

Making welfare work: A new vision for helping Britain's jobless



INTRODUCTION

The benefits system in the UK has for too long been seen as failing to help the people it is designed to serve. Despite the high and rising costs of benefits, there is strong evidence that it fails on several counts: the unintended consequence of the system is that it discourages people from taking up job opportunities; it has created a culture of welfare dependency; it still leaves some people living in poverty; and it has become excessively complicated and hard for both claimants and officials to administer.

The Government has clearly committed itself to delivering long-term, structural reform to the welfare system. This presents a once-in-a-generation opportunity to deliver far-reaching reforms rather than further 'tinkering' with the system. Tomorrow's People has submitted its views on the consultation document issued by the Department for Work and Pensions and this document summarises the points raised in that submission.

We are supportive of the general direction of travel that the Government has laid out. However we believe that this is an ideal opportunity for us to set out our own vision of what a reformed welfare system should look like and particularly the core principles that we believe must underpin efforts to meet the needs of those it serves. This document is not a detailed model of a new system but an outline of the key elements that we believe should be incorporated in a welfare system fit for the 21st century.

THE VISION: AN OUTLINE

Tomorrow's People believes that there is an opportunity to design a new solution that will reduce poverty, end welfare dependency and lower costs over a long-term horizon. We believe that there must be a structural shift away from the notion of an entitlement to benefits as a way of life, towards establishing a contract - or covenant - between citizens and government that includes rights and responsibilities on both sides. At its heart are seven principles that underpin our vision for a reformed welfare system. The state must:

- change the language and culture of welfare
- support those who despite their best efforts are unable to find employment in the open jobs market
- create a welfare system that is easy to understand and use
- establish a welfare system that does not act as disincentive to work
- establish a new covenant between the workless citizen and government with responsibilities on both sides
- ensure jobless people have the skills needed to join and stay in the labour market
- acknowledge that ending worklessness requires resources

The central tenet of this vision is the new covenant that puts rights and responsibilities on both jobless people and the Government – the Government would commit to paying a Community Wage to meet basic living standards in one simple payment, and to provide the training, skills and basic work experience to prepare people for the world of work. In exchange, those without jobs who can work would commit to take part in training programmes and actively seek work and take reasonable job offers. Anyone leaving school with basic qualifications but no prospect of immediate employment or further education will move straight onto a Community Wage. At the root of this proposal is the aim of instilling a culture of work while guaranteeing a minimum level of income.

This report will use these key principles to explain how Tomorrow's People believes the Government can use this opportunity to design a welfare system that is fit for purpose: to help those who can work find employment while ensuring those unable to work are given a basic standard of living.

WHAT WE BRING TO THE DEBATE

Tomorrow's People is a national employment charity with a 27-year track record of helping people out of long-term unemployment, homelessness and welfare dependency, and into jobs and self-sufficiency. Our vision for a reformed welfare system is based on our experience of working face-to-face with clients and gaining a real understanding of the factors that help – or hinder - them moving from welfare into work. The charity believes that breaking the cycle of unemployment is the key to enabling disadvantaged people to take positive control of their lives and build a future for them and their families.

The impact of getting back to work literally transforms lives. When people who have not been able to work move into employment, it puts them and their families on a secure financial footing and enables them to move forward with their lives. Tomorrow's People was founded in 1984 and since then has helped more than 440,000 long-term unemployed people on their journey back to work. Prior to the economic downturn at the end of 2008, 90 per cent of the people the charity helped find a job were still in employment three months later and 76 per cent were still working 12 months later.

PRINCIPLE 1: CHANGE THE LANGUAGE AND CULTURE OF WELFARE

We would recommend that the word "benefit" be removed from the language of the welfare system because of its implication of a one-way entitlement to a financial payment. This has fostered a culture of dependency on welfare payments. While there are technical reasons for this, which we will explain later, we believe it is essential that welfare must no longer be seen as a "benefit" that carries no responsibilities.

The result has been that people become accustomed to not having a job or to never securing a job. In some cases this is a pattern that can be repeated over generations, creating whole communities of intergenerational workless households, as we highlighted in a report in 2009. A primary focus of an improved welfare system must be young people, as those who have been unemployed for the shortest period of time are the easiest to move into work. If society can prevent people leaving full-time education and going straight onto benefits then it will raise the chances of eliminating intergenerational worklessness.

Principle 2: The state must provide support for those who are, despite their best efforts, unable to find employment in the open jobs market

It must be the target of any civilised society to ensure that none of its citizens is living in poverty. Each person needs a sum of money in their pocket that will provide the minimum standards of living in this country. Currently the most commonly used threshold of low income for a household is one that is 60% or less than the median average British household income.

However one calculates it (see Box 1), Tomorrow's People believes that the first stage in establishing a sustainable welfare system is to set a benchmark level of income that the state can guarantee a household will receive. Tomorrow's People believes that the best way out of poverty is through work for those who can. For those who cannot work, there must be a robust system in place to guarantee them a decent standard of living. Having established a benchmark that guarantees no one will be in poverty, the welfare system must be restructured in a way that ensures that that income does not act as a disincentive to people to find work.

Establishing a benchmark income

According to the latest data for 2007/08, the 60% threshold was worth: £115 per week for a single adult with no dependent children; £199 per week for a couple with no dependent children; £195 per week for a single adult with two dependent children under 14; and £279 per week for a couple with two dependent children under 14. A survey by the Joseph Rowntree Foundation of people's views on what was needed for a minimum, socially acceptable quality of life in 2008 produced slightly different figures peaking at £370 a week for a couple with two children.

Principle 3: Create a benefits system that is easy to understand and use

The system of benefits and Tax Credits as currently organised is extremely complex. This makes it very hard for claimants to understand what they are entitled to and what might happen to their payments if their circumstances changed. There are a total of 56 benefits all of which have their own thresholds, rules and payment periods.

The complexity of the system means that people cannot be sure of getting the correct advice when they go to a Job Centre Plus. We know of several examples of clients being advised by officials not to take a job (see Box 2: complexity case example). Overall, our experience is that the multiple application processes that people need to go through to qualify for separate benefits that have their own rules and thresholds often deter people from making any change in their life that would necessitate going through that process again.

Case example – advised not to work

C P, a 29-year-old mother with two children from the North West of England, was deciding whether to return to work as a part-time teaching assistant. The adviser at her local Job Centre Plus ran a Better Off Calculation. Her total benefits package including Housing Benefit and Council Tax credit was worth £350 a week. Applying for Working Tax Credit would have left her £20-30 better off. However she would have lost "passported" benefits such as free school meals, which alone would have cost £20 a week, wiping out the gain. Because her income would have put her above the amount the Government deems a minimum to live on, she would have had to pay £9 a week towards housing costs and Council Tax. Transport and meal costs at work would have left her further worse off. She was advised not to take up the job opportunity.

Tomorrow's People recommends that the complex web of benefits be replaced by or channelled into a single payment – a Community Wage. This would be set according to the benchmark minimum level of income outlined in Principle 2. This amount, which would come as a regular income into the recipient's bank account, would incorporate incomes from current benefits, allowances and tax reliefs as well as elements to cover expenditure on school meals and prescriptions, depending on personal circumstances. This would reduce administrative expenditure by delivering the funding for these

benefits directly through the Community Wage packet rather through one of the five Government departments that currently administers benefits. The Government has indicated it is moving towards a Universal Credit and we welcome the general direction of their thinking.

Principle 4: Welfare system must not act as disincentive to work

While the complexity of the system creates the perception among claimants that they will worse off in work, in many cases this is true. It is essential that a reformed welfare system remove the “benefits trap” that means that someone refuses to take a job because if they do they will lose some of the benefits they currently receive. This is particularly the case for couples with children where a decision by one parent to take a job will mean the loss of associated benefits such as free school meals and free prescription charges.

Our clients repeatedly highlighted one area of the welfare system that they were particularly worried would lead to a loss of income if they were to start work. The 16-hour rule – an issue the Coalition Government has now dealt with - meant that someone who worked or studied for 16 or more hours a week lost their housing benefit and Job Seekers’ Allowance (see Box 3: 16-hour rule case example). This led to a fear among claimants that if they were to take a job that did not work out, they would have to reapply for benefits, leaving them with a shortfall in income.

Case example – 16-hour rule

T C, aged 31 from Hastings, is an unemployed mother on the Jobseeker’s Allowance benefit, which pays her £280 a month, plus housing benefit and council tax relief. Because JSA is only paid to people working less than 16 hours a week, she would lose that benefit if she took a job. In the long run she would gain from work, as even a 16 hours a week job at the National Minimum Wage would pay £372 and she would be eligible for tax credit.

The problem is that she loses the benefit income from the first day of working but might not get paid until after the end of the first month of work, which will leave her £280 in debt – she then also won’t receive another salary payment for a further month, compounding the debt.

In the meantime she would have extra expenses such as transport to work and school meals, which are only free to recipients of full rate income-based JSA. She may be entitled to a Back to Work Bonus via the Job Centre but that would depend upon the circumstances of her claim such as childcare; school meals, fares, etc. As such, if there has been a previous break in her claim to benefit for any reason such as a change to a different benefit or taking a temporary job this eligibility would diminish.

The application of this rule adds to the perception that it is not worth taking a job even if it were to become a long-term position because the extra money they would earn would not be much more than they were receiving in benefits. Another area of concern to clients of Tomorrow’s People is Housing Benefit and Council Tax benefit. Unlike the 16-hour rule, these benefits do allow for payments to carry over for a short period, but the length of time to put in a fresh claim if a job turns out to be temporary discourages people from taking work. There is an acute worry among claimants that by the time they started receiving payments, their rents arrears would have risen to a point at which they risked being made homeless.

Principle 5: A new covenant between workless citizen and government

This is the central element behind the Tomorrow’s People vision for welfare reform. We believe there must be a shift away from the current relationship of dependency between a benefit claimant and the Government towards one more akin to the employee/employer relationship. The welfare system should be seen publicly as a covenant between a person out of work and the Government with rights and responsibilities on both sides. In exchange for the Community Wage, the recipient must take part in training and/or other activities which benefit the community if they are fit to work.

The Community Wage slip would show the value of the income from the state and any deductions made and make it easier for people to see and understand the value of the Community Wage payments (see Box 4: confusion case example). If someone went into work this would make clear the value of the “top up” they were receiving to ensure they were no worse off as a result. An incidental benefit would be the opportunity to tackle the issue of the “unbanked” as it would encourage more people to open their first bank account.

It would be a huge improvement on the current system where people not only have no single statement about their entitlements but also often have no idea what the value of their benefit package is. Tomorrow’s People has often found that benefit claimants receive much more than they had thought once housing benefit and ancillary benefits such as free school meals are included.

The right to the Community Wage brings responsibilities. Failure to attend the work-oriented activity or take a reasonable job offer without a valid reason would ultimately result in a loss of the wage. This would be no different from current practice in the private sector where a commercial employer would dock a day’s wages for non-attendance without a reasonable excuse. In extreme cases they would terminate the person’s employment.

Case example – benefits unclear

D C is a single mother of two living in a council flat in Birkenhead, with few qualifications and no history of work. As with the majority of benefits claimants, she is unaware of the total amount she receives from the State. Tomorrow's People has worked out for her that she is in receipt of a total effective income of £18,500 a year. Even without childcare costs she would need a pre-tax salary of almost £25,000 to match the lost benefits. At the National Minimum Wage of £5.73 an hour on a 35-hour week she would earn £10,428 a year gross. Under our model, the Community Wage would top up the NMW salary to the level of her current income.

Principle 6: Ensure those without work gain the skills needed to join the labour market

The welfare system must be designed to move people into work as Tomorrow's People believes that employment is the best way out of poverty. One reason why the current system fails on that score is that there is no link between the entitlement to benefit and access to the skills and experience needed to overcome the hurdles imposed by worklessness. It should be the responsibility of the Government to provide those opportunities.

In exchange for the Community Wage, the "employee" would be engaged on 35 hours a week of activity that includes raising skill levels, looking for work, absorbing a work ethic and putting something back into the community. The wage is paid until the person moves onto a commercial wage. Tomorrow's People is working on the details of a new initiative known as Community 35, which it plans to run as a pilot scheme in a local area.

It aims to support disadvantaged residents of deprived areas by providing them with up to 35 hours per week of meaningful activity dedicated to preparing them to enter or re-enter the labour market. The working week will incorporate, on average, three days of employment on social enterprises, one day of vocational training and one day of job search, employability skills and soft skills development.

This also has the advantage of bringing those out of work closer to the culture of the 35-hour week that the vast majority of the working age population knows and which Community 35 mirrors. In particular it will encourage time keeping skills, travel planning and home-life planning, and will build up stamina, concentration skills and other social and soft skills including interpersonal communication, self-confidence and motivation, and team working.

The overarching principle of Community 35 is that, personal circumstances permitting, participants undertake a maximum of 35 hours of meaningful activity every week. Just as an employed person exchanges labour for remuneration, Community 35 expects participants to exchange their time and labour in return for their benefits. This pre-empts the Government's plans for a "work for your benefit" system of welfare to work support.

Community 35 aims to mirror the working week as far as possible, with participants signing a "contract of participation" which represents a contract of employment, receiving a "participants handbook" which contains policies, procedures, code of conduct, etc and being given a weekly "wage equivalent slip" which details the value of the benefits they have been paid over the month and acts as a visual reminder of why they are participating on the programme.

From experience we know that the majority of clients are unaware of the total value of their weekly benefits. They are usually familiar with the value of their primary benefit (e.g. Jobseekers Allowance, Income Support, Employment and Support Allowance, etc), but the full scope of their benefits (as they come from different sources) is unknown. This would therefore be a powerful visual reminder of the support they receive from Government and, for most, a strong argument for the obligation to contribute towards "paying their way" through community work and self-development.

We strongly support the principle of conditionality for those receiving the Wage. The current regime of sanctions is weak and unclear. Those on benefits often find that they simply have to go through a series of processes in order to stay on benefit. Under our proposed covenant between state and citizen, the promise of a guaranteed benchmark income to unemployed people must be balanced with a firm but fair obligation on the individual to take up a reasonable offer of work.

Fear of loss of benefits would no longer be an acceptable reason for refusal, as the Community Wage would continue to top up the individual's income until they started to earn in excess of the Wage. This would allow unemployed people to take part-time or low-paid work as there would no longer be a danger of a loss of income.

If they reject a certain number of reasonable job offers they will be taken off the scheme and lose the Community Wage. We recommend that this is dealt with in the same way an employer deals with staff who do not discharge their job responsibilities i.e via a disciplinary process which conforms to employment legislation. Such an approach would further underline the work message.

We recognise that it is possible that there will be areas of the UK where there will be a shortage of jobs in the wake of the recession. Whilst we do not believe the Government can usefully intervene to create jobs, the importance of the Community 35 idea is that it ensures that people without work are ready, willing and skilled up to take on the jobs when inward investment does arrive.

Tomorrow's People also recognises that there are other obstacles that would make it hard or even impossible for people on the Community Wage scheme to accept job offers. These include health disability issues, caring responsibilities whether for children or elderly relatives, poor transport links and mobility problems related to housing. We highlight childcare and transport in Box 5. We accept that a co-ordinated reform of the welfare system will require input from organisations with the expertise on these issues that Tomorrow's People does not have.

Two barriers to finding work

There are two key issues that can act as barriers to people finding a job – childcare and transport. We are very concerned of the lack of affordable and flexible childcare for unemployed parents seeking to join the labour market. We see this as a major barrier to work. Parents need to know that their children are going to be looked after safely and at a cost that makes it worthwhile for them to take up a job.

The lack of transport facilities, especially in rural areas and coastal conurbations, greatly restricts the ability of unemployed people to accept a job that involves a daily commute. Unemployed people are less likely to own or have access to a car and are therefore more reliant on public transport. There are several towns in the UK where there are very few available jobs following the collapse of indigenous industries, but insufficient transport links to enable people to get work outside.

Principle 7: Acknowledge that ending worklessness requires resources

At this time of high fiscal deficits and plans to reduce government spending, it is inevitable that there will be pressure to reduce the benefits bill. The Government will spend £193.2bn in the current financial year, or 30.3% of public sector current expenditure. While cuts are inevitable it is important that the Government takes a more holistic accounting approach towards the costs and benefits of the welfare system.

Unemployment imposes a cost to the state in the form of benefit payments but an even greater cost to society in the form of crime, anti-social behaviour, lower standards of living for children, poor health and higher debts that all lead to costs that must be borne by the rest of society as well as the individuals.

It must be recognised that moving people from welfare into work is an investment but one that can come with high start-up costs especially for the long-term unemployed and those from workless households where there is no history of work within an entire family. We accept that under our approach the upfront fiscal costs of the welfare system may initially need to increase because of the investment needed to take people to a level of work-readiness that did not exist before. However over the long term, under a new system of firm but fair conditions and a guaranteed income package, described above, the cost to the public purse will fall as more people move into work, reducing the benefits bill and increasing tax revenue.

CONCLUSION

Reform of the welfare system is long overdue and we welcome the ambition of the Coalition Government to simplify the benefits system, reduce benefit dependency and ensure that people are better off in work than unemployed. We do not underestimate the scale of the task involved but we believe there is now an opportunity to deliver far-reaching reforms rather than engage in further tinkering with the system that took place under previous governments.

We believe that the seven principles we have set out together with our vision for a reformed welfare system are the right ingredients for designing a system that will replace the language of benefits, dependency and entitlement with the concept of a covenant with rights and responsibilities and rid the system of its culture of failure. The reform of 56 benefits into as few as one will give it simplicity. The introduction of a 35-hour week of training and community work will give the unemployed the skills, experience and culture they need to join the labour market.

Finally, the vision set out in this report is not aimed at a short term goal of eliminating or reducing the benefits bill. It is instead targeted at ensuring that limited resources are used most effectively to help people who can work back into employment while ensuring that those who cannot work enjoy a minimum standard of living. This will mean that welfare costs rise initially. However, we are convinced of the long term social benefit and economic return which will be achieved from such an approach.

We believe this report provides a platform for a more stable future for welfare in the UK.