with statutory social security principles, a requirement to produce a social security charter and new ministerial duties.<sup>30</sup>

*“Lessons can be learnt from the Social Security (Scotland) Act, which opens with the statement that “social security is an investment in the people of Scotland” and that “social security is itself a human right and essential to the realisation of other human rights”. This is a markedly different approach from the attitude of the UK government and recognises that we all have an interest in a just social security system.”*

*– Mary-Ann Stephenson, director, Women’s Budget Group*



The language and intent behind the Scottish reforms are a breath of fresh air after 10 years’ of UK-wide changes that have frequently worked in the opposite direction. However, summit participants noted that so far the Scottish provisions are just warm words. The real test for the new Scottish system will be how social security is delivered in practice.

The key elements identified in the project that would lead to social security treating people better include:

- 1. Consultation and involvement:** in addition to involving users in co-designing reforms, a permanent culture of consultation and participation is needed. Involvement should directly engage service users not just professional representatives such as charity employees.

*“If you compare it to the NHS, the NHS has within its constitution a statutory obligation to consult users, which is why constantly we’re asked ‘how did your meeting with the doctor go?’ or to be involved in patient participation groups. ...The DWP has no statutory obligation to consult its users and they are very averse to it now... So building into a constitution an obligation for the DWP to consult claimants at all levels would be a key thing.”*

*– Summit participant*

- 2. Better customer ‘journeys’:** end-to-end service ‘journeys’ need to be far more user-friendly. This needs to include simple, accurate and inclusive communications; a free choice between straightforward digital systems and personal human support; knowledgeable, sympathetic, empowered frontline employees; and easy access to independent advice and advocacy services. As part of this, there should be a reduction in ongoing requirements for digital interaction by universal credit recipients (eg maintaining an online journal).

*“The lack of information and support is really key because, yeah. I don’t think people know what they’re entitled to or what they’re not entitled to, and some people claim and get it wrong and they end up owing money and it’s just a mess, really. If you owe them money, it’s easy enough for them to know that.”*

*– Parent aged under 30, Southampton*

- 3. Income maximisation:** the social security system should proactively promote full take-up of entitlements. This includes adopting a ‘tell me once’ approach so that recipients can automatically apply for all relevant

entitlements; proactively following-up incomplete online applications and inquiries; and promoting in-house and independent information and advice. Policy, system design and frontline practice should start with a presumption of belief regarding people’s applications until there is evidence to the contrary.

*“I think it’s ... the lack of information as well, every time you have to fill a form in it’s just a minefield. I remember when my mum was housebound, I’m sure if we’d have pushed and known what we know now we could have got more money to help her live life a bit more comfortable. But we didn’t ... we weren’t told of anything.”*

*– Woman in her 60s, Coventry*

- 4. Conditions and sanctions:** Harsh conditions and sanctions undermine users’ confidence in the entire social security system. Requirements should be reduced and refined to reflect real life for people with low incomes and the genuine barriers to complying that people face. There needs to be sympathetic enforcement of rules with more trust and leeway, with an end to sanctions apart from exceptional circumstances.

*"In my constituency, a claimant was sanctioned for seven days for being seven minutes late to an appointment. That is not fair or reasonable, and it is certainly not supportive or compassionate. But it is far too common under this punitive system."*

*– Mike Amesbury MP*

5. **Health assessments:** urgent consultation and reform of health assessments is needed because people with health conditions need accurate assessments that reflect their real-life experiences of health-related barriers to work. People undergoing assessments should be treated with respect, belief and care, by well-trained, compassionate employees who have the time to understand each individual's circumstances. Consideration should also be given to returning to a system that relies more on self-assessment and the opinion of clinicians who know the individual.

*"Disabled people constantly tell us that the assessments are things that are done to them. That they are asked arbitrary questions by somebody that does not understand their disability... We have to design any assessment process together with disabled people so it works much better and we can get correct outcomes."*

*– Summit participant*

6. **Support Services:** Jobcentre Plus offices should be reimagined as employability support hubs not 'sanctions centres'. This task will be far easier if conditions become more straightforward to comply with. Structural changes might also assist, such as creating a clearer separation between social security administration and personal employment support. Consideration should be given to devolving Jobcentre Plus within England and to Wales and Scotland in order to integrate employment services with other forms of support.

*"Nobody chooses to go into a jobcentre because they think that's where they'll find a job – they're not job centres – they're sanctions centres. That was the view of a former Jobcentre Plus work coach I spoke to on his experience of how our network of jobcentres are perceived and run."*

*– Mike Amesbury MP*

7. **Redress:** The DWP's internal processes to provide prompt re-consideration and redress should continue to be improved. Legal aid funding is needed for legal advice and representation when challenging benefit decisions. Redress also requires transparency and external accountability to independent watchdogs who can insist on improvements.

*"The system should be efficient, designed to actively ensure that people receive the money they need and are entitled to and have a meaningful right of appeal against decisions, including the right to legal advice and advocacy."*

*– Mary-Ann Stephenson, Women's Budget Group*

These practical changes need to sit alongside concerted action to create a new institutional culture of belief, respect and care, where the design of the system and frontline practice is geared around helping as many people as possible receive as much financial help as possible. As an initial step the government should create task groups comprising frontline workers and recipients to jointly develop ideas for better systems and practices.

### **The process of reform**

It is just as important to reflect on 'how' to make reforms as 'what' these reforms should be. People need to be at the heart of how reforms are conceived, implemented and communicated. The project identified several key elements that should be included in the process of reform.

1. **Identify, apologise for and learn from past mistakes:** benefit recipients in campaign groups argued that any future reforms will be treated with huge suspicion because recent initiatives had caused such harm. Past mistakes need to be properly acknowledged and lessons learnt to inform new policies.

*"We can't simply talk about reform. There needs to be some sort of process of truth and reconciliation to deal with what's happened. The trauma is real ... it's societal level trauma to millions of people and that has to be named, recognised and dealt with. We can't trust any new policy until we've had some kind of admission that what was done to us was wrong and they won't be doing that again."*

*– Disabled campaign group member, Manchester*

2. **Design reform around the real-life of low-income households:** Participants in the project agreed that many of the problems of recent years have been driven by unrealistic expectations about how people in receipt of social security live their lives. Indeed, some features of universal credit (like monthly payment and digital-by-default) were specifically introduced with the intention of changing how people live, not reflecting their lives now. Future reforms need to be realistic about how people use technology, how low-income households manage money, the ways in which conditions are hard to comply with in practice, how different health conditions limit people's practical ability to sustain work and how much money people realistically need to meet their needs.
3. **Avoid big risky reforms, if at all possible:** the experience of the introduction of universal credit has left policy experts and service users very wary about 'big bang' reforms.

The example of the pension system is illustrative: here there was a staged process of reform over 15 years that comprehensively transformed the system through incremental steps.

*“It’s very easy for politicians and technocrats to say, ‘We need a big, radical reform’ and in this area, of all areas, we should be really careful.”*

– Summit participant

- 4. Commit to clear, measurable objectives:** complicated reforms need to be linked back to clearly stated objectives that can be communicated and justified to the public. Goals should be measurable so that the government can track its performance, be held to account and be open to changing policies when it is needed.

*“What really drives behavioural change in all our areas of work is the outcomes that we’re judged on. And the thing the department has always really lacked is clear outcomes, and clear accountability for those outcomes. So, if I was really to try and change culture, behaviour and service delivery, I would look at putting in some outcomes around things like securing people’s homes, securing people good-quality work, and providing people with the income they need so that they’re not in poverty.”*

– Summit participant

- 5. Develop reforms that purposefully rebuild public understanding, trust and consent:** The system needs to operate fairly, competently and efficiently so that the ‘brand’ of social security is not tainted by constant negative stories. It should be designed and presented as an inclusive ‘national service’ that is ‘for us all’. This is partly a question of presentation: universal credit must feel mainstream and non-stigmatising, reflecting that it will support more than half of children.<sup>31</sup>

It would also be helpful to expand universal and contribution-based entitlements or at least present them more prominently. A single non-stigmatising all-age gateway for social security entitlements might advance both these goals. The language and messages accompanying reform also need careful thought. The Joseph Rowntree Foundation has developed good practice on how to talk about poverty in a way that chimes with public sentiment.<sup>32</sup> The public are also likely to respond positively to language that describes a system aiming to support everyone, reward contribution and prevent future problems.

- 6. Entrench and institutionalise reforms:** Expert participants remarked on how the reforms made by the 1997

to 2010 Labour government had been quickly reversed by post-2010 governments. They were eager to identify ways to lock in reforms so they are hard to unwind in the future. Possible ways forward include developing policy through non-party commissions that secure broad understanding and consensus; linking policies to groups of beneficiaries who are popular in the public’s mind; establishing policies as politically totemic and difficult to retreat from; and creating independent institutions that come to embody a policy agenda and would be hard to abolish. For entitlements to become deeply entrenched, they have to become part of everyday life for millions of people so that we cannot imagine being without them, as with the NHS, the BBC or the state pension.



## STEP 5: CREATE CONSISTENT, ADEQUATE PAYMENTS



The social security system should be founded on principles of adequacy and consistency. *Consistency* means that social security should treat people in similar situations in similar ways. In particular the gulf in payments between pensioners and everyone else should be gradually closed. *Adequacy* means that social security should ensure people can have decent living standards. The system should guarantee that no one ever faces destitution, it should lift many more people out of poverty and it should provide a platform that enables people with low earnings or modest savings to meet their reasonable minimum needs.

In 'step 1' we proposed immediate actions to start addressing the most ur-

gent problems facing social security. This package would plug alarming 'holes' in the safety net, start the process of improving the adequacy of payments and create a permanent and consistent approach to annual increases in social security.

But the value of all social security payments should also be examined from first principles. Today there are huge inconsistencies in the standard of living provided by social security, depending on age, size of household and personal circumstances. These differences come without any evidence, debate or coherent explanation.

### Inconsistent, inadequate payments

Today's inequalities are vividly demonstrated by comparing the basic

FIGURE 4: BASIC OUT-OF-WORK PAYMENTS IN 2019 FOR ADULTS AGED 25 TO PENSION AGE IN DIFFERENT HOUSEHOLD FORMATIONS (EXCLUDES SUPPORT FOR RENT, COUNCIL TAX, CHILDCARE)<sup>37</sup>

	Household costs multiplier (couple = 1)	Basic social security payment (out-of-work)	Amount needed to have same living standard as a single pensioner	Pension credit for single adult = 100%	Poverty threshold, 60% median income, after housing costs	Poverty threshold =100%
Single adult	0.6	£73	£167	44%	£159	46%
Couple	1	£115	£279	41%	£265	43%
Lone parent, 1 year-old	0.89	£147	£248	59%	£236	62%
Lone parent, 3 & 7 year-old	1.13	£214	£314	68%	£298	72%
Lone parent, 3, 7 & 12 year-old	1.48	£228	£411	55%	£391	58%
Couple, 1 year-old	1.14	£189	£319	59%	£303	62%
Couple, 3 & 7 year-old	1.38	£256	£384	67%	£365	70%
Couple, 3, 7 & 12 year-old	1.76	£270	£490	55%	£466	58%
Couple, 3, 7, 12 & 15 year-old	2.09	£283	£584	49%	£555	51%

means-tested payment for a single adult in different age groups and circumstances. A single adult on pension credit currently receives £167 per week which is not a huge sum but is sufficient to provide for a dignified retirement (the problem is not the level of payment, but that 4 in 10 of those who are eligible do not claim). By contrast a single adult without work aged between 25 and pension age receives just £73 per week and an adult aged under 25 receives £58 (just 44 per cent and 35 per cent of the value of pension credit respectively). The same inequality exists in payments to couples of different ages.<sup>33</sup>

Comparing the adequacy of benefits for households of different sizes and compositions is more complicated, because it is necessary to make an adjustment to take account of the varying needs and costs of different types of household, and there is no agreement about what adjustments are appropriate.<sup>34</sup> For this project we've taken granular data on the costs of each child in a family (using research commissioned by CPAG) to calculate how much money different households might need in order to achieve the same living standards as a single pensioner receiving pension credit.<sup>35</sup>

Figure 4 shows that the basic out-of-work payments for a range of families with children are equivalent to between 49 per cent and 68 per cent of the value of pension credit. The table also shows how these payments compare to the most widely used poverty threshold (60 per cent of median household income, after housing costs). Working-age social security payments are below this poverty line in all cases, but they come closest for families with two children and furthest for adults without children and for large families. This pattern occurs because social security payments are very low for single adults and couples; and for the third and fourth child in a family (following the recent introduction of the 2-child limit). The system partly compensates for these deficiencies with higher payments for the

first and second child.

A fair and consistent social security system should also provide money to meet the extra costs disabled people face. Universal disability benefits are intended to achieve this goal but research commissioned by Scope indicates that their value is insufficient to equalise living standards between people with significant disabilities and non-disabled people who have comparable incomes.<sup>36</sup> Up to now, an additional means-tested premium has been paid to people receiving disability benefits if they are on a low income and it provides another source of support to meet disability-related costs. It is being scrapped under universal credit although it continues in pension credit.

Scope's modelling finds that over one million of the most disabled adults in the UK have very high disability-related costs, averaging at £275 per week. Existing universal disability payments do not meet this need as the maximum weekly personal independence payment is £149 per week (and only a minority of recipients receive this); the maximum available in attendance allowance for disabled people who first claim after pension age is £88 per week. A larger group of 2.5 million disabled people have more modest extra costs averaging around £65 per week and people in this group tend to receive little in disability benefits. Similar costs are associated with disability in childhood and benefits designed to meet these needs are also too low.

### **Towards adequate, consistent payments**

A totally new approach is needed for setting social security payments. Payment levels should be determined in a consistent, evidence-based fashion, taking the same approach whether the beneficiary is a child, a pensioner or an adult below pension age. And reasonable costs associated with disability, high rents, large families and childcare should be met so that people with and without these expenses can

achieve broadly similar standards of living.

The aim should be for ministers to bring adequacy and consistency to social security policy, working over a five- to 10-year time frame. Where existing payments are agreed to be too low, 'targets' for payments should be agreed and annual increases set to meet these targets over a specified number of years. This approach would follow the model of the national living wage, where annual increases are set with reference to an agreed medium-term threshold.

To start off, the government should consider the minimum outcomes it wants social security to achieve for people in different circumstances. It should rule out the status quo, where payments for some groups are inadequate to meet the most basic needs. Through a process of public deliberation and expert debate ministers should decide the broad circumstances that should lead to people to fall into each of four categories:

**Level 1** Sufficient to meet the most basic needs but below poverty thresholds

**Level 2** Around poverty thresholds

**Level 3** Over poverty thresholds but insufficient to meet all minimum needs

**Level 4** Sufficient to meet all minimum needs ('minimum income standard')

Everyone should have an income sufficient to avoid poverty (ie 'level 2') but this will be very expensive to achieve over a decade. Within 5 years politicians might aim to lift to this level every household where the adults are working a reasonable number of hours given their circumstances – ie to 'end' in-work poverty. Within 10 years the aim might be to ensure that households without work can also reach this poverty threshold if they have children or a limitation in their ability to work.

## VIEWS OF SOCIAL SECURITY RECIPIENTS

*"I think [our charter] should be talking about an aim to eliminate poverty... I think [it should say] something like 'it sets an agreeable minimum standard of living' or something like that. What that should be is something that needs to be debated as part of this process, what the minimum standard of living is and what the levels of subsistence are and what the levels of poverty are."*

*– Unemployed campaign group member, London*

The participants in the listening events identified fighting poverty as their top goal for the benefits system and 'security' is the first principle of our 'people's charter'. There was however divergence within the groups about how generous out-of-work benefits should be. We asked the groups to decide which of two statements they agreed with and participants were fairly evenly divided in their views:

**Statement 1: "Social security benefits should provide people with the bare minimum they need to get by, so that taxes don't need to be increased."**

Participants said that providing a bare minimum encourages people to "get off their backsides and go and get a job". Taxpayers should not be expected to work and pay for people who do not work or contribute to the system. People will take advantage of the system to live a comfortable life without working for it, while taxpayers work hard to fund it. Nobody will want to work and no one will pay into the system. We already pay enough tax as it is.

**Statement 2: "Social security benefits should provide people with enough money to lead a reasonable life and live in a home that meets their needs even if that means higher taxes."**

Participants said that people shouldn't have to worry that they will not be able to afford to live, whether they can work or not. Providing a 'bare minimum' often means providing people with less than they need to live on. Claimants shouldn't be 'punished' with a 'bare minimum' existence when often they are forced to claim and not choosing to. Giving vulnerable people the possibility of living life with dignity is a sign of a decent and humane society. Spending on social security is 'economically active' money as it is spent in the local economy.

In general participants in the events had little sympathy for the argument that people of different ages should receive different amounts of money. There was some support for pensioners being better looked after because of their lifelong contribution and the need to retire with dignity, but very little backing for penalising adults aged under 25. The groups were more undecided as to whether large families should receive more money to reflect their extra needs, with some participants openly admitting that they saw both sides of the argument. People did not want to see children disadvantaged but many (including parents) were worried about people with very large families receiving large amounts extra.

*"I don't think you should penalise the children, at the end of the day, children who have come into the world, it doesn't matter how they got here, they still need a proper upbringing. They need food in their mouths and school uniform." – Woman in her 60s, Coventry*

## Who might sit in each adequacy level?

The allocation of different groups to different categories is an intrinsically political exercise that requires ethical judgements and public dialogue and consensus building. The eventual decisions cannot be pre-empted by researchers or campaigners. As the views of our social security recipients show, detailed debate will be needed to inform decisions about what level of support should be associated with different circumstances or groups of people.

A good example is the case of large families: campaigners and researchers strongly support children in all circumstances receiving enough money to meet their needs, while the public including benefit recipients are more ambivalent about paying large families more.

With this in mind, we present here some of the considerations that might inform decisions about which groups of people should end up in each level only as a stimulus for debate. These proposals are illustrative not prescriptive.

### **Level 4: sufficient to meet all minimum needs (minimum income standard):**

some campaigners would like to see everyone, whatever their circumstances, have sufficient income to achieve minimum needs determined by the public that reflect contemporary social norms. But we are a very long way from that point today (in 2019 it would require the basic benefit for a non-working single adult to be almost £200 per week). Politicians could instead commit to the social security system guaranteeing that people can reach level 4 if they are working and have done all that is expected of them – eg households where all the adults are working full-time; or where one adult is working part time with good reason (eg pre-school children or a disability). With a steadily rising national living wage and a more generous social security system this is a realisable ambition.

FIGURE 5: ADEQUACY LEVELS

Adequacy level	Households this might include within 10 years
<b>Level 0: Insufficient to meet the most basic needs</b>	No one
<b>Level 1: Sufficient to meet the most basic needs but below poverty thresholds</b>	Adults aged 18 to early-60s without work who don't have dependent children or limitations on their capability to work
<b>Level 2: Around poverty thresholds</b>	Non-working households who have children, or have an adult approaching state pension age or with limited capability to work because of health or caring
<b>Level 3: Over poverty thresholds but insufficient to meet all minimum needs</b>	Non-working adults who are severely disabled, have a child under one or are over pension age. Couples with children where 1 parent is working full-time on the national living wage and the other is not working
<b>Level 4: Sufficient to meet all minimum needs ('minimum income standard')</b>	Households where all adults are working full-time on the national living wage or have good reason to be working part-time (eg health conditions, pre-school children)

**Level 3: Over poverty thresholds but insufficient to meet all minimum needs:** Some out-of-work working-age households are in a similar position to low income pensioners – ie the adult(s) are not expected to be working and are unlikely to see their income rise in the near future. As their situations are comparable there is a good case for them receiving the same financial support – ie above thresholds for poverty. Examples in this category might include people with severe long-term disabilities and parents with a child under one. Level 3 might also include a range of working families who are not doing sufficient hours to reach level 4 (eg families where one parent is working full-time on the national living wage and the other isn't working or where a lone parent with school-age children is working part time on the national living wage).

**Level 2: Around poverty thresholds:** Next there are households who should at least have incomes at around thresholds

for poverty. If ministers are serious about ending child poverty, then within 10 years all families with children need to be in this group even if no one in the household is working. Level 2 might also include adults without children who have limited ability to work because of illness, caring responsibilities or proximity to the state pension age. Given how far payments are from poverty thresholds today it would be a significant and expensive undertaking to shift all children and people with limited capacity to work close to accepted poverty thresholds. But it needs to happen as part of any comprehensive strategy to tackle poverty over 10 years. Within 5 years the aim should be at least to lift most working households to this level.

*"I would like to see more support for carers, because at the moment they really are, under the system, being punished really and it sort of takes them away from the support of the individual."*

*– Unemployed campaign group member, London*

*"We could also look at ways to provide less onerous conditions and more generous benefit levels for those approaching state pension age. This could be through modifying universal credit or by setting pension credit age at, say, five years lower than state pension age."*

*– Christopher Brooks and Sally West, Age UK*

**Level 1: Sufficient to meet the most basic needs but below poverty thresholds:** Eventually no one should have an income significantly below accepted poverty thresholds. But for the foreseeable future level 1 may be all that is achievable in the case of non-working households where the adults do not have children or limitations on their capacity to work (they will hopefully only have very low income on a temporary basis). Even this would be a big step forward from today's minimum payments (ie 'level 0'). The goal should be to raise minimum social security payments by around 50 per cent so that everyone can at least meet their most basic needs.

*"We're not actually at the point of providing minimum, we're actually at the point of causing people to die. We'd have to move up to get to minimum."*

*– Disabled campaign group member, Manchester*

One traditional argument for paying benefits to some adults at a very low rate has been to create a good incentive to work. But over time minimum social security levels have fallen relative to average earnings – from 21 per cent of weekly earnings in 1971 to 14 per cent in 2019.<sup>38</sup> More recent OECD analysis shows that the UK has also cut how much it pays relative to the minimum wage, paying much less than many other major economies (figure 6). A significant rise in out-of-work payments is now low risk from a labour market perspective, especially as universal credit and the national living wage are designed to ensure that work always leaves people better off.

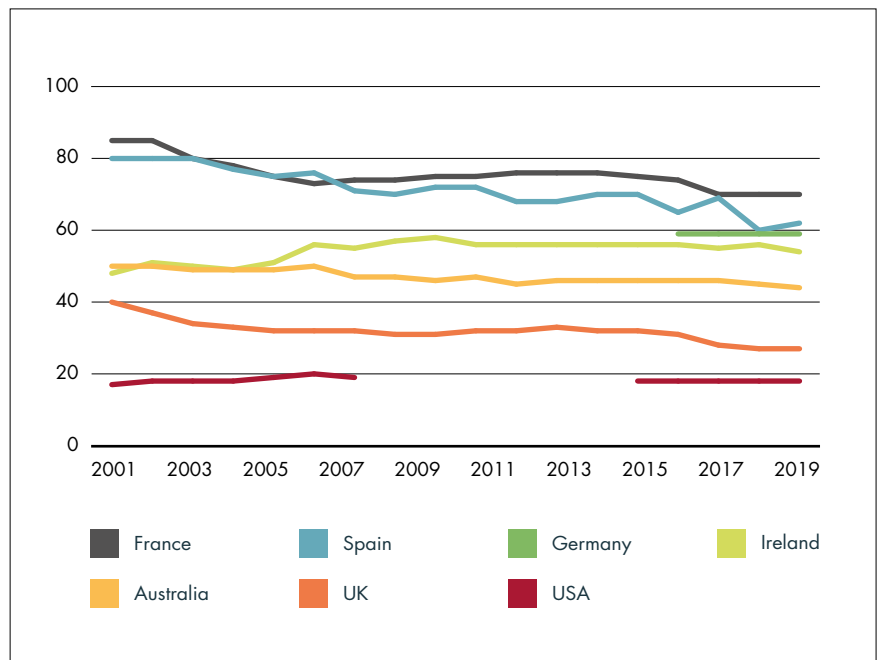


### Bringing these ambitions to life

The goal should be to reach desired levels of generosity for people in different circumstances gradually over 5 to 10 years. First political decisions on which groups should sit in each adequacy level would be needed. After that determining the financial targets for each level for different household sizes would be a technical exercise which would draw on research on incomes, costs and needs. This could be overseen by an independent third-party such as the Office for Budget Responsibility or the Social Security Advisory Committee, working with the support of the ONS and DWP statisticians as well as academics at the University of Loughborough who currently lead research in this area. Figure 7 provides an illustration of possible cash value for each level for 2019.

The DWP and expert third parties would then need to design a rising schedule of payments to meet these desired targets over an agreed timeframe. This would require increasing existing benefits, UC elements and work allowances. New (or re-instated) UC elements or personal benefits might also be needed. Examples here include a large extra payment for the first child in a family to address child poverty; extra money to support people who have limited capacity to work, have

FIGURE 6: NET REPLACEMENT RATE OF UNEMPLOYMENT BENEFITS, COMPARED TO MINIMUM WAGE, SINGLE ADULT WITHOUT CHILDREN, EXCLUDING HOUSING SUPPORT, OECD ANALYSIS<sup>39</sup>



Source: OECD, net replacement rates in unemployment

a child under one or are near pension age; and a seasonal payment for school-aged children during summer holidays. Couples where one adult is a pensioner

and one is working-age might receive a payment half-way between the amounts for working-age and pensioner couples.

Particular emphasis would need to be

FIGURE 7: INDICATIVE VALUE OF EACH PROPOSED ADEQUACY 'LEVEL', 2019 PRICES, EXCLUDING COUNCIL TAX, HOUSING COSTS, CHILDCARE AND DISABILITY COSTS

	2019 minimum payment	Level 0 (not acceptable)	Level 1	Level 2 (poverty threshold)	Level 3	Level 4 (minimum income standard)
<b>Single adult</b>	£73*	< £100	£100 – £145	£145 – £165	£165 – £195	> £195
<b>Couple</b>	£115	< £165	£165 – £240	£240 – £275	£275 – £325	> £325
<b>Lone parent, 1 year-old</b>	£147	< £150	£150 – £215	£215 – £245	£245 – £290	> £290
<b>Couple, 3 &amp; 7 year-old</b>	£256	< £230	£230 – £335	£335 – £380	£380 – £450	> £450

\*Adults aged 25 to state pension age

placed on supporting the unavoidable extra costs some households face. Extra payments should genuinely reflect the expenses people face to ensure that people with and without them can have broadly the same standard of living:

**Large families:** The system should provide decent support to large families despite public ambivalence on this subject, which would mean ending the two-child limit and payments that meet most of the extra needs of large families.

**Housing:** Payments need to be sufficient to pay a modest rent in all localities. This requires a one-off re-set of local housing allowance to re-link payments to modest local rents (ie at least the bottom third of rents in each local housing market); an end to the cap on LHA in expensive areas; and ending the social housing bedroom tax. The value of housing payments would then need to change annually in line with local changes in rent. To support large families with expensive housing costs the benefit cap for non-working households would also need to be removed.

*“A complete welfare safety net is therefore critical in preventing and ending homelessness. A key component to its effectiveness is financial support for housing costs when people need help. This support must cover the real cost of housing in all parts of Great Britain.”*

*– Jasmine Basran, Crisis*

**Childcare:** Ideally most childcare costs should be met outside of the social security system as part of a universal public service. There should be a core offer of free childcare hours each week for children aged one to four supplemented by subsidies that enable providers to charge low rates for any additional hours that parents need. Continuing out-of-pocket childcare expenses must be affordable to low income working families. Social security should

provide payments covering a large share of the costs incurred (including for large families). Better support for childcare was the top priority of the parents who participated in our listening events.

*“If you’re working, you should get free childcare, full stop.”*

*– Parent aged under 30, Southampton.*

**Disability-related costs:** In principle the extra costs of disability should also be fully-funded. Careful research and deliberation will be needed to design a system that better meets the spectrum of extra costs that different disabled people face and the system should be designed to be neutral between adults of different ages. A new evidence-based model may require difficult changes to the design of disability benefits and to the operation of health assessments, for example if a more graduated schedule of payments is required. There will also be a balance to strike between meeting these costs through a universal payment (ie personal independence payment, disability living allowance or attendance allowance) and a means-tested disability allowance (ie the means-tested disability premiums that exist under pension credit and employment support allowance but are scrapped under UC). A demand-led system based

on meeting the actual costs incurred could also be considered for people with needs greater than the standard disability costs payments (learning from the current system of demand-based childcare payments).

Looking beyond disability support, broader decisions will be needed on what balance to strike between means-testing and universalism. For example, should extra help for children and babies come through universal credit of child benefit? This is a political choice not a technocratic judgement. The different adequacy levels and associated financial targets could each be achieved almost entirely through a means-testing system or in a blended fashion combining means-tested and non-means-tested entitlements. This issue is examined under ‘step 7’.

Another critical political question is the fate of universal credit. The proposals outlined in this chapter assume that means-tested household benefits will continue to exist (either with or without more universal benefits). But it will be for politicians to decide whether means-testing should continue to take the form of a single integrated allowance, with the features of UC as it exists today. We explore this issue next.



## STEP 6: IMAGINE A NEW WORKING-AGE HOUSEHOLD CREDIT

Over the last decade the development of universal credit has been a disaster that has brought suffering to a great many people. UC cannot continue in its current form and mere tweaks to the system will not be enough. Politicians must re-imagine and re-design means-tested household benefits for children and working-age adults.

The government faces a choice between whether to ‘scrap’ or ‘reform’ universal credit. During our project we asked policy experts for their views on this dilemma and they presented strong arguments for both positions. However, a majority argued against totally scrapping the principle of a single integrated benefit, given that the UC reforms are so far advanced. At present the goal of a stronger social security system can be best advanced by reforming and rebranding universal credit rather than totally abolishing it.

There are three reasons for saying this. First, cancelling UC and reverting to the legacy benefits is now almost impossible. Second, benefit recipients in our listening events told us they did not want more risky change in the system. Third, there are potential solutions to most of UC’s problems within the broad framework of the policy (providing sufficient money is available and operational constraints can be overcome).

The government should therefore continue with a single means-tested household payment but pursue major reforms on three fronts. We continue to refer to ‘universal credit’ but after reforms in all three of these areas the benefit would be fundamentally different in character.

**1. Increase the level of payments:** in Step 5 we showed how payments for most children and working-age adults are far too low (something that is true under both universal credit and

the legacy benefits and tax credits it replaces). The value of the main elements of universal credit needs to rise substantially, unless there is a major increase in the scope and generosity of universal payments.

**2. Replace the toxic policies that accompany universal credit:** policies and practices that are ancillary to the core design of universal credit go a long way to explaining why it is treated with such suspicion. The social security infrastructure that surrounds universal credit must be reformed to treat people well (see Step 4). In particular work-related conditions must be relaxed, sanctions should be scrapped in almost all circumstances and health assessments reformed.

**3. Transform the design and operation of universal credit:** Most of the issues with UC arise from the failure of ministers since 2010 to design the benefit around the lived-experience of low-income households. A series of significant changes to the design and operation of UC are needed to align it with the reality of people’s lives.

Following these changes a new name and a brand untainted by association with today’s system would be appropriate. At the same time ministers should consider a single non-stigmatising, all-age **brand and portal** for the provision of all social security payments, with the aim of positioning social security alongside the National Health Service as a universal public service. The aim would be to use the popularity and reach of child benefit and the state pension to strengthen the support, affinity and take-up of universal credit and other means-tested benefits.

After three years of reforms the

government should review progress and consider whether the changes have proved sufficient to create a system that is adequate, compassionate, reliable and efficient. If they have not, ministers should then ask whether the fundamental concept of a single integrated benefit needs to be abandoned.

In addition, universal credit should not be the only major benefit available to people below pension age. Many of the experts who contributed to the project said that UC should sit alongside better individual non-means-tested payments in order to provide people with social security income from a range of different sources (see Step 7). If child benefit, universal disability benefits and non-means-tested income replacement benefits were all more generous and widely available this would reduce the extent to which households would depend on UC.

### Viewpoints on universal credit

*“It should be scrapped... the way it interfaces with people has got to be scrapped, but what goes in its place?”*

*– Disabled campaign group member, Manchester.*

*“My considered judgment is that universal credit is not fit for purpose. It would be complex to unravel the organisational changes already made. But any new government will have to decide whether to do so.”*

*– Fran Bennett, University of Oxford*

*“We believe that universal credit is fundamentally flawed and should be scrapped.”*

*– Anjum Klair and Kate Bell, TUC*

*“I’m all right with it. Like, the monthly payments don’t bother me, it’s just the whole six-week wait.”*

*– Parent aged 18 to 30, Southampton.*

*“The hardship being inflicted by universal credit does not arise from its basic principles, but from the shocking way it has been implemented. The naivety of DWP ministers, plus ex-chancellor George Osborne’s desperate hunt for cost savings, were a toxic combination. But Labour will not want to revert to jobseekers’ allowance and income support.”*

*– Stephen Timms MP*

*“I think we accept that it’s not going to be scrapped, that it’s too far down the process for it to be scrapped and it needs to be fundamentally re-visited.”*

*– Unemployed campaign group member, London.*

*“I’m on the side of saying we need to fix not scrap universal credit. It might look entirely different, so I agree it needs a radical rethink. But from the perspective of the people who are already on it, the last thing they need is for it to be thrown out and for them to go have to through a whole new set of ‘hoops’. I would like, in 2030, to have had a system that’s bedded in for at least five years, that has been tweaked at the edges, but not fundamentally changed.”*

*– Summit participant*

### Transforming how universal credit works

Policymakers should adopt a range of measures to mitigate the problems created by universal credit. Many of these solutions are intended to change the ‘defaults’ offered by UC which are at odds with how people live their lives.

1. **End the five-week wait:** An initial UC payment should be made as soon as a UC application is validated, ending the five-week waiting period. The DWP would need to accept that this first month’s payment might not be fully accurate and should only seek to recover very large overpayments. Additionally, further action is needed to reduce errors and late payments and make corrections promptly.

### ARGUMENTS FOR A SINGLE HOUSEHOLD BENEFIT

1. The simplicity of one single payment each month
2. Seamless support for people in and out of work avoiding risky interruptions to payments
3. A single clear ‘taper’ to withdraw benefits that simplifies and slightly improves work incentives
4. Higher take-up of all elements of social security, with people automatically receiving all they are entitled to
5. The possibility of reduced stigma arising from a benefit paid to millions of people including many viewed by the public as ‘deserving’
6. A payment that replicates a monthly salary that prepares people for the world of work and helps them improve their budgeting skills.



### ARGUMENTS AGAINST A SINGLE HOUSEHOLD BENEFIT

1. The system is only simple on paper, from the perspective of policymakers. It is very complicated for people to understand in practice and can never be simple because people’s lives are complicated. A single payment masks a complex set of entitlements users can never be expected to understand
2. A single payment is ‘all or nothing’ so if something goes wrong (or if a partner takes all the money) recipients have no other support
3. A single payment based on last month’s circumstances can’t reflect this month’s needs, especially when earnings are variable. Month-by-month changes in payment make UC unpredictable and risky for users
4. Moving into work or earning more leads to immediate benefit loss, creating an employment disincentive. People who are on paper better off from earning often feel worse off
5. Financial incentives to work short hours have been created by the end of the old ‘16 hour’ divide between in-work and out-of-work benefits
6. There are fewer policy levers to pull, limiting flexibility to adapt policy to different circumstances and needs (eg by withdrawing different elements of payment with different levels of income, as happened with tax credits).

*“Universal credit’s worst feature is a five-week delay between making a claim and entitlement to benefit. The theory is that everyone would have their final month’s pay cheque from their last job in the bank, so would not need money for a month. But what about those who are paid weekly, or people on zero-hours contracts – or people transferring onto the universal credit system from other benefits? .... This is why foodbank demand surged when universal credit was rolled out, and why rent arrears soared.”*

*– Stephen Timms MP*

- 2. Reform payments to couples:** Payments of household benefits should be automatically paid to the main carer in a couple with children (or split equally where both members of a couple are caring equally). This should be a core part of the initial claim process. In cases where there is no child the default could be to split payments equally or to direct them to the member of the couple who begins the claim with the lower earnings.

*“Payments for children should be made to those who actually meet those children’s day to day needs”*

*– Mary-Ann Stephenson, director, Women’s Budget Group*

- 3. Give people an open choice on the frequency of payments:** At the outset of a claim recipients should be able to choose between being paid once, twice or four times per month. At present people have to make a special request to be paid twice per month if they are struggling with budgeting.
- 4. Pay housing support to landlords:** The norm should be for rent to be paid direct to the landlord, at the frequency specified in the tenancy agreement (with tenants having the option of receiving the money instead if they

wish). Paying landlords on time and in full is essential to prevent debilitating debt and homelessness and to ensure that private sector landlords are willing to let to tenants receiving benefits. It is also important for the sustainable finances of social landlords and supported housing providers. There may be a case for paying landlords the entire rent even when this is greater than the housing-related component of a UC award. The portion of UC intended for housing often varies in value from month to month and may be smaller than the actual rent.

- 5. Respond faster when payments are to rise:** Universal credit should be reformed to include an earlier response to changes of circumstances in situations where payments are to rise. Entitlement for children could begin 1 to 3 months before a baby’s due date. And people who lose all their earnings should be able to ask for immediate access to extra cash rather than having to wait for a delayed increase in their UC payment (ie once HMRC data on their earnings is available the month after their final pay cheque).

- 6. Respond slower when payments are to fall:** The system should provide a slower response to changes in circumstances when payments are to fall. Households whose underlying needs change should have a period of time to adjust (eg after a child leaves home or an adult stops being a carer). Similarly, when UC payments are due to fall sharply because a recipient is starting a new job or increasing their hours significantly the reduction could be smoothed over a number of months to give people time to adjust and to reward the extra earnings. People with intermittent or variable earnings should also be able to request that the value of their UC payment is

smoothed to take account of their pay over an extended period such as three or six months. This would help to deal with the particular problem of people who are paid every four weeks, who can lose their UC payment entirely when they are paid twice in a month.

*“The poverty trap bites at the end of every month, really sharply... I don’t mean the weak rate of incentives, it’s the timing.”*

*– Summit participant*

- 7. Routinely offer alternatives to digital:** In our listening events some recipients said they liked claiming and managing their UC online. However a greater number found it very difficult and needed intensive support. For the foreseeable future, non-digital options must be available, through telephone and face-to-face services, and this should be offered as a routine, prompted option not an emergency fall-back. All UC digital services should be designed to be ‘mobile first’ as a large proportion of low-income households access the internet without the regular use of a home computer.

*“The government’s own research shows that nearly half of universal credit claimants needed help to make a claim... Changing technology in certain circumstances could be a platform upon which to innovate, improve and extend access to support and services. But moving services online cannot be a driver for cost cutting and marginalisation for those already furthest from the support they need. Location, conversation, and face-to-face support still matter for many.”*

*– Mike Amesbury MP*

### **Adding and subtracting from universal credit**

In two cases universal credit should play a larger role and substitute for other programmes:

- **Council tax support** should be absorbed into universal credit for working-age households. Most English and Welsh local authorities require all working-age households to pay an element of council tax. Pensioners and Scottish residents are protected. This adds further to inconsistency in the system and reduces the after-housing resources of those affected. Absorbing council tax support would create a uniform UK-wide system for helping people pay council tax and re-introduce a guaranteed 100 per cent discount for people with no other income. Merging council tax support into the single taper for withdrawing means-tested payments would also significantly improve financial incentives when households' earnings increase.

*"The original idea of a consistent taper applying everywhere – so everyone knew what their position would be if they got a new job – was torpedoed from the outset. Council tax should now be brought in to universal credit."*

– Stephen Timms MP

- **Local welfare schemes** should be partially replaced by adequate universal credit payments to meet ongoing needs. Discretionary housing payments will be largely unnecessary if UC fully meets modest housing costs (following reforms to local housing allowance and the scrapping of the bedroom tax and housing benefit cap). The need for local welfare assistance schemes will fall greatly if UC is paid as soon as claims are validated. This would leave council-run schemes to meet only emergency, one-off or time-limited needs such as the deposit for renting a home or lump-sum costs. These needs should be met by locally-administered schemes with national rules and funding.

*"The bedroom tax and benefit cap, which cut some claimants' entitlement to housing benefit were supposedly offset by a big increase*

*in discretionary housing payment (DHP) funding given to local authorities. However, there was nowhere near enough DHP funding to help everyone and so councils were left with unenviable choices as to who got it. Unsurprisingly, some authorities now impose conditions, such as refusing to help unemployed claimants in the belief they should be working – exactly the kind of distinction between the 'deserving and undeserving poor' the old Poor Law guardians often made"*

– Raji Hunjan and Marc Francis, Z2K

On the other hand, universal credit should play a smaller role in the following cases:

- **Childcare** is currently funded through universal credit as part of a complicated patchwork of public subsidies. While the system is generous for people with moderate childcare costs it does not meet the costs of full-time childcare (this is particularly problematic for children aged under 2 who do not receive any free childcare). UC for childcare is also paid in arrears (with payments fluctuating month by month) which makes budgeting very hard. Most childcare should be funded as a universal public service, with care supplied free or heavily discounted through direct subsidy to providers. This would mean that far less money would need to be paid through the childcare system within UC.

*"While there has been some progress in recent years expanding the supply of free childcare, there is still a long way to go before this is universal. It should not be the role of the social security system to meet the costs of what should be a free service."*

– Anjum Klair and Kate Bell, TUC

- **Mixed-age couples including a pensioner** should not be included within universal credit on the same basis as working-age couples. One option would be to return to supporting these couples

through pension credit. Alternatively, a special UC element could be introduced that pays the couple a higher rate to reflect that one of them is a pensioner (eg a payment half-way between the amount that couples of working-age and pension-age receive).

Other steps to reduce the scope of UC or break it up into component parts should not be considered for the time being. Hopefully wide-ranging changes will improve the benefit and demonstrate that the principle of a single integrated benefit is viable. This question should be examined in a full review of UC following three years of reforms. Ideas for breaking up UC into different benefits should only be progressed if the measures adopted to implement steps 4, 5, 6 and 7 are failing to provide adequate, secure and diversified forms of income.

Breaking up universal credit would be difficult and could create problems of its own. At our summit no one spoke in favour of reverting to separate in-work and out-of-work benefits for adults. Some participants made the case for separating housing benefit from other elements of UC. This would make it easier to pay rents direct to landlords and to provide a 'run-on' for housing payments once people find work and ensure their home is secure as they adjust their finances. Similarly, some summit participants suggested that support for children could be removed from universal credit and managed on its own to provide secure and separate income for the main carer. Both these options would reduce some of the risks of universal credit but also undermine its intended benefits, such as simple work incentives and the automatic take-up of all entitlements.

*"Everything under one umbrella doesn't work. Some of these things like housing benefit ... could be separated out in a way that is much more straightforward than the process is at the moment."*

– Unemployed campaign group member, London

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## STEP 7: REINVENT UNIVERSAL AND CONTRIBUTION-BASED PAYMENTS



Social security is for us all and we all use it through the course of our lives. The social security system should therefore be designed to be a mainstream, non-stigmatising British institution on the same footing as the NHS. A social security system can be broad and inclusive and still contain means-testing. But a system that is based only or mainly on means-testing will not permanently sustain public legitimacy, broad participation and financial adequacy.

Ministers should therefore seek to re-build a tiered social security system, with substantial layers of means-tested, contributory and universal entitlements. This would create a system better suited to preventing poverty and meeting the broad range of aims that social security should serve. Less means-testing would help to change public perceptions of social security, provide more independent resources to each member of the household and help overcome some of the problems created by universal credit.

Social security for children and working-age adults has become increasingly means-tested in recent decades. In the last 10 years child benefit has been frozen in value and contribution-based benefits have been marginalised.<sup>40</sup> Universal credit has also been introduced, as the ‘purest’

means-tested benefit the UK has ever seen.

Beyond government an animated debate on the future of means-testing has started, with growing calls for a radical change in direction. This challenge has come in the shape of proposals for universal basic income, a system of flat-rate unconditional payments for all adults and children. Neither pure means-testing nor pure universalism is the right answer however, and there has been too little discussion about how to build a strong social security system that sits between these two poles.

*“Even I take [means-testing] for granted now and find it quite hard to challenge it. We have to think, are we going to carry on just taking it for granted and modifying it and making it a little bit better here and there? Or do we want to use this opportunity to say, let’s really try and reset it so that the 2030 system – yes, obviously, there’s going to be some means testing – but that it becomes like Beveridge originally envisaged it, as peripheral to the system, not the heart of the system?”*

– Summit participant

### Universal payments

None of the policy specialists who participated in this project said that a future

government should introduce a **full-scale universal basic income (UBI)** designed to replace most means-tested benefits. A UBI paid at a flat-rate to large groups of the population lacks the flexibility to respond to different needs and circumstances. Moreover, setting a UBI at a rate that would be sufficient to meet the needs of people without other income is not affordable (this is true even if means-testing is retained to meet housing costs). For example, a UBI for working-age adults, paid at the level of pension credit, would account for around 16 per cent of UK GDP.

Having said that, recent proposals for UBI have shifted the social security debate in useful ways. UBI advocates remind policymakers that a tightly means-tested system is not the only option and recent proposals for a low-level partial basic income could be part of a broader package of social security reforms.

Importantly, the UBI debate has also brought together discussions about taxation and social security. UBI is a proposal for tax reform as much as benefit reform: it assumes that all tax-free allowances would be replaced by the flat-rate basic income payment. Looking at tax allowances and social security together matters because it changes how we think about

the affordability and progressivity of different social security reforms. Scrapping tax allowances and using the money to fund non-means-tested benefits would redistribute money from rich to poor, from men to women and from adults to children. Without such a pool of resources to draw on, any significant new spending on universal or contribution-based benefits is hard to justify, given the vital task of rescuing means-tested benefits (a point made by contributors to the project who were cautious about non-means-tested benefits).

*“Starting with universalism rather than recovery [to means-tested benefits] worries me because when do we get to recover if there is some fixed envelope? Which, I wish there wasn’t, but I would agree on some realism in terms of how much money is on the table here. We’ve got to put an awful lot back in just to get to zero, basically, for a lot of people.”*

*– Summit participant*

On the other hand, if politicians were to decide to shift resources from tax allowances to social security, universal payments could play an important part in meeting the adequacy levels proposed in Step 5. Instead of meeting the planned targets for payment levels through means-tested payments alone the money could come partly from means-testing and partly from universal payments. This would ensure that everyone had a stake in the new system and would restrict how much the scope of means-testing would need to expand to deliver adequate incomes.

**1. Children:** There is a good case for significantly increasing the generosity of child benefit to transform it into a basic income for children. This would provide parents with extra help to meet the costs of children whatever their income and it would position the whole social security system as a

mainstream, non-stigmatising service for families. Under Step 1 we proposed an increase in child benefit of £5 per child, as part of a package which could be largely funded by freezing tax-free allowances for one year. Over the long-term the aim could be to provide around half of each child’s financial support through child benefit. In 2019 it costs around £60 per child to avoid poverty, suggesting child benefit of £30 per child.<sup>41</sup> Ideally child benefit should also be made properly universal again by scrapping the high income tax charge (but this measure should only be introduced if it is fully funded by tax rises on high earners).

**2. Working-age adults:** in Step 5 we suggested that as a minimum an adult should have an income of between £100 to £145 per week in 2019 prices. Rather than increase the value of UC to achieve this, the extra money could take the form of a new tax credit worth say £30 to £40 per week per working-age adult. This would be a partial basic income that would supplement rather than replace social security as part of multi-layered system. Versions of this policy have been proposed by Compass, the Fabian Society and the New Economics Foundation. There are downsides to this proposal however and it needs careful debate. An adult tax credit would consume most of the money that could potentially be transferred from tax allowances and might not be the best use of scarce resources. The idea of ‘free money’ without conditions is also untested in the UK and public acceptability would be a key issue for the policy.

*“I write as someone who has long been ambivalent about the idea of basic income, particularly when some of its proponents have waved it around like a magic wand that will solve all the problems of the*

*current social security system at a stroke. But in its combination of universality, non-conditionality and individual-based benefits, a partial basic income does offer a modicum of genuine security... in an increasingly insecure world.”*

*– Baroness Lister*

**3. Pensioners:** The new state pension introduced in 2016 is contribution-based but it is intended to be flat-rate and near universal, so it is similar to a basic income. However it does not cover people who reached pension age before 2016 and some recipients will have reduced payments to reflect incomplete national insurance contributions. A further shift towards non-means-tested benefits in retirement is desirable given that take-up of means-tested benefits is such a problem. Options to consider could include introducing a payment matching the new state pension for people in late old age (eg aged over 85); or introducing a small universal top-up payment for all pensioners (to offset the payment of income tax on the state pension if tax-free allowances are reduced to the point where this occurs).

**Extra costs:** Extra costs are often best supported through universal public services rather than benefits. This is why we have free collective education and healthcare – and should have more universal childcare and social care in the future. However more social security is also needed in the case of disabled people to help them meet the extra costs they face (see step 5). This should be paid as much as possible through a more generous universal system. Any system of support for disability-related costs should deliver equality between different age groups, unlike the existing disability benefit system.



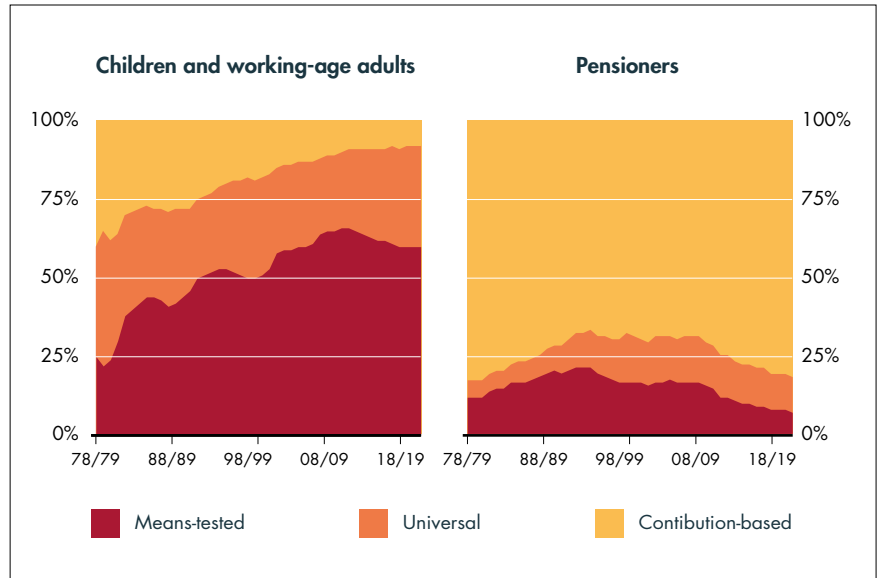
### Income replacement benefits

Alongside universal benefits that are intended to be paid whether people are working or not, many non-means-tested allowances are designed as income replacement benefits in situations where people are not expected to be working. In the UK these benefits are usually contribution-based not universal, reflecting the principles of the 1942 Beveridge Report which argued that British people wanted out-of-work payments to be earned. Carer's allowance is an important exception: it is universal to avoid excluding women without an adequate contribution record. Statutory pay schemes are similar to contributory income replacement benefits, as payment is mandatory and entitlement is derived from an existing employment relationship.

In retirement contribution-based benefits remain at the heart of the system, in the shape of the state pension. Indeed, in recent years contribution-based payments have been rising as a share of total spending on pensioners, as a result of pension reforms and the rising affluence of pensioners (figure 8). By contrast contribution-based social security during working-life has been in long-term decline. Today spending is almost nugatory making up less than 9 per cent of social security spending for children and working-age adults. Take-up of many contributory benefits is thought to be low and people who are also eligible for means-tested benefits are often no better off if they claim a contribution-based benefit.<sup>42</sup> In 2016 just 4 per cent of unemployed people in the UK received GB contribution-based JSA, compared to 10 per cent in 2010 and around 30 per cent in the 1980s.<sup>43</sup>

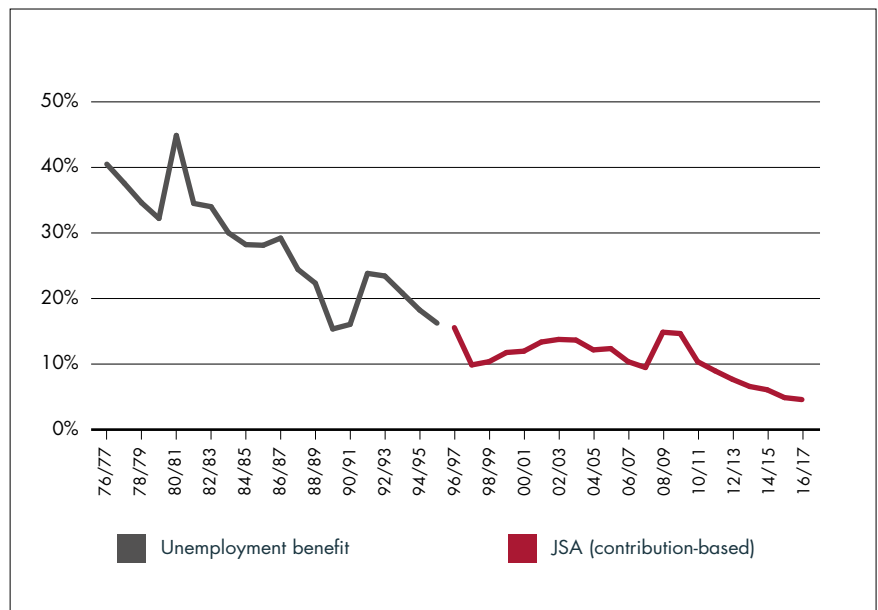
The government should breathe new life into income replacement benefits. They provide valuable insurance to protect people when their earnings are interrupted, they support women in couples where their partner is working, and they strengthen public support for

FIGURE 8: ALLOCATION BETWEEN MEANS-TESTED, CONTRIBUTION-BASED AND UNIVERSAL SOCIAL SECURITY, 1978/79 TO 2023/24, GREAT BRITAIN, DWP AND HMRC BENEFITS



Source: Expenditure and caseload forecasts, autumn budget 2018, DWP, 2018. Forecasts for 2018/19 onwards. Excludes devolved council tax support after 2012/13

FIGURE 9: PERCENTAGE OF UNEMPLOYED PEOPLE IN THE UK RECEIVING GB CONTRIBUTION-BASED UNEMPLOYMENT BENEFIT



Source: DWP, ONS

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## The introduction of universal credit creates an opportunity to relaunch non-means-tested income replacement payments as a parallel and complementary offer

the whole of the social security system because of their wide availability and connection with contribution. Moreover time-limited income replacement benefits for fairly small groups of people are cheap, when compared to the state pension or to universal benefits that are intended to be paid on a long-term basis to a very large client group.

The introduction of universal credit creates an opportunity to relaunch non-means-tested income replacement payments as a parallel and complementary offer. Options for rehabilitating income replacement social security should include:

**1. Income replacement in a wider range of situations:** as things stand contributory benefits are available for unemployment (for 6 months), maternity (for 9 months), moderate disability (for 12 months) or severe disability (indefinitely). Carer's allowance is also available indefinitely. Ministers should make maternity or parental leave allowances available for a full year, since there should be no expectation that the primary carer of a baby should seek work during this period. They should also consider the evidence for extending the duration of the benefits for unemployment and moderate disability. Jobseeker's allowance should also be available for self-employed people which would create full parity in entitlements between employees and self-employed. Going further, the government should pilot a new con-

tribution-based allowance for training leave. This could be the 'maintenance' element of a new lifelong learning service.

*"If we anticipate continuing changes and disruption in the workplace, access to student finance, must be core to our concept of social security... Labour could incorporate an entitlement to financial support while retraining to acquire new skills, as part of our National Education Service."*

– Kate Green MP

- 2. More generous payments:** The major contributory benefits range in value from £58 per week to £169 per week without any clear rationale. Carer's allowance which is a non-contributory income replacement benefit is worth just £66 per week. The value of the new state pension (£169 per week in 2019/20) is the amount that the government believes single pensioners should be able to enjoy in retirement (after a lifetime of national insurance contributions) and could be considered a benchmark for other earned income replacement entitlements. All contribution-based benefits might converge towards this value over time. Carer's allowance should also be made significantly more generous as means-tested support for carers does not replace the lost earnings of carers in households with savings or other earnings.
- 3. Statutory pay schemes** should be available at a more generous level, for longer durations and in a broader range of circumstances. As with contribution-based benefits the value of the new state pension is a sensible reference point for payments.
- Existing statutory pay schemes should be improved. Statutory sick pay helps people stay connected to

work so it should be made more generous and possibly extended beyond six months. Statutory pay for maternity or shared parental leave should be available for 12 months instead of nine months and at a more generous level. Paid paternity leave should be extended beyond two weeks.

- New statutory pay schemes should be introduced. New statutory schemes for paid training leave and paid carer's leave should be tested. A portion of paid parental leave might also be reserved for fathers or second carers to encourage shared care-giving.
  - Part-time statutory pay should be tested across all the statutory pay schemes to enable people to work part-time in order to care or study – or as part of a phased return to work after illness (ie a daily leave allowance of one-fifth of the value of the weekly payment).
- 3. Flexible access to the state pension** could also be considered to give people more control over their accrued pension entitlement. For example, state pensions could be paid prior to state pension age on an actuarially neutral basis for people wanting flexibility in the way they retire. For example a partial payment (for those wishing to reduce their working hours) might be made available a few years before the pension age, in exchange for people receiving slightly lower payments after pension age. Some of the contributors to this project were very positive about reforms in this area, while others cautioned that they could be unfair to people with low life expectancy or leave people with insufficient retirement incomes. There is a stronger case for giving people in



their early 60s with serious disabilities or caring responsibilities access to a full state pension (without an actuarial adjustment) in circumstances when they are unlikely to work again.

*"I worry about people that, when they get to a certain age, like they retire from work, those few years in-between before they get the State Pension."*

*– Woman in her 60s, Coventry*

*"As our working lives look set to extend well into our late 60s and beyond, some approaching retirement may wish to reduce their hours in paid employment gradually over time, or to retire early to pursue other interests, or undertake family responsibilities. Some private pension schemes offer reduced annual payments for every year a pension is taken early. It would be possible to design something similar for the state pension, offering a choice of partial or full earlier retirement."*

*– Kate Green MP*

*"There is a very good case to allow a carefully defined group of people unable to work due to caring responsibilities or ill health, to receive their state pension early, maybe three years before state pension age"*

*– Christopher Brooks and Sally West, Age UK*

In the long term, it might also be possible to create much more person-centred social security during working life. For example, in 2016 the Fabian Society proposed a 'swap' arrangement, where people with a good national insurance contribution record could receive the equivalent of a year of the state pension during working life in exchange for postponing their retirement by a year. Similar ideas are explored by Kate Green MP in her article for this project.

*"It might also be possible to offer an individual the chance to earmark a proportion of their national insurance contributions at certain times in their working life to build up additional 'assets' for planned events or life changes (including retirement, but also changing jobs, studying, or becoming a parent), with their contributions wholly or partially matched by government... Carefully designed policy solutions could offer a degree of choice and autonomy, while giving a role for the now residualised, but still highly popular, concept of 'contribution' in the social security system"*

*– Kate Green MP*

Finally, two urgent reforms are needed to revive contributory social security:

## In the long term, it might also be possible to create much more person-centred social security during working life

- Eligibility rules for contribution-based working-age benefits should be simplified and made less onerous to ensure that almost everyone with recent earnings is able to access them. This could be achieved in the context of reforms to national insurance recently proposed by the Office of Tax Simplification.<sup>44</sup> Simpler, fairer eligibility is essential for a modern contributory system that promotes gender equality and reflects the flexible nature of the labour market.
- Contribution-based payments need to complement means-tested benefits to leave people better-off than if they had not made past contributions. This can be achieved by applying the same 'taper' to contribution-based benefits as to earnings, so that for each extra pound of contributory benefits received people lose (say) 63 pence of universal credit.

## STEP 8: SLASH IN-WORK POVERTY AND SUPPORT EMPLOYMENT

Social security needs to be designed to drastically reduce in-work poverty while supporting high levels of employment and pathways for people to make progress in the labour market.

### Ending in-work poverty

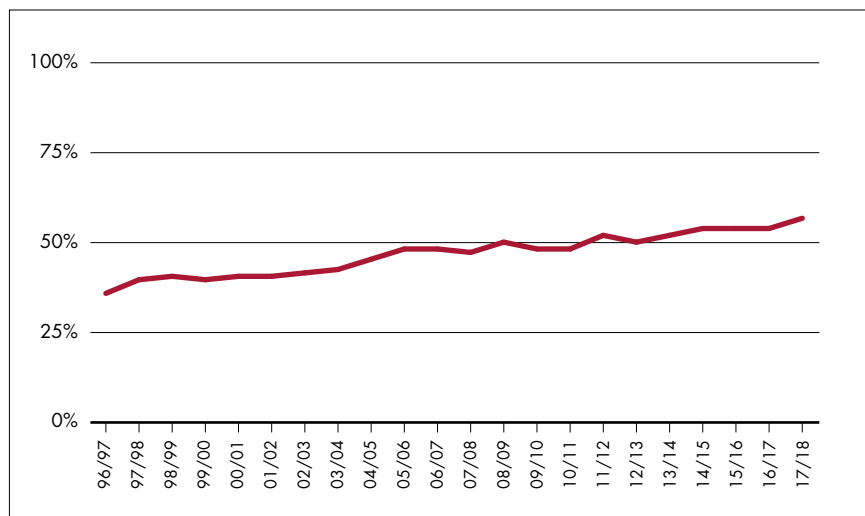
Over the last 20 years there has been an extraordinary rise in the number of people in poverty who live in households where someone works – an increase from 35 per cent of people in poverty in 1996/97 to 57 per cent in 2017/18 or almost 8 million people (figure 10).<sup>45</sup> Working poverty at this scale is totally unacceptable and totally avoidable.

The goal should be to ensure that no one lives in poverty when the members of the household are working a reasonable number of hours given their personal circumstances. In Step 5 we suggested that within 10 years most working households should either be able to achieve a minimum income standard (what we called 'level 4') or have an income in excess of poverty thresholds ('level 3'). Within 5 years the aim should be to ensure that all these households who are working a significant number of hours each week can at least reach poverty thresholds ('level 2').

Achieving these targets would all but eliminate in-work poverty. To reach them four things need to happen: (1) the hourly pay of low-paid workers needs to rise, (2) people in low income households need to work more hours, when it is appropriate; (3) living costs need to fall, especially childcare and housing costs; and (4) social security needs to become more generous.

Better social security is therefore just one part of the answer but without it success will be impossible. The purpose of in-work social security is not to top-up very low hourly pay but to support households that cannot reasonably work sufficient hours to meet all their needs, because they

FIGURE 10: PERCENTAGE OF PEOPLE IN POVERTY WHO LIVE IN A WORKING HOUSEHOLD



Source: DWP, 60 per cent median earnings, after housing costs



have restricted ability to work and/or high living costs which an employer could not be reasonably expected to meet in full. For this reason in-work social security needs to be thought of as a permanent structural feature of the tax-benefit system. Politicians should never suggest that in-work benefits are time-limited, wrong or a

'necessary evil', as subsidies for low-paying employers. This is an argument that undermines social security and the fight against poverty. Commentators never say the same about tax allowances which are a parallel means for increasing the living standards of working households.

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*“In-work payments can play an essential part in improving the living standards of people who need to work shorter hours, including single parents, disabled workers and those with caring responsibilities, and can help meet the extra costs faced by those with children or disabilities. But financial in-work support should be concentrated in areas where the government want to subsidise low working hours, and not used to top up low wages due to failures in labour market policy.”*

*– Anjum Klair and Kate Bell, TUC*

**Adults without extra needs:** Social security is a blatant subsidy for low paying employers when it tops-up the earnings of people in full-time work who have no dependents or disability-related costs. The goal should be for workers in these circumstances to be able to meet all their minimum needs without requiring benefits, except if they live in areas with very expensive rents. This can be achieved by progressively raising minimum wages.<sup>46</sup> Minimum income standards research for the Joseph Rowntree Foundation suggests that in 2019 a minimum wage of £9.61 an hour would be sufficient for single adults to meet their minimum needs in an area with average housing costs.<sup>47</sup> This is equivalent to 70 per cent of median hourly earnings and this threshold should be adopted as the medium-term goal for the national living wage. The NLW is on track to reach 60 per cent of median earnings in 2020 and further increases are on the political agenda.<sup>48</sup> Progress towards the 70 per cent threshold should only be delayed if evidence emerges that the NLW is having serious negative consequences for employment levels. In parallel politicians should review minimum wage rates for young people and increase them towards the level of the NLW (again, unless there is evidence of serious employment impacts). Action is also needed to prevent bogus self-employment on lower hourly pay and to prevent exploitive insecure work with very low and variable hours.

**Families with children:** Families with children cannot reach the same living standards as adults without dependents unless they have adequate in-work social security. As things stand when all the adults in a family with children work full time on the national living wage – and claim all the benefits they are entitled to – they cannot achieve a minimum income standard. Full-time working families on the NLW are left well below the poverty line if they have more than two children. Outcomes are even worse when one or more adult is working part-time or when only one adult in a couple is working.<sup>49</sup> Raising the NLW will do little to support working parents in these circumstances. The shortfalls they face are far greater than can be made up by modest increases in hourly earnings, and in any case when their earnings rise most of the extra money is clawed-back through means-testing and tax. Instead working families need (1) more generous social security overall and (2) specific extra help with childcare (through universal public services as well as social security).

**Disabled people:** many disabled workers also need social security to secure acceptable living standards, both because they have high living costs and because they may only be able to work part time. The social security system provides universal disability benefits and an extra top-up for workers with limited capability to work through a UC work allowance. However universal credit is much less generous for disabled workers than working tax credit and does not leave part-time disabled workers with an adequate income. If an extra payment for people with moderate disabilities was restored this would provide disabled workers with extra support if they need to work part-time only.

Universal credit is a single integrated benefit for working and non-working

households. This means that the living standards it can secure for working households are mainly determined by the generosity of the payments it provides to non-working households of the same size and circumstances. A rise in the level of payments for non-working households will lead to an identical rise for working households, assuming that other features of the benefit remain unchanged. Additional adjustments to in-work living standards can be achieved by changing the size of work allowances (the amount of income people can earn before their UC payment starts to be withdrawn) and/or the taper (the rate at which UC is withdrawn for each pound of earnings after the work allowance is used up). Once payment targets for recipients in different circumstances have been determined the government (or third-party advisers) would then be able to calculate the value of new UC elements, work allowances and a taper required to implement specified outcomes for both working and non-working households.<sup>50</sup>

Non-means-tested payments should also play a greater role. Universal benefits for children and disabled people help to equalise living standards between people with and without extra living costs, whatever the household's income. Additionally, as these benefits increase household incomes without expanding the scope of means-testing they restrict the range of incomes over which the tax-benefit system needs to claw-back a very high share of each pound of extra earnings. Non-means-tested benefits for adults who are not working can also make an important contribution to fighting in-work poverty, as around 1 in 4 children in poverty live in households where one partner is working and the other is not.<sup>51</sup> This is one of the main attractions of replacing tax allowances with a universal tax credit that is paid to adults whether they work or not. It is also a key reason for improving income replacement ben-

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efits for caring, illness, unemployment and training and to ensure they are properly rewarded by the UC means test.

### Supporting high employment and progression

The UK has record levels of employment and fewer people live in households without work than in the past. In 2017/18 11 per cent of the population were in non-working households compared to 15 per cent in 1996/97 (this measure excludes households with someone over 60).<sup>52</sup> Nevertheless almost 7 million people still live in these households and there are also more than 2 million non-working adults in working households, so more still needs to be done to support people into work. This is particularly true for non-working disabled people, many of whom would be able to work with better support and more inclusive workplaces and environments. In the case of non-working parents, the barriers are often financial, as many parents calculate they would be little or no better off working, after taking the costs of childcare into account.

We also need a system that supports progression in the world of work. To make progress in the short term, people should always be able to increase their living standards by working more hours. But they should also be supported to move on in their working lives by shifting to more secure, higher skilled and better paid work and investing in their education.

A well thought through social security system has an essential role to play in promoting both high employment and progression – and a badly designed system can hinder both by creating financial disincentives and practical barriers. Universal credit has been designed to ensure that work always pays. However many aspects of the system are detrimental to sustainable employment and work progression. At present the wrong mix of policies is being used. There needs to be a major shift from ‘stick’ to ‘carrot’:

1. **Out of work conditions:** The government’s focus should be on offering positive support and incentives to enable people to work, rather than imposing draconian conditions on people. The social security system has always included work-search requirements for unemployed people but today’s regime of conditions and sanctions is far harsher than ever before. There is little evidence that very tough requirements promote better long-term employment outcomes and many feel that the system is simply intended to create a hostile environment to drive down the number of benefit recipients.<sup>53</sup> Ministers should immediately suspend sanctions in all but exceptional cases. They should then pilot significantly reduced requirements – or even test removing conditions altogether – to understand the extent that conditions really make a difference to sustainable employment outcomes.

*“I worked 25 years in a job that was paying reasonably well and doing fairly well. I’ve had a mental health crisis and I’m not living that lifestyle now. This isn’t a choice, this isn’t the way I want my life to be.”*

*– Unemployed campaign group member, London*

2. **Support services:** The social security recipients who participated in our listening events criticised the support services on offer from Jobcentre Plus. They wanted to see more personalised and effective support that people would actively choose to engage with. The same approach was proposed in an article for this project by Mike Amesbury MP, the shadow employment minister, who called for a reinvention of job centres as holistic services providing employability and skills support. Jobcentres also need to be part of holistic packages of support for people with complex needs, following examples such as the

Newcastle Homelessness Prevention pilot scheme where work coaches trained by Crisis identified people at risk of homelessness and provided tailored support and referrals.<sup>54</sup> Where people are unable to find work after an extended period the government should consider shifting away from mandating compulsory out-of-work activities and reintroduce a ‘jobs guarantee’ scheme that offers a guaranteed and compulsory job.

*“I want to see a jobcentre approach that focuses on real support, delivered in locations that people can access easily, that are real, genuine community hubs, supporting people throughout their working and non-working life.”*

*– Mike Amesbury MP*

3. **Financial incentives to move into work** also need to be improved for some groups. The NLW has significantly increased work incentives for people without extra costs who receive little in-work financial support. But many parents still face very weak work incentives. Parents at our listening events viewed the costs of childcare as the greatest financial barrier to work. There is also a specific financial barrier for non-working parents who have a working partner, because they do not have a work allowance of their own to provide them an income boost when they move into work. A second earner’s work allowance should be introduced for parents and carers as a priority. The policy experts who participated in the project pointed out that mothers are highly responsive to financial incentives in their employment decisions so creating better incentives could have very positive effects. They also said that, in general, work allowances needed to be sufficient to create incentives for significant part-time jobs as otherwise people could receive little

financial reward for moving beyond short-hours 'mini-jobs'.

*"I think everyone should be encouraged to work, but I think they need to put more things in place to help people work. Because I think working is good for the children, the parents, everyone. If you can work, it's good to work, even if it's five hours a week, whatever. But I think they need to do more to help people to work."*

*– Parent aged under 30, Southampton.*

*"Work allowances play a crucial role in increasing income and hours for those in work, demonstrating they need to be used effectively to reduce in-work poverty. Any new social security system should recognise that targeting increases in the work allowance to those who are more responsive to them encourages greater take-up of hours... Increasing the value of work allowances enables families in in-work poverty to keep more of their income than reducing the taper rate in universal credit... Single parents and second earners in couples with children are more responsive to work allowances. Currently a renting single parent on the national living wage with one child on universal credit exhausts the work allowance at eight hours."*

*– Anjum Klair and Kate Bell, TUC*

**4. Financial incentives to increase earnings:** for as long as social security is largely means-tested there is only so much that can be done to improve financial incentives to increase earnings. Under UC and council tax support people only keep around 20 pence of every extra pound they earn, once they get enough to pay national insurance and income tax. In many cases this is an improvement on the legacy system. The best options for improving financial incentives for progression are to: (1) improve childcare support; (2) absorb council tax benefit into UC so it is withdrawn as part of

a single taper as earnings rise; and (3) address cliff-edges where people lose benefits-in-kind as their household earnings rise. At present different benefits in-kind are withdrawn at different income thresholds without any obvious reasoning. We identified at least 5 different cliff-edges spanning infant vouchers, NHS charges, free school meals and free childcare for 2 year-olds. The best way of avoiding these cut-off points is to make more support universal, where this can be afforded (eg free school meals, free childcare, free NHS services). On the other hand, financial penalties should not be applied in situations where people fail to increase their earnings. This means that the minimum income floor for self-employed workers should be reformed or scrapped. It is set at £14,900 per year for most workers, which means that after a year in work UC is paid as if self-employed workers were earning this amount. The floor is significantly higher than large numbers of self-employed workers actually earn and many will not be in a position to significantly boost their earnings. The system is therefore likely to cause significant hardship and one study suggests it may push people out of work altogether.<sup>55</sup>

**5. In-work conditions and support:** Universal credit introduces in-work conditions which require workers to take steps to increase their earnings. This new form of compulsion is an implicit recognition that the financial incentives in UC are not good enough alone for many people to increase their earnings. The system is brand new and there are significant doubts about whether placing requirements on people in work will lead to long-term improvements in employment outcomes, or indeed whether the

DWP has the capacity to deliver an effective service. Once again it would be better to offer 'carrots' not 'sticks'. Several of our listening event participants wanted to see a better offer of support from employment services once they were in work, as long as the help on offer was personalised to their needs and of good quality. In-work conditionality should therefore be thoroughly evaluated alongside other options including a purely voluntary offer of employment support to workers and no support at all. Employment services should be expanded to include careers and lifelong learning support, with providers able to support people access training while working. Step 7 also proposes people should be able to access benefits or statutory pay if they are studying part-time and working part time.

*"At the moment, if you do put your toe in the water with work, the cut-off is really abrupt and then there's no support, it's basically a sink or swim situation once you get to the threshold. There's no graduated aftercare depending on how delicate we might be at any stage of this process."*

*– Unemployed campaign group member, London*



## STEP 9: PLEDGE NEW FISCAL RULES TO GROW SOCIAL SECURITY SPENDING



The proposals in this report will cost a lot of money. If ministers wish to make major inroads into poverty and to lift more working households up to minimum income standards a big increase in social security spending will be required. Tens of billions of pounds extra will need to be spent over time.

But the money does not all need to be found at once. At the time of the next election political parties should specify and cost their short-term plans for the first one or two years of a new parliament. After that sustained spending rises should be planned for five or more years, with the pace and detail dictated by the health of the economy and competing political priorities.

Over five to 10 years a step-change in spending on social security for children and working-age adults can be achieved by:

1. **Increasing spending annually at least in line with rising GDP** which would be funded by expected growth in tax receipts. Ministers should scrap the current ‘welfare cap’ and replace it with a GDP ‘floor’ for social security, similar to those for international development and defence spending. This policy would provide the fiscal headroom to increase all benefits in line with earnings or the ‘triple lock’.
2. **Raising the share of GDP spent to 2015/16 levels.** Reductions in spending as a share of GDP since 2015/16 could be reversed over 4 or 5 years by a government committed to looser fiscal rules and moderate tax rises. This would lead to spending rising by £25bn or 1 per cent of GDP over 4 years. After achieving this medi-

um-term plan, politicians could then debate whether further tax-funded increases are needed and how any extra revenue could be raised.

3. **Redeploy money from personal tax allowances.** Tax allowances sit alongside social security as a quasi-universal system of ‘shadow welfare’. In 2018/19 the cost of the income tax personal allowance and its equivalent in national insurance was £133bn (6.3 per cent of GDP)<sup>56</sup> and these ‘tax expenditures’ benefited high income households the most. The Fabian Society’s 2019 report *Inequality by Stealth* found that high income households actually receive more in tax reliefs on average than low income households do in means-tested benefits.<sup>57</sup> Huge sums could be transferred from tax allowances to social security. As a minimum the value of tax allowances could be frozen in cash terms, with the extra tax receipts generated from earnings growth ploughed back into social security. A freeze in the personal allowances for income tax and national insurance would generate around £20bn over four years.

Figure 11 presents figures for this spending strategy, using an assumed start date of 2020/21. It shows that by 2023/24 social security spending could be £45bn or 17 per cent higher than under current government plans. If the money was only spent on benefits for children and working-age adults it would be possible to spend 40 per cent more than planned.<sup>58</sup>

A spending increase on this scale would go a long way towards funding the ideas presented in this report (within the context of the continuation of a broadly means-tested system). With this medium-term spending envelope established ministers would then need to make judgements about the allocation of funds to specific priorities within social security and the pace at which long term reforms



FIGURE 11: ILLUSTRATION OF HOW UK SOCIAL SECURITY SPENDING COULD INCREASE OVER 4 YEARS

	2019/20	2020/21	2021/22	2022/23	2023/24
<b>Percentage of GDP</b>					
Existing plans	10.4%	10.2%	10.2%	10.2%	10.3%
Reverse cuts since 15/16 over 4 years	0.0%	0.2%	0.5%	0.7%	1.0%
Extra revenue from freezing tax allowances	0.0%	0.2%	0.4%	0.6%	0.8%
<b>TOTAL</b>	<b>10.4%</b>	<b>10.7%</b>	<b>11.1%</b>	<b>11.6%</b>	<b>12.1%</b>
<b>Extra spending over existing plans (nominal amounts)</b>					
Reverse cuts since 15/16 over 5 years		£6 bn	£12 bn	£18 bn	£25 bn
Extra revenue from freezing tax allowances		£5 bn	£10 bn	£15 bn	£20 bn
<b>TOTAL</b>		<b>£10 bn</b>	<b>£21 bn</b>	<b>£33 bn</b>	<b>£45 bn</b>

could be introduced.

A more radically universalist spending strategy could also be considered. This would see personal tax allowances being cut in cash terms or even scrapped, to be replaced with a universal tax credit and much higher child benefit. This would represent a major shift away from means-tested social security and the ‘regressive universalism’ of tax-based shadow welfare. In our view, the option of a universal tax allowance should be kept on the table for the long term but not pursued in the next five years. Better child benefit, universal disability benefits and income replacement benefits should be introduced first in parallel to improvements to means-tested payments.

### Fiscal rules

Alongside medium-term spending plans ministers should introduce new fiscal rules for social security. First, given that spending on benefits is so inadequate at present, as a minimum there should be a **GDP floor for social security**

**spending** for at least 10 years, in order to prevent future declines in spending relative to national prosperity. After that time reductions in social security spending should only be considered in the context of much more in-kind support or a transformation in the labour market and housing market.

Going further the government could create a **fiscal rule for tax allowances and social security combined**. The Treasury could report on all the resources allocated to the two systems together, with another pledge that this figure would not decline as a share of GDP. Creating a single reporting framework would create a transparent context for ministers to make a gradual switch from tax reliefs to social security.

The government might also introduce a separate **national housing account** to report on all public spending and tax reliefs designed to support the housing market. This would include capital spending, tax reliefs, initiatives such as Help to Buy and housing-related social security.

This would provide appropriate context to debate the effectiveness and progressivity of different forms of housing spending. For example, the £23bn spent each year on housing-related social security would be presented alongside the £27bn of capital gains tax exemptions provided for home owners.<sup>59</sup> Ministers might also create a rule that resources allocated to housing should rise as a share of GDP for as long as housing remained unaffordable to middle-earning households.

# ENDNOTES

1. Households below average income: 1994/95 to 2017/18, Department for Work and Pensions, 2019
2. Fabian Society calculations based on poverty projections from the Resolution Foundation and Institute for Fiscal Studies
3. Households below average income: 1994/95 to 2017/18, Department for Work and Pensions, 2019
4. Households below average income: 1994/95 to 2017/18, Department for Work and Pensions, 2019
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6. Cribb, J and Emmerson, C, *Can't wait to get my pension: the effect of raising the female state pension age on income, poverty and deprivation*, Institute for Fiscal Studies, 2017
7. Hood, A and Waters, T, *The impact of tax and benefit reforms on household incomes*, Institute for Fiscal Studies, 2017
8. weekly cost of free school meals during term time
9. £12 is theAssumes the total cash value of the tax relief remains unchanged and personal tax revenues rise in line with forecast GDP growth
10. Fabian Society calculations. Sources: *Rolling out universal credit*, National Audit Office, 2018; Benefit combination statistics, August 2019, Department for Work and Pensions, 2019 DWP statistics; Benefit expenditure and caseload tables 2019, Department for Work and Pensions, 2019; child benefit statistics geographical analysis – August 2018, HM Revenue and Customs, 2019
11. We do not include aims such as ‘incentivising work, employment progression and saving’, or ‘treating people with dignity and respect’ because these are design requirements for a good system not underlying reasons for why social security should exist
12. 60 per cent of median household income, after housing costs, using a standard international scale for adjusting for household size
13. Households below average income: 1994/95 to 2017/18, Department for Work and Pensions, 2019; Hood A and Waters, T, *Living standards, poverty and inequality in the UK: 2016-17 to 2021-22*, Institute for Fiscal Studies, 2017
14. Social metrics commission, *A new measure of poverty for the UK: the final report of the social metrics commission*, 2018
15. *We can solve poverty in the UK*, Joseph Rowntree Foundation, 2016
16. The three measures are: (1) below 75 per cent of the income needed to afford a minimum acceptable standard of living, as defined by the public - the ‘minimum income standard’ (Joseph Rowntree Foundation); (2) below 60 per cent of the income of the median UK household (an international measure used by the Department for Work and Pensions); (4) below 54 per cent of the total resources available to the median UK household (Social Metrics Commission). This measure adjusts to take account of unavoidable outgoings and any savings a household holds.
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18. Highest qualifications held in age-groups, by economic activity for UK, 2002 to 2017, ONS, 2018
19. Average hours worked by industry, August 2019, ONS, 2019
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22. Joyce, R, Mitchell, M, Norris Keiller, A, *The cost of housing for low-income renters*, Institute for Fiscal Studies, 2017
23. UK house price index: July 2019, ONS, 2019
24. Lomax, N et al, ‘The impacts of international migration on the UK’s ethnic populations’ in *Journal of Ethnic and Migration Studies*, *Journal of Ethnic and Migration Studies*, 2019
25. National life tables, UK: 2016 to 2018, ONS, 2019
26. Health state life expectancies by national deprivation deciles, England and Wales: 2015 to 2017, ONS, 2019
27. *Welfare trends report*, Office for Budget Responsibility, 2019
28. Families and the labour market, England: 2018, ONS, 2018
29. Brimblecombe, N et al, *Unpaid care in England: future patterns and potential support strategies*, London School of Economics, 2018
30. Social security (Scotland) Act 2018
31. Child and working tax credit statistics: finalised annual awards – 2017 to 2018, HM Revenue and Customs, 2019

32. Brook, P, *Franning toolkit: talking about poverty*, Joseph Rowntree Foundation, 2019
33. These headline numbers actually understate the inequality experienced in most areas of England because low income pensioners automatically receive 100 per cent council tax support, while younger benefit recipients have to pay some council tax out of their allowance.
34. Social metrics commission, *A new measure of poverty for the UK: the final report of the social metrics commission*, 2018
35. Hirsch, D, *The cost of a child in 2018*, Child Poverty Action Group, 2018
36. Touchet, A and Morciano, M, *The disability price tag 2019: technical report*, Scope, 2019
37. Household cost multipliers are based on data on the costs of the minimum needs of children in different household formations (*The cost of a child*, CPAG, 2018). These ratios are then used as multipliers to scale-up the value of pension credit payment for a single adult; and also the poverty threshold for a single adult (60 per cent of median income, after housing costs, 2017/18 adjusted to 2019 prices). Payment levels assume recent cuts to children's social security are fully implemented (ignoring transitional protections). In many cases payment values exceed actual disposable income because some of the money needs to be spent on rent and council tax following recent cuts.
38. Bradshaw, J and Bennett, F, *Minimum income schemes in the United Kingdom: a study of national policies, Peer review in social protection and social inclusion*, European Union, 2009
39. Temporary 2008-2013 US programme excluded
40. See also figure 1
41. The government also attempted to restrict eligibility for universal disability benefits, however this initiative failed and payments have increased in value.
42. The first child needs considerably more financial support but this is mainly to compensate for low adult benefits. Most of this money could continue to come from means-tested support.
43. Bell K and Gaffney, D, *Making a contribution: social security for the future*, TUC, 2012
44. A millennium of macroeconomic data, Bank of England, 2017; Benefit expenditure and caseload tables 2019, Department for Work and Pensions, 2019
45. *The closer alignment of income tax and national insurance*, Office of tax simplification, 2016
46. Households below average income: 1994/95 to 2017/18, Department for Work and Pensions, 2019
47. Policies to reduce the cost of rents relative to earnings are also important but we do not consider them here
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