21st Century Welfare: Commentary on, and Response to, the Government’s Consultation on Welfare Reform

IFS Briefing Note 110

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Executive Summary

The Department for Work and Pensions (DWP) consultation paper, “21st Century Welfare”, argues that there are substantial advantages to having a more integrated benefits and tax credits system: it would reduce the government’s administration costs and the amount of money lost to fraud and error, and be simpler for claimants to understand, which might in itself encourage some to enter work. We agree with this assessment, and consider there to be a strong case for integrating all benefits and tax credits into a single benefit. If the Government decides that full integration of the benefits and tax credits system is too drastic a change or not worth the risk of upheaval, then it should seek integration or alignment on a smaller scale wherever possible; we suggest the Government look first at the way that housing benefit and council tax benefit interact with tax credits for those in work.

The DWP document also suggests that work incentives need to be strengthened. This is a separate issue from simplification and integration: benefits and tax credits could be integrated without altering anyone’s entitlement or their financial work incentives, and work incentives could be strengthened within the current set of benefits and tax credits. The DWP document does not specify which groups it is most concerned about, and so it is not possible to suggest what direction reforms might take. Ultimately, strengthening incentives for low earners to work can be done only by paying less money to those who do not work or by paying more money to those with low earnings.

1. Introduction

The Department for Work and Pensions (DWP) consultation paper, “21st Century Welfare”, makes two claims:

1. That the financial incentive to work is too weak

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1 The author’s views have been shaped by discussions with many others, including Stuart Adam, Richard Blundell, James Browne and Emmanuel Saez. This paper was funded by the End Child Poverty campaign and the ESRC Centre for the Microeconomic Analysis of Public Policy at the Institute for Fiscal Studies (RES-544-28-5001).
2. That the current benefit and tax credit system is overly complicated, and that this complexity and opacity deters people from working, leads to higher-than-necessary administrative costs, and money lost to fraud, error and unrecovered overpayments.

The report argues that wholesale reform of the benefit and tax credit system is required in order to address (2). The report also argues that wholesale reform of the benefit and tax credit system – in the form of a more integrated system – would strengthen financial incentives to work and thus address (1).

However, problems (1) and (2) should be thought of as separate (if related) issues. It would be possible to design a more integrated benefit and tax credit system which mimics almost perfectly the current set of benefits and tax credits, under which there would be no winners or losers, and under which financial incentives to work would be unchanged. But such a system could still save the government money and help claimants, for the reasons outlined below.

Conversely, the weak work incentives in the current system identified by the report do not all result from an un-integrated system: they result from choices made about the levels of support, levels of disregards, hours rules, and withdrawal rates in the existing benefit and tax credit system. Work incentives could be strengthened with changes to the current set of benefits and tax credits, and without integration of the form set out by the report.

But the report argues that there is a link between the two problems: the complicated nature of the current taxes and benefits may well obscure the size of the financial reward to work, and so changes to financial incentives to work made under the current system may well have less impact than equivalent changes to an integrated benefit system. An integrated system might also lead to better policy-making all round, by giving one government department responsibility for all aspects of benefits and tax credits, and by making transparent what can sometimes be hidden interactions between different parts of the benefit and tax credit system.

2 The best examples of this are the widespread misperceptions that working tax credit is only paid to those with children, and that housing benefit is not paid to those in work; these misperceptions mean the perceived gain to work is lower than it really is, and dulls the impact of any increase in the generosity of WTC or HB for those in work. See McAlpine and Thomas (2008) and Turley and Thomas (2006) for example.
In this note, we first discuss the advantages and disadvantages of moving to a more integrated benefit and tax system, and then discuss issues relating to strengthening work incentives.  

2. Advantages and disadvantages of a more integrated benefit and tax system

The report argues that:

- the current benefit and tax credit system is overly complicated;
- that this complexity and opaqueness deters people from working, leads to higher-than-necessary administrative costs, and means money is lost to fraud, error and unrecovered overpayments;
- that wholesale reform of the benefit and tax credit system is required in order to address these problems.

We are sympathetic to this chain of thought.

The report cites many examples of the nature of the complexity of the current set of benefits and tax credits. And, as is argued by the report, an integrated system should be easier and cheaper for government to administer – particularly if responsibility for administering benefits were removed from local authorities – and be easier for claimants to interact with; it should reduce the likelihood that claimants go without money to which they are entitled, and could remove some of the uncertainties that arise when claimants are forced to move between benefits. There would be even greater potential gains to government and to claimants if benefits were integrated with tax credits, with even greater scope for reduced administration costs, and greater ability to reduce money lost to fraud, but also greater financial certainty for claimants when moving from benefits to work.

It has been noted that an integrated benefit might increase the take-up of benefits, thereby increasing the cost of the welfare system to the government. This may be the case, but in no way can this be seen as a bad thing. If the cost of a benefit system with full take-up is unacceptably high, then the correct response should be to lower its generosity or tighten eligibility rules in some way; a

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3 More detail can be found in Brewer et al (2010).
benefit system where some go without the support due to them because they are unable to negotiate bureaucratic hurdles or understand complicated rules is clearly failing to achieve horizontal equity, and should be avoided.

Although an integrated system can’t prevent bad policy-making, it will encourage good policy-making through transparency: for example, it should prevent policymakers from making changes to one part of the system while disregarding knock-on effects elsewhere. An integrated system could be designed which mimics perfectly the current set of benefits and tax credits, under which there would be no winners or losers, and under which financial incentives to work would be unchanged, but one advantage of an integrated system is that it would provide an opportunity to think about whether the system is well designed to achieve its objectives, and to make the design of the whole system more coherent.

On the other hand, integrating benefits (with or without tax credits) would give rise to considerable transitional costs to government. Past government experience with the child support agency and tax credits suggests that large scale ICT projects bring risks for claimants too. Furthermore, the costs to government would be upfront, and the savings to government – reduced administration costs (DEL), fewer losses to fraud and error (AME) and, possibly, lower spending on benefits and tax credits if more people are encouraged to move into work (AME) – would accrue over time, and this financial profile may not be compatible with the Government’s desire to reduce the fiscal deficit now.

Overall, we think there would be considerable advantages to both government and claimants in having a more integrated/unified benefit system, and in having an integrated/unified benefit and tax credit system (such as the Universal Credit outlined by the report, or the Integrated Family Support outlined by the present author together with Dr Andrew Shephard of Princeton University and Professor Emmanuel Saez of the University of California, Berkeley in a contribution to the Mirrlees review of the tax system). The basic purpose of all of the different benefits and tax credits is to provide support for families with high needs and/or low resources. The logical approach is therefore to make a single assessment of a family’s needs and a single assessment of its resources, and compare the two.

If the Government does not want to attempt such a dramatic reform, then it should consider aligning as many rules and concepts in the benefits and tax
credit system as possible, or integrating those benefits which are extremely similar in form or function, or making administrative changes which hide the lack of integration from the claimant. We sketch out three of these below.

**Housing benefit/Council tax benefit and in-work tax credits**

Perhaps the greatest complexity arises for people in work and on a low income receiving tax credits and housing benefit/council tax benefit (hereafter referred to as HB). Tax credits and HB are administered by separate organisations, have different rules determining what counts as income, and measure income over different periods; the two also interact with each other, in that changes in tax credits generally affect entitlement to HB. A programme of simplification that fell short of full integration of all benefits and tax credits should consider one of more of the following:

1. make tax credits work on a weekly basis – rather than annual basis – bringing them in to line with the benefits system
2. make tax credits and housing benefit work on a retrospective or fixed award basis, thus removing the concept of over- and under-payments (except in case of claimant or official error). This change would remove many of the problems that occur when claimants experience changes in circumstances, and which appear to deter benefit recipients from moving into work.

Another solution would be to integrate in-work housing benefit with working tax credit so that there was only one means-tested programme redistributing to those in work and on a low income (recipients of this programme might continue to receive other benefits, such as child benefit or disability living allowance). However, this would require separating out-of-work and in-work HB, so it is not clear it represents a net simplification.

All these changes would also make it easier to provide accurate “better off” calculations for those contemplating leaving benefit.

**Out-of-work benefits**

As the DWP document discusses, there are three main income-replacement out-of-work benefits - income support, jobseeker’s allowance, and employment and support allowance – as well as incapacity benefit, which is due to be scrapped entirely by 2014. Carer’s Allowance is another benefit designed to provide
income to those not working full-time, although it shares few rules with the other three.

There would be advantages to creating a single benefit for those of working-age who are not in work, bringing together income support, jobseeker’s allowance and employment and support allowance and carer’s allowance. Such an integrated benefit could continue to have different rules for the disabled and for carers, different work search requirements for different individuals, and could continue to have contributory, non-contributory and means-tested components, as the present system does. It is unlikely this reform would do much to strengthen work incentives, but it could simplify the benefit system, reduce administration costs and make life easier for claimants. A programme of simplification that fell short of full integration of all benefits and tax credits should consider implementing one of the following:

1. Combine jobseeker’s allowance and income support.
2. Once incapacity benefit has been abolished, combine jobseeker’s allowance, income support and employment and support allowance.
3. Once incapacity benefit has been abolished, combine jobseeker’s allowance, income support, employment and support allowance and carer’s allowance.

Another approach would be to combine all of the means-tested or income-replacement benefits (jobseeker’s allowance, income support, employment and support allowance, carer’s allowance, housing benefit, council tax benefit), but if such large-scale integration is being attempted, it would seem odd not also to integrate tax credits and other benefits.

Reducing the number of organisations administering benefits and tax credits

Three organisations administer most parts of the benefits and tax credit system: DWP, HMRC and local authorities. As the DWP document says, this makes it easy for claimants intent on committing fraud to give different information to different organisations. It also means some claimants have to tell three different authorities about changes in their circumstances. A programme of simplification

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4 The previous government gave itself the power to abolish income support (and move its recipients to jobseeker’s allowance, without necessarily requiring these new claimants to look for work).
that fell short of full integration of all benefits and tax credits should consider one or more of the following:

1. Reducing the number of separate organisations within DWP administering benefits, so that DWP could genuinely present a single face to benefit claimants.
2. Improve the communication between DWP, HMRC and local authorities so claimants have to spend less time passing information, and so that they are better able to detect fraud.

**Align key definitions within the benefit and tax credit system**

If the Government does not wish to integrate benefits, then it should at the very least continue the trend to align key definitions within the benefit and tax credit system wherever possible (such as the precise definition of income, the definition of paid work and residency rules).

**3. Strengthening work incentives**

The report indicates that the Government wants to strengthen work incentives, claiming that financial work incentives in the current system can be weak. It is not clear what form of work incentives the report has in mind, but it refers in places both to the incentive to work at all (which can be measured by the participation tax rate, PTR) and to the incentive for those in work to earn more (which can be measured by the marginal effective tax rate, METR).

The report does not propose specific solutions, but it wants, essentially, to increase the reward to having low earnings compared to having none. That can be done by reducing the amount paid to benefit claimants who do not work, or by spending more through increasing the amount of benefits and tax credits paid to low earners. Given that this consultation is taking place during a spending review, it is, perhaps, understandable that the Government does not yet know how much money it will have to help strengthen work incentives, but it is hard to strengthen work incentives without either spending more money or hurting the poor.
3.1 For which groups are incentives to work particularly weak?

The DWP document refers to other organisations’ analysis (including some by IFS researchers) to justify its claim that, for some individuals, work incentives can be weak. But it provides no guidance on for which groups it cares about the most, or for which it most wants to strengthen work incentives.

Adam and Browne (2010) documents the distribution of work incentives across different family types, using a large, representative household survey. They find that the weakest work incentives (both the PTR and METR) tend to experienced by the primary earner in a family with children (including lone parents). Brewer (2009) analysed the incentive to work faced by non-workers using very similar data, and found that:

- PTRs are generally higher (weaker incentives to enter work) for families with children than those without children but with identical incomes;
- PTRs are generally lower (stronger incentives to enter work) for adults whose partner is in work than for the sole earner in a couple;
- PTRs are higher for those entitled to some form of out-of-work support than for those who are not, particularly for those in receipt of a disability benefit.

Most of these weak incentives to work can be directly linked to structural features of the benefit and tax credit system (some of which are or were, arguably, intended features):

- Anyone on a means-tested out-of-work benefit contemplating work of a few hours a week (sometimes referred to as “mini job”) faces very weak financial incentives to work, because of the pound-for-pound withdrawal (after a small disregard) of these benefits against earnings.
- People receiving a benefit which is explicitly conditioned on not working, such as income support, jobseekers allowance, employment and support allowance and carer’s allowance, can face very weak financial incentives to work. For such people, it is sometimes possible to work too much to receive the out-of-work benefit, but not enough to receive WTC.

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5 Secondary earners in couples with children also have weak incentives if measured by the replacement rate.

6 On the other hand, secondary earners in couples might be more responsive to financial incentives than the primary earner.
Those aged 25 or over without children contemplating work of under 30 hours a week, and those aged under 25 without children, face very weak financial incentives to work, because they are not entitled to working tax credit.

People entitled to housing benefit and/or council tax benefit tend to face very weak financial incentives to work, the more so, the higher are rents and CT, because of the way that HB and CTB are withdrawn as earnings rise.

Families with children tend to face weaker financial incentives to work than those without children, because of the way that the child tax credit is withdrawn as earnings rise.

People entitled to certain benefits in kind (free prescriptions, eye tests and dental treatment for adults; free school meals for children; access to the Social Fund) can face weak financial incentives to work, as these benefits are lost when claimants move into work.

The financial incentive for those in work to earn a little more can be weak for:

- people receiving housing benefit and council tax benefit (especially if both), the more so, the higher are rents and CT, because of the way they are withdrawn as earnings rise,
- people receiving tax credits (ie those who meet the income test and have children, or are aged 25 or over and working at least 30 hours a week), because of the way they are withdrawn as earnings rise and, in particular,
- people receiving housing benefit and/or council tax benefit alongside tax credits, because of the way that both are withdrawn simultaneously as earnings rise.

Although addressing such problems might be easier within an integrated benefit, they could all be addressed within the current set of benefits and tax credits. For example:

- Mini-jobs could be encouraged by increasing the size of disregards, or by withdrawing benefits at a rate lower than 100%. On balance, we prefer higher disregards than a lower withdrawal rate, as, with higher disregards, less information needs to be reported to the government.
- Those receiving benefits which are conditional on working or earning less than some threshold could benefit if such rules were scrapped, or if the rules were more closely aligned with Working Tax Credit.
• Weak incentives to work for those groups not entitled to tax credits could be addressed by changing the rules on eligibility for the WTC for those without children
• Passported in-kind benefits could be extended to low-earners, or the value of tax credits increased to reflect the lack of passported in-kind benefits.\(^7\)

The other weak incentives could be addressed through changing the basic entitlements to tax credits, and the rate at which tax credits and housing benefit are withdrawn. However, as we said above, it is hard to strengthen work incentives without either spending more money or hurting the poor. The report acknowledges, and then ducks, the age-old trade-offs between supporting those on a low income, strengthening work incentives and affordability. It says that 'a balance between incentives and affordability would need to be struck', that 'reforms will need to consider the balance between contributory benefits and targeting support on those with the lowest incomes', and that 'at the appropriate stage, we will assess the impact of our proposals on vulnerable groups'.

Furthermore, in some cases the pursuit of conflicting objectives leads the report to make proposals that seem to contradict each other: the report concludes that the government could 'improve work incentives by reforming the way benefits are tapered as incomes rise and allow people to keep more of their earnings' (implying less rapid withdrawal of benefits or tax credits) and that reforms could be 'targeted to those most in need through tapers which focus payments on those with lowest incomes' (implying more rapid withdrawal of benefits or tax credits).

3.2 \textit{Detailed considerations}

The report does not come up with specific proposals to strengthen work incentives, but it makes references to two broad ideas: preserving the existing set of benefits, but altering the means-test so that there was a single unified taper, and integrating benefits, possibly with tax credits. We offer some thoughts on those below.

\(^7\) It is noteworthy that the current Government scrapped a plan of the previous government to extent eligibility to free school meals to those receiving WTC. This move would have cost money, but strengthened work incentives for some low-earning parents.
A single withdrawal rate

It is hard for us to see how a single unified taper would work without effectively integrating the current set of benefits and tax credits as, under a unified taper, there could only be a single means-test. If there is to be a single means-test, then it would seem odd not to realise the other advantages that would arise through full integration of the benefits and tax credits system.

A reform on a smaller scale than pursuing a single withdrawal rate (and to be considered only if the Government did not want to pursue full benefit and tax credit integration), would be to make each of the remaining income assessments in benefit and tax credits sequential, rather than simultaneous (in other words, to have multiplicative, rather than additive withdrawal rates). In such a scheme, there would be a strict ordering to the calculation of direct taxes, benefits and tax credits, with the relevant concept of “income” for each means-test deducting tax paid and including income received from already-assessed benefits, rather than using the same income measure for both. In a simple world with one tax and one means-tested benefit, this would mean either means-testing on after-tax income, or making the benefit taxable.

The key impact of such a move is to make the combined EMTR less than the sum of its parts. At the moment, most income assessments in the benefit system are sequential (in other words, they have multiplicative, rather than additive withdrawal rates); therefore, the income assessment we suggest be changed is that in tax credits, from being based on pre-tax to post-tax income. A revenue-neutral move to a sequential income assessment in tax credits would provide a more targeted way to reduce the highest EMTRs than simply reducing individual withdrawal rates: it delivers an improvement where it is most needed. On the other hand, sequential assessment can be more complicated to understand and administer than simultaneous assessment.

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8 Such a move would increase the METR of those who face a tax credit withdrawal but are earning too little to pay income tax (due to be 41% from April 2011), and reduce the METR of those who face a tax credit withdrawal and pay income tax and national insurance (due to be 73% from April 2011). The change in 2003 to assess tax credits on pre-tax income was also justified on the grounds it strengthened incentives for second earners. As second earners tend to have lower METRs than first earners, a move back to assessing tax credits on post-tax income would probably increase METRs of second earners and reduce those of first earners and lone parents.
Work incentives in an integrated benefit

The document mentions four ideas for an integrated benefit:

- A Universal Credit to replace all existing benefits and tax credits proposed by the CSJ in its Dynamic Benefits report.
- A Integrated Family Support system, outlined in a paper by one of us, which would replace all existing benefits and tax credits.
- A single working-age benefit, proposed by the ippr, designed to replace income support, jobseekers allowance and employment and support allowance.
- A proposed for an integrated benefit in a document published by the Taxpayers Alliance.

The DWP document overstates the difference between these proposals: all share the important feature of being integrated benefit systems, but all have made different decisions on subsidiary design aspects (which need to be addressed in both integrated and non-integrated systems), such as the total cost and generosity, and the balance between contributory and means-tested benefits.

Both the Universal Credit (proposed by the CSJ) and the Integrated Family Support (proposed by the present author, Dr Andrew Shephard of Princeton University and Professor Emmanuel Saez of the University of California, Berkeley) represent full integration of all benefits and tax credits. There are small (and not particularly important) differences in the generosity and in the cost, but there are two small structural differences, which we discuss below.

First, the Universal Credit proposes a single withdrawal rate, but earnings disregards that vary by household circumstances, whereas the Integrated Family Support proposes a single earnings disregard, but withdrawal rates that depend upon whether the family is claiming the equivalent of HB and CTB.  

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9 The IFS reform was constrained to be revenue neutral, whereas the main variant of the Universal Credit highlighted by the CSJ report was constrained not to make those on out-of-work benefits worse off, and therefore cost money.

10 Combining the two – by having a single withdrawal rate and a common disregard – would lead to large amounts of redistribution from those not entitled to HB to those entitled to HB (because the highest withdrawal rates in the current system are experienced by those entitled to HB/CTB), and would either cost significant amounts of money or leads to substantial numbers of losers.
The CSJ argue that it would be an advantage if the government could to say to claimants that “you will always get to keep at least x pence of every pound that you earn”. On the other hand, the IFS proposal would allow the government to say “you will always get to keep the first x pounds a week that you earn”. Further evidence on which would have the most impact on claimants would be greatly welcome (either based on pilots of a Universal Credit that operated in different ways, or deliberative research with claimants exploring different designs for a Universal Credit).

Second, the Universal Credit proposes a single earnings disregard for each couple, whereas the Integrated Family Support proposes that each adult in a couple has their own earnings disregard.

Having one earnings disregard for each couple rather than one for each adult might reflect a policy priority to get at least one person in a couple into work, rather than to maximise the number of people in paid work. The justification given by Brewer et al (2010) for a disregard for each adult was that such a change strengthens the incentive to work for some second earners, who tend to be relatively responsive to financial incentives to work. But the distributional implications of a disregard for each adult may be unappealing, as it would not generally benefit the poorest families (compared to a system with a higher earnings disregard for each couple).

4. Summary of recommendations

This section summarises the recommendations in the previous sections. We recommend that:

- The Government explore the benefits and costs of integrating all benefits and tax credits. In our view, there is a strong case for integrating all benefits and tax credits into a single benefit, although such a move would clearly require upfront spending, and have risks.
- If the Government does not want to integrate all benefits and tax credits, then it should consider aligning as many rules and concepts in the benefits

11 One advantage of high earnings disregards in general is that they reduce the amount of information that needs to be collected and processed by government when administering the integrated benefit; it might also legitimising cash-in-hand work which is currently not reported to DWP.
and tax credit system as possible, or integrating those benefits which are extremely similar in form or function, or making administrative changes which hide the lack of integration from the claimant. For example:

- Ease the complicated interactions between housing benefit with tax credits for those in work, perhaps reforming both so they are based on weekly income, and paid at fixed amounts for fixed periods.
- Reduce the number of distinct out-of-work benefits.
- Have a single government department responsible for policy and administration of all benefits and tax credits, or (at least) prevent claimants from having to inform multiple authorities of changes in circumstances.
- If the current set of benefits and tax credits are to be retained, we recommend that the tax credit income assessment be done on after-tax income. If done in a way that did not alter total spending on tax credits, this would increase the METR of those who face a tax credit withdrawal but are earning too little to pay income tax (due to be 41% from April 2011), and reduce the METR of those who face a tax credit withdrawal and pay income tax and national insurance (due to be 73% from April 2011), and thus strengthen incentives of those with very weak incentives at present.
- We make no recommendations on how to strengthen work incentives overall, as the Government has not set out for which groups it is most concerned. But previous research by one of us recommended that governments focus more on the incentive to do any work at all, rather than the incentives to earn more faced by those in work, as evidence suggests that most low-skilled workers respond relatively little to financial incentives once in work.

References


Annex: responses to government questions

1. What steps should the Government consider to reduce the cost of the welfare system and reduce welfare dependency and poverty?

Strengthening work incentives could reduce welfare dependency and poverty, but is unlikely to reduce the cost of the welfare system overall at the same time. Ultimately, it is hard to strengthen work incentives without either spending more money or hurting the poor. The report acknowledges, and then ducks, the age-old trade-offs between supporting those on a low income, strengthening work incentives and affordability.

Integrating benefits, ideally with tax credits, could reduce money spent on administration and lost to fraud and unrecovered overpayments, but with upfront costs and risks. A simpler benefit and tax credit system, particularly one which made the financial reward to work more transparent and certain, could help reduce welfare dependency and poverty.

2. Which aspects of the current benefits and Tax Credits system in particular lead to the widely held view that work does not pay for benefit recipients?

Some of the weak incentives to work which currently exist can be directly linked to structural features of the benefit and tax credit system:

- Anyone on a means-tested out-of-work benefit contemplating work of a few hours a week (sometimes referred to as “mini job”) faces very weak financial incentives to work, because of the pound-for-pound withdrawal (after a small disregard) of these benefits against earnings.
- People receiving a benefit which is conditioned on not working, such as employment and support allowance or carer’s allowance, can face very weak financial incentives to work. For such people, it is sometimes possible to work too much to receive the out-of-work benefit, but not enough to receive WTC.
- Those aged 25 or over without children contemplating work of under 30 hours a week, and those aged under 25 without children, face very weak financial incentives to work, because they are not entitled to WTC.
- People entitled to housing benefit and council tax benefit (especially if both) tend to face very weak financial incentives to work, the more so the higher are rents and CT, because of the way that HB and CTB are withdrawn as earnings rise.
• Families with children tend to face weaker work incentives than those without because of the way that CTC is withdrawn as earnings rise.
• People entitled to benefits in kind (free prescriptions, eye tests and dental treatment for adults; free school meals for children; access to the Social Fund) can face weak financial incentives to work, as these benefits are lost when claimants move into work.

The financial incentive for those in work to earn a little more can be weak for:

• people receiving housing benefit and council tax benefit (especially if both), the more so, the higher are rents and CT, because of the way they are withdrawn as earnings rise,
• people receiving tax credits (ie those who meet the income test and who have children or are aged 25 or over and working at least 30 hours a week), because of the way they are withdrawn as earnings rise and, in particular,
• people receiving housing benefit and/or council tax benefit alongside tax credits, because of the way that both are withdrawn simultaneously as earnings rise.

On top of these structural features, there seems to be a reluctance amongst some benefit recipients to move into work if they will have to rely on HB or tax credits to make ends meet; this presumably relates to the risk of incurring overpayments and debt. This is partly a structural issue (overpayments are a natural outcome of tax credits even if compliance is perfect and administration without error), and partly due to less-than-perfect administration of benefits and tax credits.

3. To what extent is the complexity of the system deterring some people from moving into work?

The complexity of the system, particularly the complicated income assessment in tax credits, is probably hindering reliable “better off” calculations, and this may be deterring people from moving into work.

There is also a reluctance amongst some benefit recipients to move into work if they will have to rely on HB or tax credits to make ends meet; this presumably relates to risk of incurring overpayments and debt.
4. To what extent is structural reform needed to deliver customer service improvements, drive down administration costs and cut the levels of error, overpayments and fraud?

Overall, we think there would be considerable advantages to both government and claimants in having a more integrated/unified benefit system, and in having an integrated/unified benefit and tax credit system. The basic purpose of all of the different benefits and tax credits is to provide support for families with high needs and/or low resources. The logical approach is therefore to make a single assessment of a family’s needs and a single assessment of its resources, and compare the two. In our view, therefore, there is a strong case for integrating all benefits and tax credits into a single benefit, such as the Universal Credit outlined by the report, or the Integrated Family Support outlined by one of us in a contribution to the Mirrlees review of the tax system.

If the Government does not want to attempt such a dramatic reform, then it should consider aligning as many rules and concepts in the benefits and tax credit system as possible, or integrating those benefits which are extremely similar in form or function, or making administrative changes which hide the lack of integration from the claimant.

5. Has the Government identified the right set of principles to use to guide reform?

We have no comment to make.

6. Would an approach along the lines of the models set out in chapter 3 improve work incentives and hence help the Government to reduce costs and tackle welfare dependency and poverty? Which elements would be most successful? What other approaches should the Government consider?

The consultation document provides no guidance on for which groups the Government most wants to support or most wants to strengthen work incentives, and so it is hard to assess what elements or approaches the Government should consider.

But, in general, strengthening work incentives is a separate issue from simplification and integration: benefits and tax credits could be integrated without altering anyone’s entitlement or their financial work incentives, and many of the structural problems identified in our paper could be addressed within the current set of benefits and tax credits. For example, mini-jobs could be
encouraged by increasing the size of disregards, working tax credit could be extended to groups currently not entitled to it, benefits which are conditioned on people working or earning less than some threshold could be altered, passported in-kind benefits could be extended to low-earners, or the value of tax credits increased to reflect the lack of passported in-kind benefits, and basic entitlements to tax credits, and the rate at which tax credits and housing benefit are withdrawn, could all be changed.

However, it is possible that the benefits of some of these incremental changes would be dulled by the complexity and opaqueness of the current system, and that reforms to strengthen financial work incentives could be more powerful if enacted at the same time as radical structural changes. An integrated system should make some of the current interactions between benefits more transparent.

7. Do you think we should increase the obligations on benefit claimants who can work to take the steps necessary to seek and enter work?

8. Do you think that we should have a system of conditionality which aims to maximise the amount of work a person does, consistent with their personal circumstances?

9. If you agree that there should be greater localism what local flexibility would be required to deliver this?

10. The Government is committed to delivering more affordable homes. How could reform best be implemented to ensure providers can continue to deliver the new homes we need and maintain the existing affordable homes?

11. What would be the best way to organise delivery of a reformed system to achieve improvements in outcomes, customer service and efficiency?

12. Is there anything else you would like to tell us about the proposals in this document?

We have no comment to make.