

# Written evidence from the Chartered Institute of Housing BPI0066

## Adequacy of benefits

- **What ‘essentials’ should working-age benefits in the UK cover? Are current working-age benefit levels sufficient to cover those needs?**
  - The universal credit (UC) standard allowance and equivalent payments in out-of-work legacy benefits should, as a minimum, cover those items in the Joseph Rowntree Foundation (JRF) and Trussell Trust’s [essentials guarantee](#).
  - The UC housing costs element for private renters should be maintained at least at the 30th percentile rent in each broad rental market area.
  
- **Are working-age benefit levels appropriately set to encourage people who are able to work into work?**
  - Over the previous 50 years the replacement rate for unemployment-related insurance benefits has fallen from around 20 per cent of average earnings to less than ten per cent. This compares very unfavourably with most European countries where replacement rates are often as high as 80 or 90 per cent<sup>1</sup>. The UK replacement rate is now so low that the marginal gain arising from further reduction is likely to be small or negligible.
  - Tax credits were calibrated to the minimum wage at 16 or 30 hours and designed to boost incomes and provide a positive incentive to work. The evidence suggests it was largely successful in doing this. UC covers a wider range of earnings but abandoned qualifying thresholds replacing them with work-related requirements with incentives through sanctions.
  - For income-related benefits (such as UC) there is a fundamental trade-off between the depth (i.e., taper rate) of the poverty trap and the numbers caught within it. There is no right or wrong answer as to the where the balance should lie – it is a matter of political judgement.
  - Help with some goods and services might be better delivered through direct provision where quality can much more easily be controlled. Switching to direct provision (in whole or in part) would also help reduce the numbers caught within the poverty trap. Help with childcare is the most obvious example but also provision of affordable housing especially in high rent areas.
  - A lone parent with two children with zero housing and childcare costs requires annual earnings of £33,350 to escape UC. For each £100 of rent the poverty trap is extended by £15,000 and for each £100 of childcare by a further £12,750.<sup>2</sup> A rent of just £112.80 (and zero childcare costs) extends UC into higher rate tax.
  
- **What lessons can be learned in respect of benefits provision more generally from the £20 uplift to universal credit, introduced during the pandemic?**
  - The public perception that welfare is too generous may not be as widespread as may be thought.
  - There may also have been a shift in attitudes and wider appreciation that the circumstances in which people need to claim are usually outside their control and not due to personal failings.

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<sup>1</sup> (2022) House of Commons Briefing Paper CBP 9498: How Benefit Levels are Set

<sup>2</sup> Assumes basic rate taxpayer and pensions auto enrolment at five per cent.

- The extra £20 made a significant difference to the quality of people's lives such as the choice between family members missing meals or turning on the heating and sitting in the cold.<sup>3</sup> These are the kind of choices that could help make significant savings for the NHS and help relieve some of the pressure on those services.
- **What principles should inform the design and delivery of the working-age benefits system (e.g. fairness, transparency, inclusivity)?**
  - It isn't sensible to have a single set of objectives for such a wide range of benefits. Different benefits should (and do) have different objectives. Benefits are often discussed in terms of loose functional groups such as disability – this isn't helpful in setting objectives and is likely to result in misguided or confused policy making. For example, the objectives for industrial injury disablement benefit (no fault compensation) are quite distinct from additional costs benefits (attendance allowance) or insurance for incapacity for work.
  - Having a limited number but clear objectives for each benefit has the advantage that it expands the range of benefits and allows them to be combined in different ways to meet a wide range of differing circumstances. The number of qualifying conditions for each benefit is reduced which speeds decision making and improves transparency.
  - The simplification derived from combining objectives is illusory. It may simplify the range of benefits available and help improve take up but with the result that the hybrid benefit it creates is much more complex than it otherwise would be. If the aim is to improve take up there is nothing to stop government actively promoting existing benefits such as in Scotland.
  - Administrative considerations – such as benefit simplification - should only ever be secondary objectives. Too much emphasis on these can result in a design process that over values technocratic considerations and under values proper social policy objectives and claimant lived experience.

### Designing benefits policy

- **What should be the purpose of working-age benefits?**
  - There shouldn't be a single set of objectives for working age benefits as a group. If an objective is identified, benefit design follows it. Trying to design a single benefit to cover several disparate objectives is likely to result in mis-targeting.
  - Relief of poverty and redistribution of income are appropriate objectives for UC and pension credit. But this doesn't mean these are appropriate objectives for all working benefits. For example, horizontal equity (i.e., equity between people on similar incomes) – which is what child benefit does is also a reasonable objective for working age benefits. The objective should inform the design.
  - The objectives should be derived from broader strategic goals. Barr and Coulter suggest these should be income support, the reduction of inequality and social integration.<sup>4</sup> The success or failure to meet these should be measured.

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<sup>3</sup> See JRF (2023) <https://www.jrf.org.uk/report/keep-lifeline-why-government-should-keep-20-uplift-universal-credit>

<sup>4</sup> See Nicholas Barr and Fiona Coulter 1990, The State of Welfare – Social Security: Solution or Problem?

- Apart from poverty relief, other aspects of the income support goal are protection of living standards (avoiding unexpectedly large falls) and smoothing out income over the life cycle.<sup>5</sup>
  - The social integration goal can be achieved providing benefits are based on conditions other than income to minimise the stigma associated with claiming. Benefits should also provide a sufficient income to enable recipients to fully participate in society.
  - Arguably the most problematic features of universal credit such as the five weeks wait, two child limit and benefit cap, arise as a result of mismatched, misidentified, or misplaced objectives.
  - Since the 1970s social security objectives have shifted away from equity objectives such as living standards and reduced inequality to efficiency, whereby reducing the adverse effects on the incentive to work and save have become the dominant objectives in policy making.
  - Most would agree that one objective should be to guarantee an adequate minimum income but what constitutes ‘adequate’ is more contentious and a matter of political judgement.
- **What is the role of the benefit cap?**
    - Income related benefits provide a minimum income floor. The floor is adjusted for household size and certain other costs. The benefit cap overrides this on the grounds of ‘fairness’ supposedly based on a comparison between being in work and out of work. But in-work benefits are excluded from the in-work calculation and included for the out of work calculation.<sup>6</sup>
    - The cap effectively punishes households for living in areas that have higher than average housing costs even though it is well known that there is a wide variation in costs between and within regions. Outside the cap there are already adequate rules which ensure excessive or unreasonable housing costs aren’t covered (such as the LHA which takes account of size and reasonable costs).
    - No adjustment is made to account for the fact that market rents are generally higher than social rents. Households are effectively being capped for the government’s failure to provide an adequate supply of affordable homes.
  - **What is the impact of No Recourse to Public Funds (NRPF) conditionality on benefit provision for affected households?**
    - Households experiencing a change of circumstances can become destitute or face a dilemma of claiming but risking their right (or of their family member) to remain in the UK. This doesn’t just affect migrants but mixed status households, including those headed by a British citizen (e.g., a non-UK spouse or child with a NRPF condition). Migrants face the same, if not higher economic risks, as indigenous households and pay the same rate of tax. The habitual residence test already prevents migrants from being entitled on entry to the UK.

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<sup>5</sup> Ibid

<sup>6</sup> See CIH evidence to Work and Pensions Committee Inquiry on the Benefit Cap (2019), [Twenty-Fourth Report of Session 2017-19](#).

- **What role could, or should, an independent body undertake in advising Government on benefit policy?**
  - The Social Security Advisory Committee already exists to ‘assist the Secretary of State in connection with the discharge of his functions’ under social security legislation.<sup>7</sup> Advice is therefore limited to the scope of existing legislation and powers and cannot really challenge whether those laws are adequate or appropriate, despite the undoubted expertise of its members. The Secretary of State may also choose which matters s/he refers to the Committee.
  - There should be an independent Commission to advise the Secretary of State about the overall adequacy of benefits and to report and monitor progress to meet targets relating to poverty.
  - The Commission should set the definition of poverty based on internationally accepted standards.
  - CIH supports the Joseph Rowntree Foundation/Trussell Trust’s campaign for an [essentials guarantee](#) as a minimum baseline for adequacy. This would raise the UC standard allowance to £120 per week for a single person and to £200 for a couple (currently £85 and £134 per week respectively).
  
- **How does the design of benefit provision within the UK’s four nations vary? How are recipients of working-age benefits affected?**
  - At present divergence in social security policy (and other benefits that fall outside social security) is limited. Social Security largely falls outside Senedd competence. The Northern Ireland Assembly (NIA) has full competence, but these powers are heavily circumscribed by the duty to maintain ‘parity’ with Great Britain. The powers devolved to the Scottish Parliament are more extensive where it has responsibility for non-contributory benefits other than UC and HB.
  - The Scottish Parliament also has the power to vary the housing costs element/eligible rent up to the full rent – a power that is so far unused.
  - The four nations set their own rules for discretionary welfare (in England ‘local welfare assistance’), discretionary housing payments and local tax rebates. The NIA can also make transitional payments for certain welfare reforms. The Scottish Parliament and NIA have used these powers to mitigate the ‘bedroom tax’.
  - The devolved nations fully cover local tax in their rebate schemes, whereas most English councils now only provide partial rebates due to the lack of funding.

### **Work incentives**

- **What impact do working-age benefits, such as universal credit (UC), new style job seeker’s allowance (JSA) and new style employment and support allowance (ESA), have on work incentives?**
  - UC has alleviated the deepest parts of the poverty trap but these only occurred over a very narrow range of incomes. Current effective marginal tax rates (EMTR) for UC are around 72 per cent<sup>8</sup>.

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<sup>7</sup> Social Security Administration Act 1992, s170

<sup>8</sup> Basic rate taxpayer – assumes five percent auto-enrolment

- The role of EMTR in returning to work, looking for higher paid work or increasing hours may not be as critical as other factors. People do not behave in a perfectly rational way. Even relatively large reductions in the UC taper may have little measurable effect.<sup>9</sup>
  - For single earner households with rent and childcare costs the range of incomes over which this applies extends deep into higher rate tax. Homeowners (with or without a mortgage) receive up to £139 per month with their housing costs through the higher rate work allowance if they have at least one child or limited capability for work.
  - Entitlement to JSA and ESA is lost if the claimant works 16 hours or more each week, but with JSA benefit is reduced £1 for £1 for fewer hours so anyone working around eight hours at the minimum wage won't qualify.
- **What is the impact of policy interventions designed to incentivise work, such as sanctions, on the adequacy of support received by individuals—both monetarily, and in how they help individuals to find work?**
    - The effect of these interventions is complex, and their effect can only be determined empirically. The Oxford University [larger families study](#) found only a small work incentive from the benefit cap – consistent with existing evidence. But the anxiety caused by the cap had significant measurable health impacts which caused some to withdraw from the labour market altogether. Sanctions for petty infringements may be counterproductive. The law of diminishing returns applies to sanctions as it does to any marginal incentive so that further increases in the penalty may have negligible effect on claimant behaviour.
- **What role should contributory-based benefits play in the welfare system?**
    - Over the past five decades the role of contributory benefits has been undermined and diminished. Contribution conditions for working age benefits have been tightened and their real value eroded. The replacement rate has halved from around one fifth to one tenth of average earnings. The result is that contribution payers are effectively under insured.
    - Contributory benefits are good at building social solidarity – the stigma associated with claiming is low and protection is provided to a much broader base, which helps protect non-contributory benefits from political attack.
    - A system of well-resourced contributory benefits can help protect the national economy and local communities during an economic downturn.
    - The post-war Beveridge welfare state was predicated on male full-time, full employment. It also assumed that over time the need for subsistence non-contributory benefits would diminish – the reverse of what has happened.
    - There is a need for a major review and redesign of working age contributory benefits to play an expanded role. However, the role of subsistence is likely to remain significant in the foreseeable future, not least because of the problem of housing costs, something that even Beveridge was unable to find satisfactory solution for.

### **Accessibility and Administration**

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<sup>9</sup> The reduction in the UC taper from 63 to 55 percent in December would produce £5.04 extra income for each £100 extra earned.

- **What aspects associated with the administration of benefits impact the adequacy of experience for claimants?**
  - The five-week wait is still a major problem for UC, something that has unfortunately been baked into its design. The monthly payment cycle makes it difficult to fix.
  - The nature of UC makes it particularly problematic where claimants have a dispute as there are no other sources of income to fall back on (cf legacy benefits). In many cases the only other source of income is child benefit. The current average age of case at disposal by first-tier tribunal is 31 weeks.
  - The UC policy for the repayment of third party and DWP debts is not based on ability to pay. As a result, it drive some claimants into the clutches of high cost, and in some cases, illegal lenders.
  - Likewise, repayment of budgeting advances is based on an arbitrary time limit of 24 months making repayment rates unaffordable.
  
- **What changes should be made to the administration of working-age benefits?**
  - The introduction of a new short-term non-contributory unemployment benefit is the best way to deal with the five-week wait.
  - The repayment rate for third-party deductions needs to be returned to the previous (legacy benefits) policy of five percent of the single person’s allowance.
  
- **Are there any particular groups who have been ‘left-behind’ in the design of working-age benefits policy?**
  - The design of UC is particularly problematic for claimants with long-term incapacity for work or caring responsibilities.

## Scrutiny

- **How effective is parliamentary scrutiny of benefits levels?**
  - Unless inflation is zero or negative the Secretary of State must uprate the state pension at least in line with earnings. Attendance allowance (and similar working benefits) must be uprated in line with prices. Most other working age benefits must be uprated but by ‘such percentage or percentages as [the Secretary of State] sees fit’.
  - Following the statutory review, the proposed new benefit rates (including those that must be uprated) are confirmed in the uprating order. Parliament can only confirm or reject the whole order. MPs scrutiny is effectively emasculated. If the order is rejected benefit rates remain unchanged.
  - There are some elements of these benefits that fall outside the uprating review altogether – the local housing allowance (LHA) which is meant to tie the upper limit to local rents is the most obvious example. The LHA falls under the Housing Act and there is no equivalent of the section 150 statutory provisions. The public are unaware of this distinction so a full uprating can be presented unchallenged.
  - CIH research<sup>10</sup> has shown that in half of all rental market areas only 20 percent of properties or less are available within the LHA rate. This applies across all dwelling sizes. In all sizes other than the four bedroomed 20 per cent or less are available in two out of every three local markets.

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<sup>10</sup> CIH (2023) analysis of the Rent Officer (Valuation Office Agency) [List of Rents for 2023/24](#) (as yet unpublished).

*May 2023*