Chapter 7

# Wales and the Welfare Agenda

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### Introduction

The current programme of welfare reforms being introduced by the UK government is the most radical change to the benefit system to be attempted since 1946. Its sheer scale, complexity and the forecast impact on hundreds of thousands of people make welfare reform one of the most important issues facing the people of Wales today. A great deal of concern has been expressed about the possible effects of change but there has been virtually no discussion about whether devolution of legislative or executive powers might be feasible or desirable.

There are major advantages to having a social security system universally available across the whole of the UK. As well as ensuring that citizens everywhere have equal access to support based on need, the system also acts as a mechanism for the transfer of resources to areas suffering from economic disadvantage and social deprivation. Wales is one such area.

### What is welfare?

Despite its widespread use, welfare is an ambiguous and contentious term. It usually refers to a range of services provided by the state which protect and support people, especially during childhood, old-age and sickness. The welfare state thus includes the National Health Service, state education, social housing and social security payments for people who have retired, are unemployed or are too sick or disabled to work. Recently, however, the term 'welfare' has come to be used to refer to social security benefits and specifically to those provided to people of working age, reflecting the US usage of the term. The rest of this paper uses the more accurate term 'social security benefits' as it is only these aspects of 'welfare' that are being considered.

Social security benefits are a complex mixture of different types of payments made to individuals and households for many different reasons. A few benefits, such as Child Benefit and Winter Fuel Allowance, were until very recently universal, paid to any eligible person irrespective of income or National Insurance contributions. Other benefits, such as the state pension and contribution-based Jobseekers' Allowance, are paid according to an individual's previous National Insurance contributions. Some benefits, the so-called income-related benefits such as Income Support or Pension Credit, are means-tested and provide 'top-ups' if a household's income is below a defined threshold. And other benefits are related to non-income aspects of need, such as Disability Living Allowance whose payment reflects the nature and extent of an individual's impairment.

## Context for current policy

The UK government's Welfare Reform Act cannot be separated from the wider pressures on UK finances. The global recession and deficit in public expenditure have provided the rationale for massive cuts in spending on benefits coupled with a major restructuring of support, including breaking the links between benefits and contributions, support only for those in greatest need, and a strong emphasis on employment, irrespective of economic conditions or individual circumstances.

The Chancellor's autumn 2010 statement indicated that the UK government planned to achieve savings of £18 billion to the social security system, through a mixture of simple but highly cost-effective changes such as arrangements for indexation of benefits to much more controversial measures such as withdrawing assistance to disabled people. Some of the planned changes have been achieved through existing legislation, but it is the Welfare Reform Act 2012 which is driving through the most radical reforms.

## Social security powers

The legislative powers to determine and reform social security benefits rest solely with the UK parliament – there is virtually no aspect of the social security system that is devolved.

The framework for the current social security system developed during the first half of the 20th Century and was laid out in various pieces of immediately post-war legislation, notably the 1946 National Insurance Act. From the outset the social security system was conceived of and implemented on a UK-wide basis. The underlying principle was that the state, as a whole, had responsibilities for the wellbeing of its citizens, in contrast to the pre-war, mainly local provision of assistance schemes. The post-war social security system was funded on a UK-wide basis, with benefits being paid from a mixture of National Insurance contributions and general taxation.

There have been numerous reforms of the social security system since 1946, with old benefits being renamed, new benefits introduced, eligibility rules changed and rates of payment being revised. Benefits such as Supplementary Benefit, Rent Rebate, Unemployment Benefit, to name but a few have all come and gone. But throughout the process of change, social security benefits have all, until very recently, remained UK-wide.

Not only is the legislative basis of social security almost entirely UK-based, so too is its administration. The Department for Work and Pensions (DWP) and HM Revenue and Customs together administer the social security system. They do this through large UK-wide administrative centres such as the Child Benefit Office at Washington, Durham and through local and regional offices which operate throughout Wales. Housing Benefit and Council Tax Benefit are administered by local authorities on behalf of the Department for Work and Pensions with both benefit costs and administrative costs being covered by the DWP. However, the benefit rules that are followed and the payments that are made are strictly those of the UK government.

A significant shift with the UK-wide social security system came in the Welfare Reform Act 2012. Amongst the large-scale changes to almost all benefits paid to people of working age was the transfer of responsibility for administering Community Care grants, Crisis Loans and Council Tax Benefit to the Welsh Government.

It seems that no discussion of the intended devolution of the administration of the benefits had taken place with the Welsh Government prior to the publication of the DWP's White Paper. Even in

Scotland, which appears to have had some advance warning, the specificity of the UK Government plans came as a surprise. The Welsh Government has now begun the process of establishing its own arrangements for delivering Community Care Grants, Crisis Loans and Council Tax Benefit. However, given the very short time-scales (both are to be operational from April 2013) the scope for innovation is limited.

The rationale for the transfer of responsibility is not a sudden enthusiasm for devolution on the part of the UK government, not least as the powers over these benefits remain with the UK government. It is simply the *administration* that has been devolved. It arises from the expediency of making cuts in expenditure on social security, a long-standing belief in the efficacy of charity as opposed to state provision and a newly-found commitment to 'localism'.

The social security system therefore remains firmly the responsibility of the UK Government, and as a key part of the Coalition Government's agenda, is likely to remain so for some time to come. Indeed, as will be seen below, some of the reforms centralise control over the social security system even further.

## The reform agenda

The UK Government came to power committed to a radical overhaul of 'welfare' on the grounds of increasing individual responsibility and ensuring fairness for everyone. In this, and almost all its subsequent references to welfare, the UK Government means social security benefits, and more specifically the social security benefits that are paid to people of working age.

Pensions and child benefit, key elements of overall social security provision and a substantial part of the social security budget, have been left relatively unscathed, although this is not to say they are completely unchanged. The Pensions Act 2011 brought forward the increase in state pension age for women to age 65 and increased state pension age for men and women to age 66 by October 2020, and eligibility rules have also changed. The value of Child Benefit was frozen for three years from April 2011 and will be gradually withdrawn from high-income households from January 2013.

However, the most radical changes to social security are being made to the myriad of benefits claimed by people of working age, and in particular to those claimed by people who are out of work or who are in employment but on a low income. As well as the very substantial change made to the value of almost all benefits made by linking increases to the Consumer Price Index rather than the Retail Price Index there is a long list of reforms to almost all individual benefits, with each benefit being subject to its own rule changes and timetable, with different arrangements for implementing the changes for new and existing claimants.

Within the changes the following key themes can be identified:

1. Requirements on those claiming benefits as job seekers are significantly increased, as is the use and severity of sanctions.
2. All claimants of benefits on the grounds of incapacity will be reassessed by the Work Capability Assessment, with about four out of ten being found to be ineligible to claim. Amongst those who are eligible, contributory Employment and Support Allowance will be limited one year, with non-contributory benefits being means tested.
3. All claimants of Disability Living Allowance will be reassessed for Personal Independence Payment and only the most severely disabled will qualify for the higher rate of payment.
4. Lone parents whose youngest child is aged 5 years will be required to seek employment.

5. The number of hours of work required to be eligible for Working Tax Credit has increased, the income above which credit cannot be claimed has reduced and the taper on withdrawal of credit has increased, and the rate at which help with childcare is given has gone down.
6. Housing Benefit is limited to the cheapest 30 per cent of rents and capped according to the type of accommodation, is restricted to shared accommodation for people aged under 35 years and is limited to accommodation of appropriate size (the so-called bedroom tax).
7. Council Tax Benefit is being reformed although the nature of the changes is not yet clear.
8. A cap on the total amount of benefit that can be claimed by a household of £500 a week for couples (£350 a week for single people) is to be imposed.

All these benefits, except the new Personal Independence Payment, will be replaced by Universal Credit, a new and simpler single benefit, which will be gradually rolled out from 2013. Universal Credit will replace not only those working age benefits administered by DWP local offices, such as Jobseekers' Allowance and Employment and Support Allowance, it will also replace the locally administered Housing Benefit. Details of Universal Credit had not been finalised at the time of writing.

### Impact of social security reforms

There is no doubt whatsoever that the UK Government's social security reforms will have a massive impact on people in Wales, if only simply because of the sheer numbers of people who receive social security benefits. Table 1 shows that Child Benefit was paid for 642,210 children in Wales as at August 2011, and a further 641,150 claimed State Pension as at February 2012. This 1.2 million people receiving child and old age benefits is more than a third of the population.

A further significant number are people of working age who receive one or more benefits. Altogether 18.9 per cent of the Welsh population – 358,340 people - claimed at least one working-age benefit such as Jobseeker's Allowance, Incapacity Benefit/Employment and Support Allowance, Disability Living Allowance or Income Support. More than 300,000 families claim Working Tax Credit, more than 250,000 people claim Housing Benefit, and more than 330,000 people claim Council Tax Benefit. Because some individuals or households claim more than one benefit (for example, Jobseekers' Allowance and Housing Benefit) the numbers cannot be added together. Nevertheless, at nearly 1 in 5 of the working age population of Wales the proportion of claimants is substantial.

Table 1: Number of Claimants of Benefits in Wales

| Benefit | Number of Claimants |
|---|---|
| Child Benefit (as at Aug 2011) – number of children | 642,210 |
| Working Age Benefits (as at Feb 2012): | 358,340 |
| Jobseekers' Allowance only | 80,660 |
| IB / ESA only | 62,790 |
| IB / ESA and DLA | 54,260 |
| DLA and / or SDA only | 28,680 |
| Income Support alone or with other benefits | 95,250 |
| Other benefits e.g Carer's Allowance, Widows Benefit or other combinations | 36,720 |
| Working Tax Credit (current entitlement) (April 2012) | 303,300 |
| Of which in-work WTC | 226,400 |
| Housing Benefit (May 2012) | 251,310 |
| Council Tax Benefit (May 2012) | 330,040 |
| State Pension (Feb 2012) | 641,150 |
| Pension Credit (Guarantee element) (Feb 2012) | 56,910 |

The impact of these changes to benefits on claimants in Wales is a moot point. The UK government argues that the changes will provide incentives to get more people into work, protect the most vulnerable in society and be fair to taxpayers and claimants. It is of course too early to assess the effect of what is a long-term programme of reform, although there are some indications of initial impacts.

Most immediately, it is clear that the reforms have already resulted in a reduction in the number of people claiming some benefits in Wales. For example, the numbers claiming Income Support have decreased by more than 15,000 since the changes affecting lone parents took effect in November 2011, whilst the numbers claiming Incapacity Benefit are down by more than 25,000 since February 2011 when the Work Capability Assessment was introduced.

In the medium term, that is up to 2014-15, there is evidence that the combined effect of changes to social security benefits and taxation will be for households in Wales to lose, on average, 4.1 per cent of their income by 2014-15, equivalent to £1,110 a year. This is a higher proportion of household income than the UK average, although by no means the highest of UK nations and regions.

The changes have a different impact on different types of household. The Institute for Fiscal Studies has estimated the effect of tax and benefit changes on various types of households and found that the following are most adversely affected in 2014-15:

- Families with children, which lose just over 6 per cent of their income, compared with just under 3 per cent for households without children and less than 2 per cent for pensioners.
- The poorest 10 per cent of families with children, which lose 10 per cent of their income, approximately £1,800 a year.
- Workless families (both lone parent and couples), which lose 11-12 per cent of their incomes, approximately £2,410 - £2,800 a year.

- Families with two or more children, which lose 6-10 per cent of their income. Households with children aged under 10 years lose more than households with older children.
- Families with children living in rented accommodation, which lose about 9 per cent of their income in 2014-15.

Given the relatively high levels of reliance on social security benefits in Wales and the substantial impact on household incomes by 2014-15, it is not surprising to note that the Institute for Fiscal Studies forecasts sharp increases in poverty in Wales, particularly in child poverty. In the two years between 2012-13 and 2013-14, relative child poverty is estimated to increase by 23,000 and absolute child poverty to increase by 26,000. Smaller increases are expected in both relative and absolute poverty amongst working age childless adults. These forecast increases in both relative and absolute poverty come after more than a decade of gradual decline in poverty amongst all groups of people in Wales.

The changes will affect some parts of Wales more than others, with those with already high levels of benefit claims, notably the south Wales Valleys and inner Cardiff, Swansea and Newport.

In the longer term, the effects of changes to social security will depend on the strength of the wider economy and labour market, and the various ways in which people and employers adapt to the changes. It may indeed be the case that individuals are incentivised to work and employers are encouraged to recruit, although the economic prospects for Wales and the UK as a whole do not look particularly bright at the time of writing.

The UK Government's changes to the social security system will have far-reaching consequences for the people of Wales. The vast majority of children and people over retirement age receive Child Benefit or the State Pension, whilst nearly one in five people of working age receive a major benefit such as Job Seekers' Allowance, Incapacity Benefit/ESA or Disability Allowance. Hundreds of thousands more receive Working Tax Credit, Housing and Council Tax Benefit. The changes combined with the taxation system mean that on average households in Wales will lose 4 per cent of their income. However, the poorest households and families with children lose the most – more than 10 per cent of their income in some cases. Hardly surprisingly, the changes are expected to result in significant increases in poverty especially child poverty.

## Welsh Government objectives

The current Welsh Government is firmly committed to achieving fairness and prosperity in Wales, albeit with a somewhat different interpretation of 'fairness' to that of the UK government. However, the Welsh Government's ability to achieve its objectives is strongly shaped by the changes being wrought by changes to the social security system. These risk undermining Welsh Government's objectives, both specifically to eradicate poverty as well as more widely.

In terms of poverty, the Welsh Government has adopted the former UK government's objective of eradicating child poverty by 2020. It also has the less specific aim of "reducing poverty, especially persistent poverty amongst some of our poorest people and communities". It has implemented a raft of initiatives to try to reduce the incidence of poverty, prevent the risk of people becoming poor and to mitigate the effects of poverty.

If the forecast impact of social security reform on poverty is realised, the UK government's changes will significantly undermine the Welsh Government's attempts to reduce and eradicate poverty and especially child poverty. The predicted increases in child poverty amount to approximately 10 per cent of the number of children currently in poverty, and could see the proportion of children in low-income households reach levels not seen since the mid 1990s. The Welsh Government would need an unprecedented achievement to counter the effect of social security reform. The predicted increases in poverty amongst adults are less dramatic, but would nevertheless adversely affect the Welsh Government's efforts to reduce poverty in general.

The forecast impact of social security reforms is also likely to affect the Welsh Government's targets to eradicate fuel poverty amongst all households by 2018. Although household incomes are only one factor in fuel poverty (the others being energy costs and energy efficiency of the home), the predicted squeeze on households which already have low incomes and on those with children will almost certainly tip some households into fuel poverty and drive others in even deeper.

The reforms could also affect the Welsh Government's aims of increasing employment. Whilst the UK government argues that the changes will provide incentives to work, the willingness and ability of benefit claimants to enter the labour market is likely to depend as much on the wider economic climate, and in particular the availability and suitability of jobs, as it does on changes to the benefit system. Indeed, the Institute for Fiscal Studies estimates that the reforms could *reduce* the incentive to work amongst couples with children and that they are also likely to reduce the incentive to work for a second earner in a couple household, whether or not they have children. Families with children are a key group that the Welsh Government wishes to encourage into employment, so the disincentive brought by the new social security system could undermine this objective. Similarly, the income of a second earner in a household can be a key factor in lifting incomes above the poverty threshold so the disincentive for more than one member of a household to work is also a concern.

In addition, the areas within Wales that are most likely to be affected are those which are subject to Welsh Government regeneration programmes - the success of such programmes could be affected by the loss of income from the locality.

There is also some evidence on the likely impact of social security reform on the Welsh Government's housing objectives. Most obviously, its aim of reducing homeless to a minimum by 2019 could be jeopardized as a number of commentators have forecast a shortage of housing that is affordable by people claiming Housing Benefit. It is also suggested that the 'bedroom tax' could result in an increase in overcrowding. There are also anticipated to be significant difficulties providing affordable social housing as the income received by registered social landlords falls, limiting their ability to invest in new stock.

It is more difficult to forecast the implications of social security reform on other Welsh Government objectives not least because the association between welfare reform, likely increases in poverty, and the achievement of other objectives is less direct although no less powerful for that. Nevertheless, there is a clear and well-established relationship between poverty and ill-health, and between poverty and low educational attainment and participation. Substantial increases in poverty could thus adversely affect the Welsh Government's ambitions to improve the health and educational attainment of the people of Wales.

Other forecast impacts include an increase in criminal behaviour, an increase in stigma and discrimination against disabled people. If realised, these outcomes would also affect the Welsh Government's ability to achieve its objectives in respect of safer communities and equality.

## Devolution of social security powers

Although the Scottish Government and a number of civil society organisations are calling for the devolution of powers over most aspects of the social security system to be devolved to the Scottish Parliament there has not been a similar campaign for devolution of social security powers in Wales. Devolution of these powers would raise significant issues of policy, capacity and finance.

In policy terms, devolution of powers over social security could bring the prospect of achieving a closer alignment between policies on benefits and policies on, for example, poverty, employment and health, increasing the likelihood of the Welsh Government achieving its objectives. The opportunity for greater synergy between social security and other policy areas is especially great where the UK and Welsh governments are a different political colour and have differing, and indeed potentially conflicting, aims.

However, there is a significant gap between arguing that devolution of social security *could* bring advantages and a worked-through position showing that it *would* bring advantages. Despite criticism of many aspects of the UK Government's social security reforms, alternative proposals are conspicuous by their absence in Wales (as indeed in the rest of the UK). Even though many of those campaigning against change recognise that the previous system was far from adequate, they are forced into defending the status quo because they are unable to offer anything better. In the absence of an indication of the difference devolution would make any case for change is hypothetical.

One of the reasons for the absence of alternatives to current social security reforms is a lack of capacity for policy development on the issue within Wales. The Welsh Government has had no reason to devote resources to a non-devolved issue, other than to monitor its possible impact. Whilst the third sector has been more active in identifying the threats of social security reform to people and communities, it too has lacked resources to develop an alternative agenda specific to Wales. Indeed with the size of the threat and the apparently remote prospect of devolution of social security to Wales means that there is no reason for anyone in Wales to invest time and money in developing an alternative approach.

That said, there is without doubt scope to develop a social security system that is more consistent with and closely aligned to the Welsh Government's priorities than the current system – the main issue is the resource and expertise to do so.

Although policy capacity may be thin, delivery capacity is somewhat less so. The Welsh Government itself has no resources to administer a devolved social security system – in fact it has already determined that even the relatively modest demands of delivering Community Care Grants and Crisis Payments should be outsourced to an independent organisation. However, the DWP does have administrative capacity in Wales, with nearly 7,000 civil servants carrying out a range of benefit-related functions in 2011. In addition, local authorities have some capacity amongst staff administering Housing Benefit. Unison estimates that across Britain about 20,000 staff work on Housing Benefit suggesting that, pro-rata, about 1,000 staff do so in Wales. The role of local Housing Benefit staff will disappear with the introduction of Universal Credit from 2013.

The most important issue associated with the devolution of the social security system is its cost. In 2010-11, the Department for Work and Pensions spent a total of £8.4 billion on benefits in Wales (see Table 2 for a breakdown), with additional, unfortunately unknown, sums being spent by HMRC on Child Benefit and Working Tax Credit. Expenditure per head on DWP benefits is higher than the UK average, at an estimated £2,337 compared with £1,895 in 2008-09.

To put this sum in context, the DWP's expenditure on benefits is more than half the Welsh Government's 2012-13 revenue budget, and is slightly higher than its current expenditure on health, social services and children of £6 billion. However, if the State Pension and Maternity Pay are removed from expenditure, as envisaged by those campaigning for devolution of benefits in Scotland, the remaining expenditure on benefits (excluding Child Benefit and Working Tax Credit) is almost halved to £4,662 billion. In other words, current expenditure on benefits would, if devolved either wholly or partially, comprise a large part of the Welsh Government's expenditure. At the same time, it would not be so large that it would dwarf the budget, particularly if expenditure on pensions and statutory maternity pay was excluded.

**Table 2: Expenditure by Department for Work and Pensions on Individual Benefits, Wales, 2010-11**

| Benefit | Expenditure (£ million) |
|---|---|
| Attendance Allowance | 388 |
| Bereavement & Widows benefits above State Pension Age | 30 |
| Bereavement and Widows below State Pension Age | 2 |
| Carers' Allowance | 100 |
| Council Tax Benefit | 238 |
| Disability Living Allowance | 925 |
| Employment and Support Allowance | 147 |
| Housing Benefit | 893 |
| Incapacity Benefit / Severe Disability Allowance | 521 |
| Income Support | 456 |
| Jobseekers' Allowance | 224 |
| Pension Credit | 494 |
| State Pension | 3,631 |
| Winter Fuel Allowance | 151 |
| Statutory Maternity Pay | 98 |
| Maternity Allowance | 16 |
| TV licence | 30 |
| Industrial Injury Benefit | 63 |
| Total | 8,407 |

Most important is the question of how any transfer of powers and responsibilities for benefits would be funded. It can in no way be assumed that current budgets would be devolved at the same time as any powers. For example, experience with the transfer of responsibility for support with Council Tax is that funding is being substantially cut alongside the transfer of responsibility - by at least 10 per cent though provisional figures suggest a cut of up to 20 per cent.

The alternative of covering benefit payments with income raised from National Insurance and taxation in Wales would also be very challenging.  Holtham estimated that a total of £17.1 billion was raised from various taxes in Wales in 2007-08, of which £8.9 billion is income tax and National Insurance contributions. The current Welsh Government budget plus the main out-of-work and income-related DWP benefits alone are greater than the total income generated by taxation. If state pensions, statutory maternity pay, Child Benefit and Working Tax Credit are included, Wales's benefit expenditure could well exceed current taxation income by about 50 per cent. Funding current levels of social security payments from tax and National Insurance contributions generated within Wales is, bluntly, out of the question.

## Conclusion

The UK government's reforms of the social security system will have far-reaching and potentially damaging consequences for hundreds of thousands of people in Wales. Levels of poverty are likely to rise sharply and there could well be knock-on effects for other policy areas including housing, health, education, employment and so on which risk undermining the Welsh Government's ability to achieve its objectives.

The current social security system was established as and remains a UK-wide system not withstanding the recent changes to Council Tax Benefit and aspects of the social fund.  The question of funding social security expenditure in Wales is a major stumbling block to any devolution of powers. No matter how great the merits of matching policy on benefits with other objectives, no matter how large or small is policy and administrative capacity in Wales, unless and until a way is found to fund Wales's high levels of expenditure on social security benefits there can be little prospect for devolution of social security in the short to medium term.