



United Kingdom

Minimum Income Schemes in the United Kingdom

A Study of National Policies

Jonathan Bradshaw

(Social Policy Research Unit, University of York)

and Fran Bennett

*Disclaimer: This report reflects the views of its
author(s) and these are not necessarily those of
either the European Commission or the Member States.
The original language of the report is English.*

April 2009

Content

Executive Summary	3
1. Brief Panorama.....	4
1.1 A brief history.....	4
1.2 Overview of key benefits which together provide a minimum income 'safety net' for individuals in different circumstances	4
1.2.1 Income Support	5
1.2.2 Means-tested (Income Based) Job Seekers Allowance.....	5
1.2.3 Income based Employment and Support Allowance.....	5
1.2.4 Pension Credit 'guarantee credit'	6
1.2.5 Housing Benefit	6
1.2.6 Council Tax Benefit.....	6
1.2.7 Tax Credits	7
1.2.8 Child Benefit	7
1.2.9 Minimum Wage.....	7
1.3 Examples of minimum incomes for model claimants in different circumstances (April 2009).....	7
1.4 Governance	10
2. Assessment	11
2.1 Coverage	11
2.1.1 Failures in the Beveridge scheme.....	11
2.1.2 The Beveridge proposals were not all fully implemented	12
2.2 Take-up	13
2.3 Adequacy.....	14
2.3.1 How have benefit rates changed over time?	14
2.3.2 How do benefit scales relate to need?	16
2.3.3 How do minimum incomes in Britain compare with those in other countries?....	18
2.3.4 Replacement rates.....	20
2.4 Effectiveness	22
3. Links between the minimum income scheme and the other two pillars of the active inclusion strategy.....	27
3.1 Employment and training programmes	27
3.2 Access to quality services.....	28
3.2.1 Social Fund.....	28
3.2.2 Health services and benefits	28
3.2.3 Other in-kind benefits.....	29

Executive Summary

- The minimum income scheme for out of work people is means-tested social assistance that dates from the Beveridge scheme introduced in 1948.
- Since then means-tested benefits and tax credits, together with the statutory minimum wage, have been introduced to provide a minimum income scheme for people in work.
- Together these national schemes provide a minimum income scheme for the whole of the UK which is much less residual than Beveridge ever envisaged. Now means-tested benefits and tax credits constitute over a third of all benefit expenditure.
- Benefit levels for pensioners and families with children have improved in value in comparison with prices, and more or less maintained their value in comparison with earnings. However, for childless single people and couples benefit levels have not improved since the 1980s in real terms, and have lost ground compared with earnings.
- Benefit levels are lower than the Joseph Rowntree Foundation's 'Minimum Income Standard' for all classes of claimants except pensioners. In comparison with benefit levels and replacement rates in other countries, those in the UK are middling.
- The minimum income is below the 60 per cent of median poverty threshold and this is one reason why the UK at risk of poverty rate is comparatively high.
- However, one possible advantage of the UK scheme is that it is comprehensive, and our poverty gaps are comparatively lower than our poverty rates.
- Another advantage is that it is a rights-based scheme with limited administrative discretion.
- Among the disadvantages are that:
 - it is complex, with a sharp disjunction between out-of-work and in-work benefits;
 - it suffers from problems of non-take-up;
 - it is expensive to administer;
 - it suffers from high marginal tax rates;
 - benefit levels have no basis in need; and
 - what rationale they may have had has been lost over time by an uprating scheme that is bizarre.
- The minimum income scheme has always been linked to employment and training programmes (except for pensioners) and conditionality (alongside support) has been increased recently, especially for lone parents and people with disabilities.
- Depending on the particular benefit/tax credit being received, people receiving minimum benefits can apply for loans (mainly) from the Social Fund, exemption from health service charges, childcare tax credit, grants in pregnancy and free school meals.

1. Brief Panorama

1.1 A brief history

The social protection scheme in the UK dates from the Beveridge Report 1942. The Beveridge plan was that, in return for flat-rate insurance contributions throughout working life, people would receive flat-rate benefits to cover interruptions of employment and retirement. This insurance system would be supported by a system of family allowances payable for each child, a National Health Service free at the point of use, full employment - and, as a safety net, there would be means-tested social assistance, paid for out of general taxation, providing a minimum income for those who fell through the insurance net.

This Minimum Income Scheme was called National Assistance and started in 1948. It was renamed Supplementary Benefit in 1966 and Income Support in 1988. Retirement pensioners' Income Support became Minimum Income Guarantee in 1999 and then Pension Credit in 2003. Income Support for unemployed people became income based Jobseeker's Allowance in 1996. The child and family related elements of Income Support have progressively been replaced by the phasing in of Child Tax Credit, although this is not yet complete for existing claimants. In October 2008, new claims for Income Support for those considered incapable of work ended, and were replaced by claims for 'Employment and Support Allowance'.

Despite all these changes in name, the main elements of the scheme for out-of work benefits have remained the same. However, means-tested benefits have also been extended to supplement in-work incomes. Some low-paid workers, and some of those with a low income and an earner in the family, can claim Working Tax Credit and Housing Benefit and Council Tax Benefit, and families with children can also receive Child Tax Credit. These cash benefits and tax credits, together with the statutory minimum wage, in principle provide a minimum income guarantee for some groups.

Minimum incomes for those both in and out of work are guaranteed by a complex combination of benefits and other support. These benefits together provide a minimum income for claimants, which varies dependent on their different circumstances (such as their age, family, and whether they have a disability), and their resources (including earnings and savings). As such, households (including couples, whether male/female or same sex, living as husband and wife and any dependent children) are treated as a 'benefit unit' for the purposes of means-tested benefits.

1.2 Overview¹ of key benefits which together provide a minimum income 'safety net' for individuals in different circumstances

1.2.1 Income Support

Income Support (IS) is a benefit paid to support people on a low income who are not in full-time employment (working 16+ hours per week) and who do not have to be 'available for and actively seeking work' (CPAG, 2008, p.291), such as lone parents with young children.

¹ We are grateful for the substantial technical support provided by Sam Royston, a PhD student at the University of York who is also a Citizen's Advice Bureau volunteer and expert on welfare rights.

Maximum IS rates differ for people in different circumstances (for instance, how old you are, whether you are part of a couple etc.); the rate for which a claimant is eligible is known as their 'applicable amount'. Above very low earnings limits (between £5 and £20 per week), IS tapers away at a rate of 100 per cent of additional earnings. Income from other sources, and savings or other capital, may also reduce the amount of IS a claimant is entitled to.

1.2.2 Means-tested (Income Based) Jobseekers Allowance

Means-tested Jobseekers Allowance (JSA) is similar to Income Support, also being a benefit to support working age people on a low income who are not in full-time employment. However, unlike those on IS, JSA claimants must be available for, and actively seeking, full-time work (work of 16 hours per week or more, depending on category of claimant).

As with IS, maximum JSA rates depend on a claimant's applicable amount. Above very low earnings limits (between £5 and £20 per week), JSA tapers away at a rate of 100 per cent of additional earnings. Income from other sources, and savings or other capital, may also reduce the amount of means-tested JSA a claimant is entitled to.

1.2.3 Income based Employment and Support Allowance

For new claims from October 2008, instead of applying for IS on account of illness or disability, working age claimants must apply for means-tested Employment and Support Allowance (ESA) if they are unable to work due to being incapacitated (and do not have the National Insurance contributions record necessary to claim contribution based ESA, and are not entitled to Statutory Sick Pay). Income based ESA can also be claimed as a top-up to contribution based ESA.

As with IS, income based ESA rates depend on a claimant's applicable amount. After 13 weeks of receipt of income based ESA (known as the 'assessment phase'), the claimant's applicable amount will increase, since they will either receive the 'work-related activity' component (if they are deemed to be capable of work-related activities and comply with certain work-related activity requirements) or the 'support' component (if they are deemed to be incapable of work-related activity.)

In general you cannot work and be incapable of work at the same time (CPAG, 2008, p.662). However, recipients of ESA can do a certain amount of 'permitted work' without reductions in their ESA. For up to 52 weeks (or longer in some circumstances), ESA recipients can earn up to £92 per week from 'permitted work'. Income from other sources, and savings or other capital, may reduce the amount of income based ESA a claimant is entitled to.

People who have care needs as a result of a disability may be entitled to Disability Living Allowance (DLA) or Attendance Allowance (AA), which are both non-means-tested benefits to help with the additional costs of living with a disability. Those eligible for DLA may also be entitled to help with mobility needs. These benefits do not count as income for the purposes of means-tested benefits and actually in some situations increase the applicable amount.

1.2.4 Pension Credit 'guarantee credit'

Pension Credit 'guarantee credit' is a benefit for low-income people aged 60 and over. The 'guarantee credit' provides a minimum income guarantee which again depends on an individual's circumstances (such as whether you are single or part of a couple, and whether you have a disability, or caring responsibilities). The guarantee credit tops a claimant's income up to this minimum guarantee, meaning that there is effectively a 100 per cent taper on any (non-disregarded) income. Savings and other capital may also reduce the amount of guaranteed credit a claimant is entitled to. However, if a claimant is aged 65 or over, they may be entitled to some 'savings credit' (to help those who have saved small amounts and otherwise might be excluded from the scheme), even if their income is too high for them to be eligible for the guarantee credit.²

1.2.5 Housing Benefit

Housing Benefit (HB) is paid to low income people who rent, to help them with their housing costs (help with housing costs for people who own their home may be available through IS or means-tested JSA or means-tested ESA - notably, this means that you cannot get help with mortgage costs if you are in work, despite being able to get HB whilst in work).

The maximum amount of HB a claimant is entitled to (the most they could receive prior to means testing) will depend on factors including the claimant's age, the size of their family, where they live - and the amount of rent that they actually pay, since HB will not be paid at a rate higher than the actual cost of your accommodation (or not more than £15 per week more than the cost of your accommodation if the new local housing allowance rules apply). People with larger families, in areas of the country with higher rental prices, will typically be eligible for a higher allowance to help with housing costs than smaller families in areas of the country with lower housing costs.

IS, means-tested JSA, income based ESA and Pension Credit (Guarantee Credit) automatically 'passport' claimants to full HB. If a claimant is not passported in this way, their HB is means tested. In these cases, for income above low earnings limits, HB tapers away at a rate of 65 per cent gross.

Childcare costs are disregarded as earnings for the purposes of calculating a claimant's entitlement to both HB and CTB, meaning that for working recipients of HB and CTB these benefits may effectively help subsidise childcare costs.

1.2.6 Council Tax Benefit

Council Tax Benefit (CTB) is paid to low income people who are liable for council tax (local taxation), to help them with their Council Tax bill.

IS, means-tested JSA, income based ESA, and Pension Credit (guarantee credit) automatically 'passport' claimants to full CTB. If a claimant is not passported in this way, their CTB is means tested. In these cases, for income above low earnings limits, CTB tapers away at a rate of 20 per cent gross.

² Those with Savings Credit will be on a 40% taper on any (non-disregarded) income.

1.2.7 Tax Credits

'Tax Credits' are comprised of two parts: Child Tax Credit (CTC) and Working Tax Credit (WTC). CTC is payable to households responsible for a child or qualifying young person, whether or not anyone in the household is in paid work. WTC is payable to households with somebody in work of 16+ or 30+ hours per week (depending on circumstances); if they are able-bodied and not responsible for a child they must be 25 or over. WTC also contains a childcare element, providing help with up to 80 per cent of childcare costs for up to £175 per week for one child or £300 for two or more children.

Both CTC and WTC are means-tested benefits. If you are eligible for both CTC and WTC, the income threshold is currently £6420 per year. Tax Credits are tapered at a rate of 39 per cent for earnings above this income threshold.

However, for just the 'family element' of CTC (£545 per year, or £1,090 per year if the household has a baby), a considerably higher threshold (£50,000 per year) also applies, meaning that families entitled to CTC can earn up to about £50,000 per year and still receive their maximum entitlement of the CTC family element.

1.2.8 Child Benefit

Child Benefit (CB) is a universal (neither contributory nor means-tested) benefit paid to people who are 'responsible for a child or qualifying young person' (CPAG, 2008, p. 56). As of January 2009, CB has been paid at a rate of £20 per week for the oldest child and £13.20 per week for each additional child.

See section 3 below for information on passported benefits.

1.2.9 Minimum Wage

The national minimum wage is the lowest amount it is legal for an employer to pay an employee. The minimum wage is £4.77 per hour for 18 to 21 year olds, and £5.73 for those aged 22 or older.

1.3 Examples of minimum incomes for model claimants in different circumstances (April 2009)

How these benefits work together to comprise a claimant's 'minimum income' can be best seen through examples. As can be seen from the examples below, the minimum incomes of people vary significantly depending on their circumstances:

Table 1: Minimum income benefits for those out of work by claimant type and benefit³

<i>Claimant type</i>	<i>£ per week after housing costs</i>	<i>Breakdown of benefits received (in addition, claimants receive full Housing Benefit and Council Tax Benefit). Claimants will also receive some 'passported' benefits in all cases</i>
Single person aged 16-24 (entitled to income based JSA) ⁴	£50.95	Income based JSA (single under 25 rate) - £50.95
Single person aged 25+	£64.30	Income Based JSA (single over 25 rate) - £64.30
Couple aged over 18	£100.95	Income Based JSA (couple over 18 rate) - £100.95
Couple aged under 18 (and both entitled to Income based JSA) ⁵	£76.90	Income Based JSA (couple under 18 and both entitled to income based JSA rate) - £76.90
Single person, in receipt of ESA for more than 13 weeks (and capable of work-related activity)	£89.80	Income Based ESA including work-related activity component - £89.80
Lone parent aged 18+ + 1child	£137.71	IS/Income Based JSA (LP 18+ rate) - £64.30 Child Tax Credit - £53.41 Child Benefit - £20
Lone parent aged 18+ + 2 children	£193.82	IS/Income Based JSA (LP 18+ rate) - £64.30 Child Tax Credit - £96.32 Child Benefit - £33.20
Couple aged 18+ + 1 child	£174.36	Income Based JSA (couple 18+ rate) - £100.95 Child Tax Credit - £53.41 Child Benefit - £20
Couple aged 18+ + 2 children	£230.47	Income Based JSA (couple 18+ rate) - £100.95 Child Tax Credit - £96.32 Child Benefit - £33.20
Couple aged 18+ + 3 children	£286.58	Income Based JSA (couple 18+ rate) - £100.95 Child Tax Credit - £139.23 Child Benefit - £46.40
Single person (aged 60+)	£130.00	Pension Credit (Guarantee) - £130
Couple (aged 60+)	£198.45	Pension Credit (Guarantee) - £198.45

³ Assumptions and notes:

1) Claimants are eligible to receive Housing Benefit and Council Tax Benefit (CTB). (Except that people under 18 cannot be liable for council tax (and therefore a single person aged under 18 or a couple both aged under 18 cannot receive CTB either).

2) In some cases, the table does not specify whether the claimant is entitled to IS or income based JSA; this is where this depends upon unspecified circumstances.

3) Where claimants do not have children, it is assumed that they are not entitled to IS.

4) Children are assumed to be over the age of 1 and under 16.

⁴ It should be noted that special rules for 16/17 year olds apply and entitlement to income based JSA is limited.

⁵ See previous footnote.

Table 2: Minimum Incomes for those in work, by claimant type and income source⁶

<i>Claimant type</i>	<i>£ per week after housing costs (assuming £60/wk rent and £18 council tax)</i>	<i>Income breakdown</i>
Single person aged 20, working 16 hours per week	£59.01	Income (after tax and NI) - £76.32 Housing Benefit - £46.76 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £9.43
Single Person aged 20, working 30 hours per week	£70.36	Income (after tax and NI) - £135.68 Housing Benefit - £8.18 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £0
Single person aged 25+ working 30 hours per week	£114.21	Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £0 Working Tax Credit - £32.15
Couple aged 25+ one working 30 hours per week	£145.41	Income (after tax and NI)- £155.56 Housing Benefit- £0 Council Tax Benefit- £0 Working Tax Credit - £67.85
Couple aged 25+ both working 30 hours per week	£233.93	Income (after tax and NI) - £311.12 Housing Benefit - £0 Council Tax Benefit - £0 Working Tax Credit - £0.81
Lone parent aged 22+ working 30 hours per week +1 child aged 2	£223.32 + passported health benefits	Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax single occupancy reduction - £4.50 Council Tax Benefit - £0 Working Tax Credit - £67.85 Child Tax Credit - £53.41 Child Benefit - £20
Couple aged 22+ , one working 30 hours per week +1 child aged 2	£218.82 + passported health benefits	Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax Benefit - £0 Working Tax Credit - £67.85 Child Tax Credit - £53.41 Child Benefit - £20
Couple aged 18+ , one working 30 hours per week +3 children aged 2 or more	£331.04 + passported health benefits	Income (after tax and NI) - £155.56 Housing Benefit - £0 Council Tax Benefit - £0 Working Tax Credit - £67.85 Child Tax Credit - £139.23 Child Benefit - £46.40

⁶ Assumptions: 1) Claimants assumed to be eligible for HB and CTB with no rent restrictions for HB. 2) No childcare costs in any cases. 3) In all cases, earnings were the same in previous financial year (08/09) as in current financial year (09/10). 4) No claimants (or children) have any disabilities. 5) In some cases, claimants may receive partial health benefits under the low income scheme (only passported health benefits are noted in the table).

1.4 Governance

The social assistance scheme in the UK is a national scheme, and all the rules apply to every country in the UK. Administrative responsibilities differ between different benefits:

- The Department for Work and Pensions (DWP) has overall responsibility for the administration of benefits including IS, ESA and JSA, as well as Pension Credit and the Social Fund (see below).
- Every area has a local Jobcentre Plus which is staffed by civil servants and responsible for the day to day administration of claims and payments of IS, ESA and JSA.
- Pension Credit is administered by the Pension Service, an executive agency of the DWP (CPAG, 2008, p.446)
- With regard to the discretionary Social Fund, fixed amounts are allocated by the Government to DWP districts and decisions are made by decision makers in local DWP offices (CPAG, 2008, p.485).
- Her Majesty's Revenue and Customs (HMRC) has responsibility for the administration of Tax Credits and Child Benefit.
- Housing Benefit and Council Tax Benefit are administered by local authorities (but DWP is responsible for policy).

There is an independent Social Security Advisory Committee which advises the Secretary of State on all benefit matters. It also has a Memorandum of Understanding with HMRC about Tax Credits. The House of Commons has a Work and Pensions Select Committee which establishes inquiries relating to the 'expenditure, administration and policy of the Department for Work and Pensions.'⁷ There is also a Treasury Select Committee, whose responsibilities include the examination of the expenditure, administration and policy of HMRC.⁸

⁷ http://www.parliament.uk/parliamentary_committees/work_and_pensions_committee.cfm

⁸ http://www.parliament.uk/parliamentary_committees/treasury_committee.cfm

2. Assessment

2.1 Coverage

Beveridge intended that his social assistance scheme would be a residual safety net for those who fell through the national insurance system. However, it has been far from that. Income-related benefits were 34 per cent of all social security expenditure in 2007/8. This has increased from 13 per cent of benefit expenditure in 1948/49.⁹ Roughly 4.8 million people received all or part of their income from IS, income based JSA and Pension Credit in 2007/8 - approaching 10 per cent of the population.

- Income based JSA is the main source of income for unemployed people – 616,000 received it in 2007/8, compared with only 128,000 receiving contributory JSA.¹⁰
- Many sick and disabled people receive all or part of their income from IS: in August 2008 around 1,118,000 people received IS on account of disability/incapacity.¹¹ New claims from October 2008 which would have been for IS on account of illness or disability are now for Employment and Support Allowance (ESA).
- It is currently the main source of income for lone parents not in employment. In August 2008 around 745,000 lone parents received IS.¹²
- In August 2008, 2.13 million claimants were receiving the Pension Credit guarantee credit (890,000 received only the guarantee credit and 1.24 million received guarantee credit and some savings credit).¹³

This is partly due to failures in the Beveridge scheme; partly due to failures in the implementation of the Beveridge proposals; and partly due to changes in labour demand in the last 60 years. We shall deal with each of these in turn.

2.1.1 Failures in the Beveridge scheme

The Beveridge scheme had three major flaws.

The first flaw was that Beveridge flunked the problem of housing costs. His insurance scheme provided a national system of benefits to cover all requirements including housing costs. Housing costs vary from place to place and, although Beveridge discussed how he was going to deal with this problem in a national system, he did not come up with a solution. Social assistance paid rent including rates (local taxes). This meant that many receiving flat-rate insurance benefits found themselves with lower incomes than social assistance plus rent. They were thus eligible for a top up. Thus today social assistance is not a safety net to social insurance but the prop supporting the residual national insurance scheme (at least for those of working age).

The second flaw was that divorce and relationship breakdown were not made insurable risks. Beveridge discussed the possibility of making divorce an insurable risk but, although his scheme made provision for widows, it did not cover other types of lone parents. Divorce was very rare in the 1940s, but by the 1970s it had begun to increase sharply, and together with other social

⁹ (see table below).

¹⁰ http://www.dwp.gov.uk/asd/asd4/medium_term.asp

¹¹ http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Feb2009.pdf?x=1

¹² http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Feb2009.pdf

¹³ http://www.dwp.gov.uk/asd/asd1/stats_summary/Stats_Summary_Feb2009.pdf

changes means that today about one in four families with children is a lone parent family. The UK has never been very successful at getting lone parents into the labour market and so, with no insurance benefit to turn to, lone parents claimed social assistance.

The third flaw was that Beveridge did not recognise civilian disability. His scheme gave those injured in war or at work higher benefits, but those injured by non-work accidents were not included. And people who were congenitally disabled, and who had not earned benefits by contributions but were incapable of paid work, had no specific benefit. Neither did those who had to give up work to care. They all had to have recourse to social assistance. Although successive governments tried to fill this gap with a new set of non-contributory, non-means-tested benefits, many still have to supplement these benefits with means-tested housing benefits and/or social assistance, in part because the non-contributory benefits had rates that were deliberately set lower than contributory benefit levels.

2.1.2 The Beveridge proposals were not all fully implemented

Beveridge envisaged that entitlement to benefits for pensioners would be built up over a period of time. However, the post-war government decided that it had to pay pensions to existing pensioners from the start of the scheme. As a result, the benefit rates that were paid were at a lower level than Beveridge had proposed and thus, with the addition of housing costs, many recipients of social insurance benefits became eligible for social assistance as a top up to their insurance benefits.

Also, Beveridge had proposed that Family Allowances should be paid for all children, but they were introduced only for the second and subsequent child in 1946. This meant that out-of-work benefits had to be constrained to prevent the net incomes of low wage earners with children being lower than the amount they would receive if they claimed out-of-work benefits.

Beveridge assumed that Keynesian macro-economics would ensure full employment in the post war period. But from the mid 1960s unemployment began to rise, and in the early 1980s and again in the early 1990s there were over three million unemployed people. The unemployment insurance system effectively collapsed under the strain and social assistance (income based JSA) is now the main recourse for unemployed people - and the only recourse for those out of work for more than six months.

The result is that means-tested benefits have been taking an increasing proportion of social security spending. It can be seen that in Table 3 means-tested benefits constituted 13 per cent of the benefits budget in 1948/49, but that by 2007/8 they constituted 34 per cent (if Tax Credits are taken into account).

Table 3: British benefit expenditure 1948/9-2007/8

	Percentages							
	1948/9	1958/9	1968/9	1978/9	1988/9	1998/9	2003/4	2007/8
Contributory ¹⁴	53	67	69	66	55	47	45	45
Non-contributory, non income related ¹⁵	34	23	17	17	17	20	21	21

¹⁴ Retirement pension, widows benefits, sickness benefit, unemployment benefit, Jobseekers Allowance (contribution based), maternity benefits.

Means-tested benefits ¹⁶	13	10	14	17	28	33	27	25
Tax Credits ¹⁷							7	9
Total income related	13	10	14	17	28	33	34	34
All benefit spending	100	100	100	100	100	100	100	100
(£000s)	(471)	(1,287)	(3,172)	(15,837)	(47,315)	(95,557)	(124,511)	(150,580)

2.2 Take-up

There is no doubt that in the UK benefits that are delivered on a test of means are less likely to be taken up (claimed) than those delivered on the basis of contributions.

An official report on take-up is produced annually by the Department for Work and Pensions. It is based on a combination of survey analysis and administrative statistics. The latest report is for 2007/8¹⁸ and Table 4 provides a summary of its findings. Take-up estimates are subject to confidence limits, so are expressed in ranges; and there are two measures: caseload take-up – the proportion of people eligible receiving; and expenditure take-up – the proportion of money available to be taken up which is claimed. Expenditure take-up is higher than caseload take-up because those eligible for higher levels of benefit are more likely to claim. It can be seen that take-up rates vary with the benefit in question. Income based JSA has the lowest take-up rate, followed by Council Tax Benefit and Pension Credit. The latest report on take-up shows that eligible non-recipients of Income Support tend to: be slightly older, be more likely to be owners, have other income, be living with others, live in London and be living below the poverty threshold.

HMRC also undertakes an analysis of the take-up of tax credits.¹⁹ This estimates that £1.9 billion in Child Tax Credit and £2.3 billion in Working Tax Credit was unclaimed in 2005/6. The take up of CTC is higher for those on out-of-work benefits (91-93 per cent) or those receiving WTC (90-93 per cent) than it is for those just entitled to CTC (71-85 per cent) or just the family element (68-75 per cent). Lone parents are more likely to take up Tax Credits than couples with children. Take-up increases with the number of children, but not with the age of the youngest child. London has a much lower take-up rate. The take-up rate of WTC by childless single people and couples is very low – only 25 per cent for single people and 15 per cent for couples.

Table 4: Benefit take-up rates 2007/8; Tax Credit take-up rates 2005/6

	% of caseload	% of expenditure
Income Support	78-88	85-93
Housing Benefit	80-87	85-91
Council Tax Benefit	62-68	63-70
Pension Credit	61-70	70-78
JSA (income based)	52-60	54-65

¹⁵ Family Allowance, Child Benefit, disability benefits, death grant etc. Child Benefit spending was excluded from the DWP series from 2003/4 as responsibility was transferred to HMRC. HC Supply Estimates give totals for Child Benefit and Child Trust Fund.

¹⁶ National Assistance, Supplementary Benefit, Income Support, Family Income Supplement, Family Credit, Pension Credit, Housing Benefit, Rate Rebate, Council Tax Benefit, Jobseekers Allowance (income based). Some DWP means-tested benefits are replaced by Tax Credits after 2003.

¹⁷ Working Families Tax Credit, Child Tax Credit, Working Tax Credit. (GB est.).

¹⁸ DWP (2009) *Income related benefits: Estimates of Take-up 2007-08*, London: DWP.

¹⁹ HMRC (2008) *Child Tax Credit and Working Tax Credit Take-up rates 2005/06*, London: HMRC.

Child Tax Credit	80-84	89-93
Working Tax Credit	59-63	79-85

There are problems with these estimates. Eligible non-recipients are identified by modelling data from the Family Resources Survey. An exercise undertaken by the DWP to link reported take-up with administrative data on actual receipt of Pension Credit found that 27/28 per cent of the eligible non-recipients were actually recipients. The Pension Credit take-up numbers have been adjusted to take account of this finding, and the take-up estimates of the other benefits are adjusted to administrative data on take-up at the macro level.

2.3 Adequacy

There are four ways of approaching the issue of adequacy:

2.3.1 How have benefit rates changed over time?

For social assistance, we do not have a consistent time series since 1948. However, in Table 5 we show what has happened to unemployment benefit over time. It has increased in real value by 75 per cent between 1948 and 2007. But in comparison with average earnings, it has more or less halved in value. Also in real terms it has not maintained its value since the mid 1980s. The reason for looking at the value of unemployment benefit is that it has been very similar to the level of social assistance (income based JSA) over time, and is now an identical amount.

The next row of the table shows what has happened to IS for a single person aged over 25 since 1989. It has maintained its value in comparison with prices but fallen in value compared with average earnings.

In contrast, families with children and pensioners on social assistance have both had substantial improvements in their real incomes since 1988/9 and have also maintained their incomes in comparison with average earnings.

Table 5: Benefit rates over time

	<i>Real value £pw April 2007 prices</i>		<i>Rate as a percentage of average earnings</i>
Unemployment benefit/JSA July 1948 November 1985 April 1989 April 2007	£33.72 £65.21 £62.36 £59.15	Unemployment benefit/JSA September 1971 April 2007	20.9 10.8
Income Support (single person aged over 25) April 1989 April 2001 April 2007	£58.66 £59.77 £59.15	Income Support (single person aged over 25) April 1989 April 2007	14.6 10.8
Minimum Income benefits for couple with two children aged under 11 April 1989 April 2007	£142.53 £204.13	Minimum Income benefits for couple with two children aged under 11 April 1989 April 2007	35.4 37.1

Pension Credit (and predecessors) for single person aged 60-74		Pension Credit (and predecessors) single person aged 60-74	
April 1988	£77.99	April 1988	20.2
April 2007	£119.05	April 2007	21.7

These changes in the relative value of social assistance paid to different classes of claimant have occurred as a result of the uprating regime. Before the 1980s, there was a fairly *ad hoc* system for uprating benefits. From 1982, IS was uprated by movements in the Rossi price index (RPI less rent, local taxes and mortgage interest payments).

The current situation is that most means-tested benefits (including IS, HB and means-tested JSA) are uprated at the start of the financial year with the previous September's 12 month rate of the ROSSI index. However, some means-tested benefits, including the child element of CTC, and Pension Credit guarantee credit, are typically uprated in line with average earnings.²⁰

A number of other contributory and non-contributory non-means-tested benefits, including Incapacity Benefit,²¹ Child Benefit and Disability Living Allowance, are uprated in line with the previous September's 12 month rate of the Retail Price Index.²²

There has been a growing gap between the benefit rates paid to childless single people and couples on the one hand and families with children and pensioners on the other. As can be seen above, in 1989 a single pensioner received about £20 per week more than a person aged over 25 on IS. By 2007, that gap had grown to £60 per week more.

The difference is even more apparent for those aged under 25. Not only do single claimants under 25 have a lower rate of JSA or IS than those over that age (£47.95 per week in April 2008 compared to £60.50, without premiums), but in addition they are not entitled to claim WTC (unless they have a child or a disability) (CPAG, 2008, pp.1209-1210), and in many cases their HB will be restricted by the 'Single Room Rent' to a considerably lower rate than they would be entitled to if over 25 (more on this below.) Under the age of 22, they are also entitled to a lower minimum wage rate (£4.77 per hour for 18- to 21-year-olds compared to £5.73).²³

Differences in minimum incomes between groups at different ages raise two key issues with regard to minimum income scheme adequacy. Firstly, why does an unemployed 59-year-old need around half the amount to live on as a 60-year-old, and why does a 20-year-old need considerably less than this? Secondly, given that benefit gaps for different groups have grown considerably, why is it that if policy makers took the view at one time that the relative needs of different types of claimant varied by £X per week, how can they at a different time be £Y per week? The answer to both these questions is that need is not the only determinant of minimum income schemes.

²⁰ Cracknell, R. (2009), '2009 benefit uprating' standard note 4901, House of Commons library.

²¹ Although ESA will be uprated in line with the ROSSI index.

²² Cracknell, R (2009) '2009 benefit uprating' standard note 4901, House of Commons library.

²³ <http://www.hmrc.gov.uk/nmw/>

2.3.2 How do benefit scales relate to need?

One approach to answering this question is to employ budget or minimum income standards methodology to establish what income is enough to meet what Rowntree called physical necessities, and what modern budget standards refer to as a basic or minimum healthy life-style. Budget standards were re-established in Britain with the work of the Family Budget Unit (FBU).²⁴ Middleton and colleagues at the Centre for Research in Social Policy (CRSP) also developed a consensual approach to budget standards,²⁵ and Morris²⁶ developed Minimum Income for Healthy Living (MIHL) Standards for older people and single people.

The most recent (and elaborate) work, however, has been the large Joseph Rowntree Foundation project which resulted in *A Minimum Income Standard for Britain*.²⁷ This combined the consensual approach of the CRSP work with the more normative approach of the FBU. Minimum income standards (MIS) for a range of household types were established by an iterative process involving focus groups representing those household types and the assessment of experts. The aim was to achieve a standard defined as follows:

‘A minimum standard of living in Britain today includes, but is more than just, food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.’

The food budget was assessed for nutritional adequacy and to ensure that it met the guidelines for healthy eating.²⁸ The fuel budget²⁹ was designed to enable the household to reach adequate levels of warmth, given the thermal efficiency of the dwelling. The costs of the dwelling for each household were established to meet adequate space, fitness and thermal standards. In general, the budgets covered the need to participate, including taking healthy exercise.

The MIS establishes a standard that can be compared with benefit levels and the income thresholds used to establish poverty rates.

Figure 1 compares the MIS for a variety of household types with the benefits that would be payable to those households on IS and Pension Credit. It can be seen that there is a shortfall between the MIS and the benefit levels for all the household types except single people and

²⁴ Bradshaw, J. (ed.) (1993) *Budget Standards for the United Kingdom*, Studies in Cash & Care, Avebury: Aldershot;

Parker, H. (ed) (1998) *Low Cost but Acceptable: A minimum income standard for the UK: Families with young children*, Bristol: The Policy Press; Parker, H. (ed) (2000) *Low Cost but Acceptable Incomes for Older People. A minimum income standard for households aged 65-74 years in the UK*, Bristol: The Policy Press.

²⁵ Smith, N., Middleton, S., Ashton-Brooks, K., Cox, L. and Dobson, B. with Reith, L. (2004) *Disabled People's Costs of Living: More than you would think*, York: Joseph Rowntree Foundation. ISBN 1 85935 236 7.

Middleton, S., Ashworth, K. and Braithwaite, I. (1997), ‘Small Fortunes: Spending on Children, Childhood Poverty and Parental Sacrifice’, York: Joseph Rowntree Foundation.

Middleton, S., Maguire, S., Shropshire, S. and Kellard, K. (1998) ‘Household Budgetary Requirements in Jersey’, *CRSP Working Paper 359*, Loughborough: Centre for Research in Social Policy.

²⁶ Morris, J. and Deeming, C. (2004) ‘Minimum Incomes for Healthy Living (MIHL): next thrust in social policy?’, *Policy and Politics*, 32, 4, 441-454.

Morris, J. (chair), Dangour, A., Deeming, C., Fletcher, A. and Wilkinson, P. (2005) ‘Minimum income for healthy living: older people’, London: Age Concern Reports.

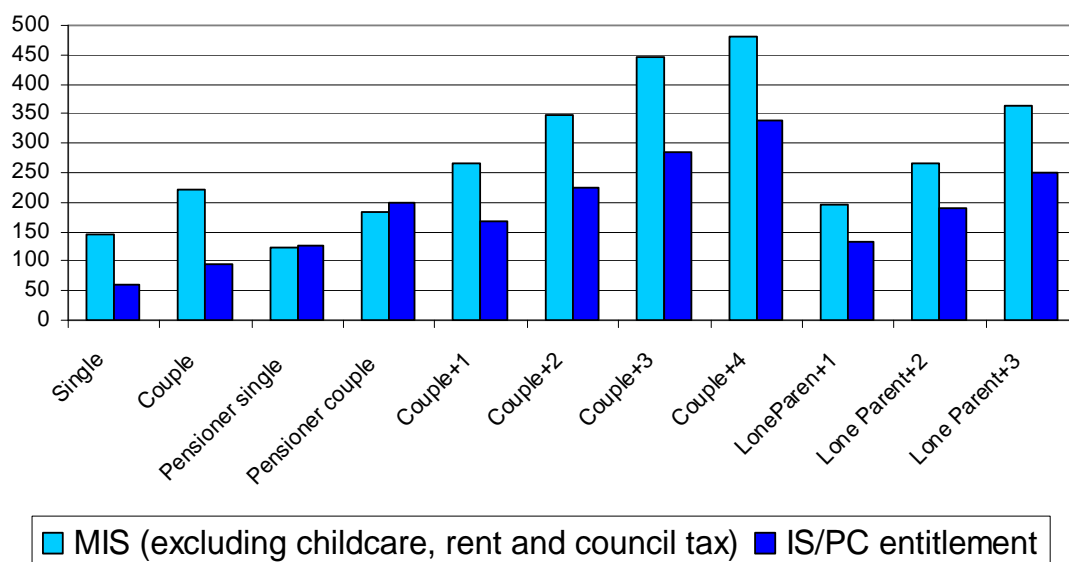
²⁷ Bradshaw, J., Middleton, S., Davis, A., Oldfield, N., Smith, N., Cusworth, L. and Williams, J. (2008) *A Minimum Income Standard for Britain: What people think*, York: Joseph Rowntree Foundation.

²⁸ http://www.minimumincomestandard.org/downloads/working_papers/MIS_thefoodbudgetstandard_workingpaper.pdf

²⁹ [http://www.minimumincomestandard.org/downloads/working_papers/MIS_Working%20paper%20on%20 Fuel.pdf](http://www.minimumincomestandard.org/downloads/working_papers/MIS_Working%20paper%20on%20Fuel.pdf)

couples of pension age. For them, Pension Credit achieved the MIS. However, this was only achieved by the introduction of free travel on buses for pensioners in April 2008 – before then, the MIS was a little above Pension Credit. The biggest gap between the MIS and IS rates was for childless single people and couples. While families with children and pensioners have had increases in the real level of IS and Pension Credit in recent years, the IS paid to childless single people and couples has remained the same in real terms since the mid 1970s (see above).

Figure 1: MIS compared with Income Support/Pension Credit benefits April 2008



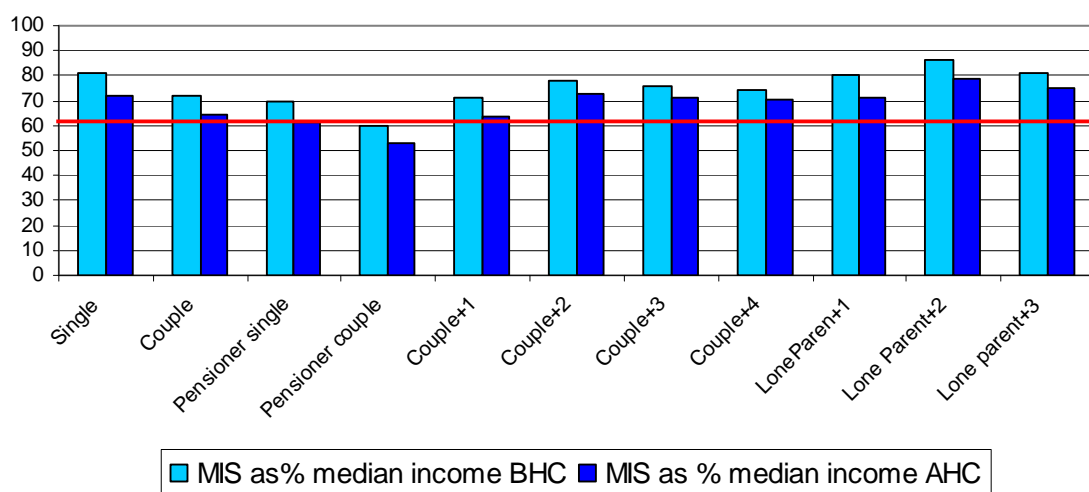
In Table 6, we explore the relationship between the MIS and in-work incomes. The bottom line gives the wage rate for a standard working week that would be required in order to reach a net income equivalent to the MIS for that household type, given the in-work benefits and tax credits available - and assuming, for the couple family, that there is only one earner, and that the other adult has no income of their own. It shows that in all such cases the wage would have to be higher than the (then) minimum wage of £5.52 per hour. To achieve the MIS with a lower wage rate, the wage-earner would have to work for longer hours.

Table 6: Weekly earnings required to meet MIS, April 2008

	<i>Single working age</i>	<i>Couple +2 no childcare</i>	<i>Lone parent +1</i>
MIS (including rent and council tax)	210	439	301
Gross earnings required	258	516	230
Less income tax	-30.75	-82.35	-25.15
Less NI contributions	-16.83	-45.21	-13.75
Plus Child Benefit	0	31.35	18.80
Plus WTC	0	0	40.89
Plus CTC	0	19.78	50.44
Housing Benefit	0	0	0
Council Tax Benefit	0	0	0
Hourly wage rate for 37.5 hours per week	£6.88	£13.76	£6.13

In Figure 2, we compare MIS with median income. The line on the chart represents the 60 per cent of median income threshold that is used conventionally to estimate poverty rates in Britain. It shows that the MIS are higher than the poverty threshold for all household types, both before and after housing costs, except for single pensioners after housing costs and pensioner couples before and after housing costs. This indicates that even if the social protection package were high enough to lift every household up to the poverty threshold (which clearly it is not), most households with children and childless single people and couples of working age would be below the MIS standard.

Figure 2: MIS as a % of median income April 2008



2.3.3 How do minimum incomes in Britain compare with those in other countries?

Here the data is not very good. The EU standard indicators of social inclusion include **Context 10: Net income of social assistance recipients as % of the at-risk of poverty rate threshold for 3 jobless household types, 2006**. For the UK and a number of other countries, this exceeds 100%. This is wrong, and might seriously mislead policy makers.³⁰

³⁰ For this ratio, the poverty threshold – the denominator – is derived from SILC and is presumably the same data as is published in Table 1 giving the at-risk of poverty thresholds in the *Inclusion Indicators*. This is a before housing costs poverty threshold and includes income from all sources including social assistance and any housing benefits received. The numerator appears to be derived from the OECD *Benefits and Wages* series which provides estimates of the net incomes of various model families in different circumstances (including receiving out of work social assistance) given existing tax and benefit rules. The OECD assumes that rent for these model families is 20 per cent of average wages. So for the UK the net income would be the Income Support scale rates and family benefits plus housing benefit of 20 per cent of average earnings. There are two problems with this estimate

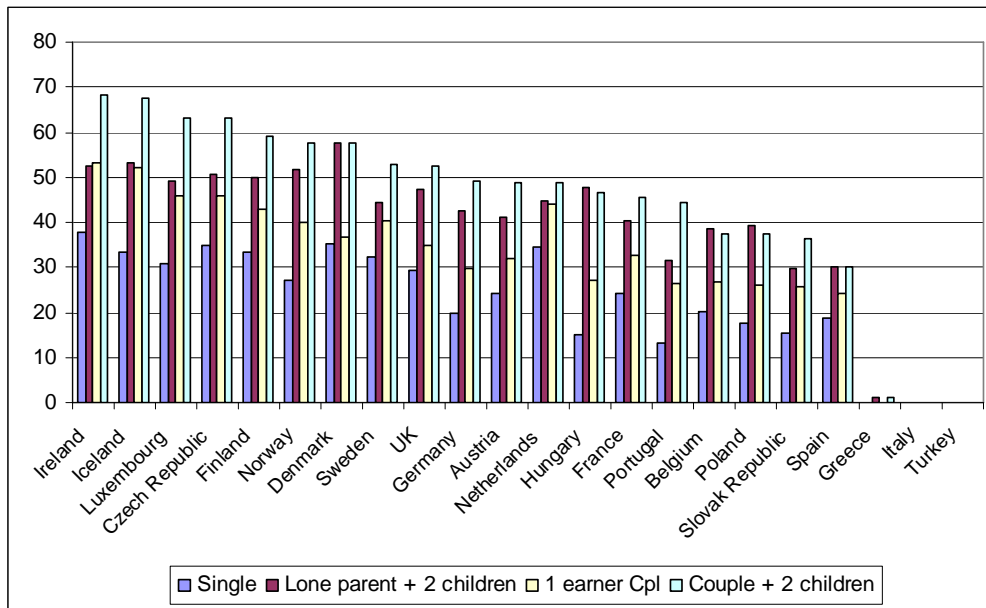
1. 20 per cent of average earnings is too high a rent level for a social assistance recipient in the UK (and elsewhere) who would be most likely to be living in subsidised social housing. Indeed, if they were in the private rented sector with a rent of this level they would probably be subject to the maximum local rent stop under which their housing benefit payments would be restricted.

2. While the numerator includes a high rent, the denominator includes housing benefit – but only the housing benefit actually received, which for social assistance cases, would be all of the rent, and for others entitled to housing benefit, part of the rent. It would be much less than 20 per cent of average earnings. So we get these results because like is not being compared with like. It is a problem of combining micro survey data with simulations based on model families.

The source for this series is given as 'Joint EC-OECD project using OECD tax-benefit models', and Eurostat.

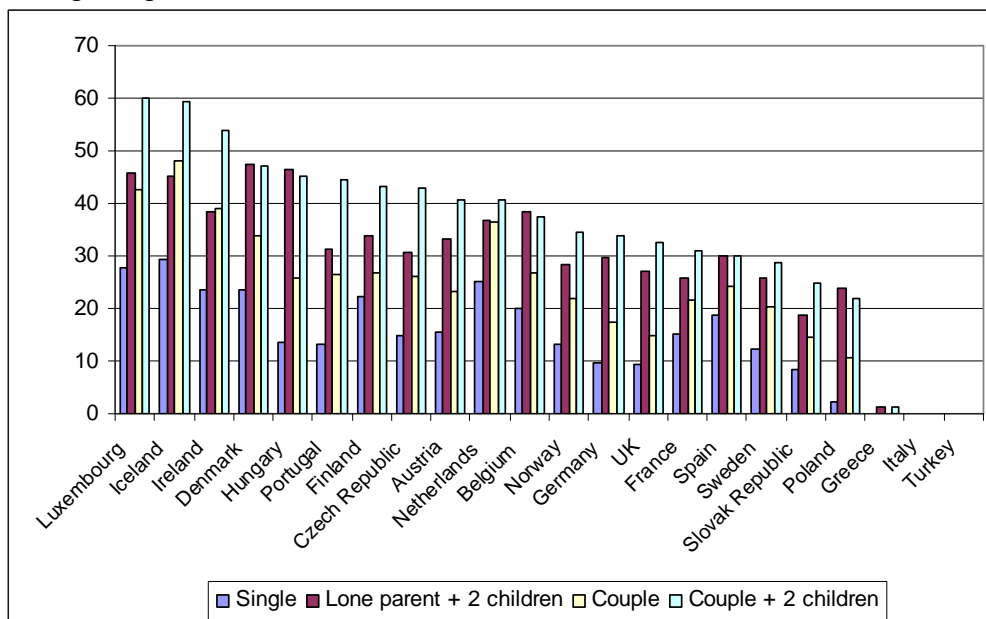
The OECD data on social assistance is used in Figures 3a and b and shows that the comparative position of the UK varies according to whether housing benefit is included or not. If it is included the UK is in the middle of the distribution considerably lower than that in Ireland³¹. If housing benefit is excluded (on the grounds that the rent assumption of 20 per cent of social assistance is unreasonably high for a social assistance case) then the UK comes towards the bottom third in the league table.

Figure 3a: Net incomes on social assistance (including housing benefit) as a % of the average wage. OECD 2007



Source: Own analysis of OECD Benefits and Wages data base.

Figure 3b: Net incomes on social assistance (excluding housing benefit) as a % of the average wage. OECD 2007.

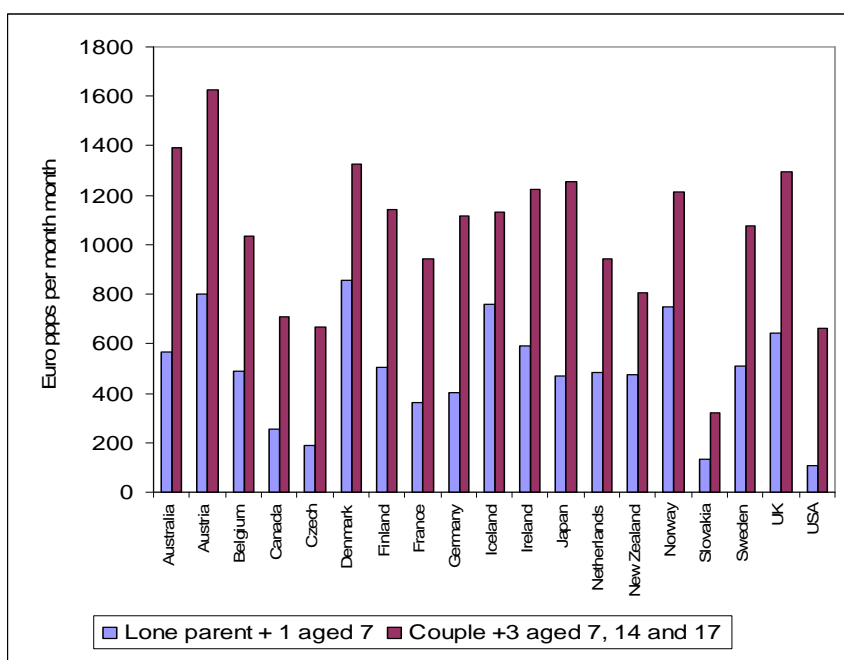


Source: Own analysis of OECD Benefits and Wages data base

³¹ This analysis uses more up to date wage data for Ireland than is available at the time of writing in the OECD tax-benefit models.

Perhaps the most recent thorough comparative analysis of social assistance was by Bradshaw and Finch.³² This work was replicated and updated for 18 countries and Figure 4 shows the social assistance scales paid to a lone parent with one child and a couple with four children, as at January 2004.³³ The UK is not the most generous; but the level of benefits is towards the high end of the distribution. However, this exercise was carried out to compare benefit packages for families with children; as noted above, social assistance rates for those with children are considerably more generous in the UK than for those without children.

Figure 4: Social assistance payable to two family types



2.3.4 Replacement rates

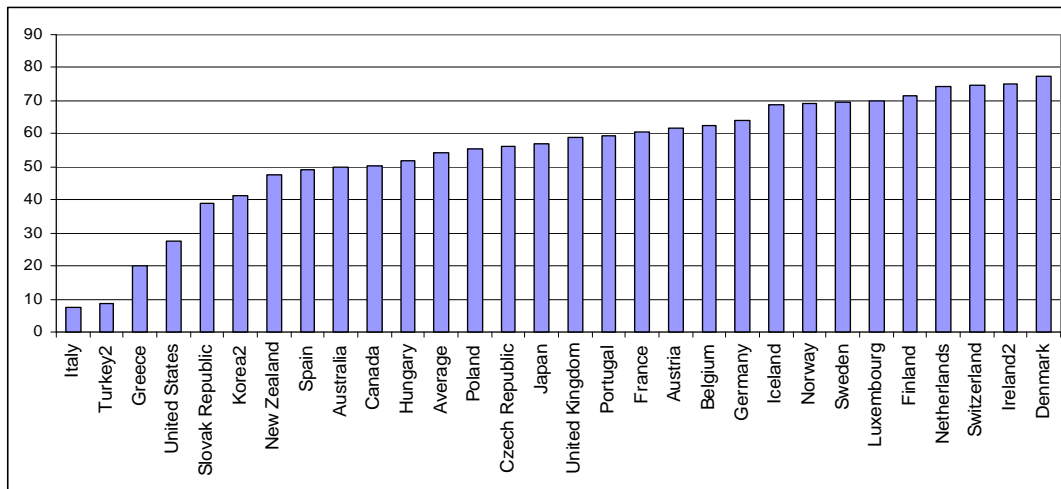
There is no doubt that one of the constraints on the adequacy of social assistance rates is their relationship with net incomes in work. This is commonly estimated by the notional replacement rate.³⁴ The OECD (but not, we think, the EU) produces estimates of replacement rates and Figure 5 presents a comparative summary for 2006. The UK replacement rates are in the middle of the distribution.

³² Bradshaw, J. and Finch, N. (2002) *A Comparison of Child Benefit Packages in 22 Countries*, Department for Work and Pensions Research Report No.174, Leeds: Corporate Document Services.

³³ Bradshaw, J. (2006) 'Child benefit packages in fifteen countries', in Lewis, J. (ed.), *Children, Changing Families and Welfare States*, Cheltenham: Edward Elgar.
<http://www.york.ac.uk/inst/spru/research/nordic/childbenefit2004%2018%20countries.pdf>.

³⁴ Net income on social assistance as a proportion of net income in employment.

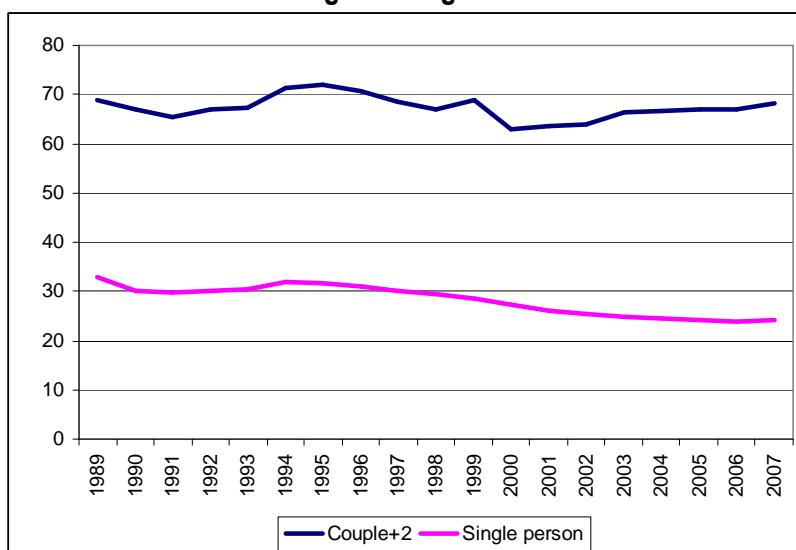
Figure 5: Average net replacement rate for four family types after five year unemployment on social assistance 2006



Source: <http://www.oecd.org/dataoecd/16/42/39720461.xls>

It is also possible to estimate changes in replacement rates over time at national level. This is shown in Figure 6 for a couple with two children and a single person. It shows social assistance net income as a proportion of net income after housing costs for a one-earner family earning two-thirds average income (assuming no other income for the other adult in the couple). It is therefore a comparison between social assistance and the income available to a low-paid worker or a family with a low income and an earner. For the couple with children, replacement rates declined between 1989 and 2000; but there was then a hike in IS scale rates for children, and replacement rates have risen to about the level they were in 1989. The replacement rate for the single childless person is much lower than for families with children, and has steadily declined since 1994. This is the result of in-work incomes rising faster than the Rossi Index.

Figure 6: Replacement rates of Income Support as a proportion of net income. One earner, two-thirds average earnings

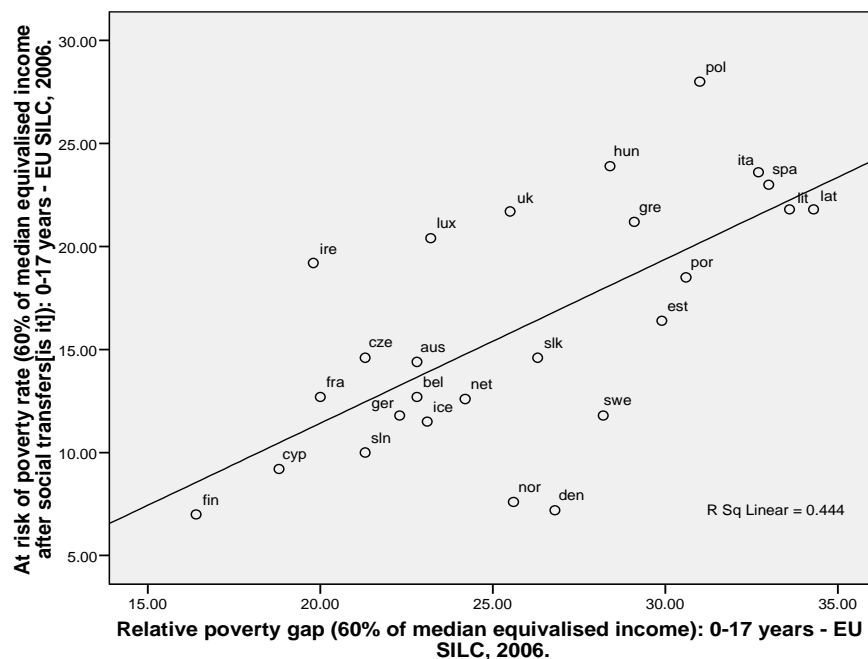


Source: DWP (2008) *The abstract of statistics for benefits, national insurance contributions and indices of prices and earnings*, 2007 edition.

2.4 Effectiveness

One claim that can be made for the UK minimum income scheme is that it is more or less comprehensive. If people claim their entitlement, and excepting certain cases - including sanctions, tax credit overpayments and rent restrictions (see below) - there is a minimum income below which they would not be expected to live. This may be one reason why, although the UK performs comparative badly on its poverty rate, it does much better on its poverty gaps. Figure 7 is an example of this in relation to child poverty – the UK poverty gaps are lower than you would expect given the poverty rates.

Figure 7: Child poverty rate by child poverty gaps. Own analysis of SILC 2006



Source: Own analysis of EU SILC

Despite its comprehensiveness, the minimum income scheme is not very effective in lifting people dependent on it above the poverty threshold, however. This is certainly the case for the out-of-work benefit system, with the possible exception of pensioners receiving Pension Credit, as we have seen in Figure 2. For families with children, there is a gap between the ‘minimum income guarantee’ for full-time workers on the minimum wage (assuming one wage only) and the poverty threshold. In 2006/7, of all the children in poverty in the UK more than half (56 per cent) had at least one parent in paid work.³⁵ The system provides some scope for people to help themselves by topping up their benefit payments with part-time earnings (at a level high enough to not be in poverty in the case of disabled people) and child maintenance (about to be fully disregarded).

There are several important reservations to be made to the proposition that the UK minimum income scheme is comprehensive.

Firstly, in some instances minimum incomes can go below the rates indicated previously, since benefit sanctions may be applied. JSA, IS, Incapacity Benefit (IB) and ESA are subject to sanctions if claimants fail to adhere to the conditions attached to benefit receipt.

³⁵ <http://www.poverty.org.uk/16/index.shtml>

JSA may be sanctioned for a number of reasons, including leaving a job voluntarily without good cause, losing a job due to misconduct, or failing to carry out a jobseeker's direction (a notice from an employment officer to take a specific action related to finding a job) (CPAG, 2008, pp. 401 and 406). JSA sanctions involve the loss of some or all benefit for between 2 and 26 weeks. Between 2001 and 2006, JSA sanction rates were consistently around 130,000-150,000 per year.³⁶ Sanctioned claimants may be eligible for hardship payments, but these are paid at a lower rate.

IS, IB and ESA sanctions can result from non-attendance at mandatory 'Work Focused Interviews' (WFIs). WFIs were introduced in 2001 and are designed to encourage IS, IB and ESA recipients to 'keep in contact with the employment market and eventually to begin full time work' (CPAG, 2008, p. 971). The introduction of ESA has considerably increased conditionality for those out of work because of illness, with higher numbers of mandatory WFIs than IS on grounds of illness or disability.

Research on the impact of JSA sanctions found that over two-thirds of people experiencing such sanctions experienced financial hardship, such as getting into debt. Emotional impacts were also found to have resulted from sanctions, including depression, frustration, anger and humiliation.³⁷

Secondly, in addition to benefit sanctions, those on IS because of illness or disability will also have their benefit reduced whilst appealing about a decision about their capability for work (a personal capability assessment). In this case, if they want to continue to claim IS (rather than moving on to JSA) the rate is reduced by 20 per cent of the personal allowance of a single claimant for your age (CPAG, 2008, p. 680). If the decision about a claimant's capability for work is overturned on appeal, any IS lost because a claimant was found capable of work is repaid. This rule is different for those receiving ESA, so that claimants appealing about an ESA decision about their ability to work will receive the basic ESA allowance (which is the same level as IS).

Thirdly, there have been noted problems of end-of-year overpayments and downward 'in-year adjustments' of Tax Credits.³⁸ Such overpayments (both in-year and between years) can be paid back by adjustments being made to future Tax Credit payments. Until November 2006, Tax Credits could have in-year adjustments of up to 100 per cent applied by HMRC. This has since been changed and payments can now only have an in-year adjustment of 10 per cent applied if the customer is receiving their maximum Tax Credit entitlement, or 25 per cent if they are receiving less than their maximum entitlement, but more than just the family element of CTC - but can still be reduced by 100 per cent if they are only entitled to the family element (which is the same as the rates at which end-of-year overpayments can be reclaimed from ongoing tax credit payments). Repayment of Tax Credit debts may lead to people having a lower minimum income than the schemes outlined above would imply.

Fourthly, as noted previously, limits have been set to the rent that is covered in HB and if the claimant's rent exceeds these limits they have to pay their housing costs out of the benefit that is supposed to be for their non-housing expenses. These rent restrictions depend on the area of the

³⁶ Social Security Advisory Committee (2006) 'Sanctions in the benefit system: Evidence review of JSA, IS and IB sanctions', in *Nineteenth Report: August 2005 – July 2006*, London: HMSO.

³⁷ Peters, M. and Joyce, L. (2006), 'A review of the JSA sanctions regime: summary research findings', from Department for Work and Pensions Research Report 313, Leeds: Corporate Document Services.

³⁸ End-of-year overpayments occur when a claimant receives more than their annual Tax Credit entitlement. Downward In-year adjustments occur when claimants' weekly Tax Credit payments are paid at a rate which would mean that they would be overpaid if those payments continued to the end of the year, and as a result, their ongoing Tax Credit payments are adjusted downwards accordingly.

country in which a claimant lives (since costs of housing vary by area), as well as their family size (larger families are typically entitled to higher HB to cover larger accommodation). These restrictions do not apply to council tenants.

In addition, for single claimants under the age of 25, the 'single room rent' may apply. The single room rent restricts the maximum rent to which a claimant is entitled to that necessary to cover the cost of a room in shared accommodation. This rate is typically nearly half that which will be paid for a one bedroom self-contained flat (the typical entitlement for a single person aged 25 or over). The single room rate for York in April 2009 was £65 per week; the rate for a one bedroom self-contained flat was £121.15.³⁹

Research for the DWP published in 2005⁴⁰ found that 87 per cent of Single Room Rent recipients received a shortfall of HB compared to their rent in 2002, compared to 56 per cent of those not subject to the Single Room Rent restrictions. The average amount of shortfall was £35.14 per week, compared to £16.34 amongst those not restricted by the SRR.

Fifthly, for the income-tested benefits you must be resident in Great Britain and have a right to reside. The right to reside test is very complicated and constantly changing.

Finally, there is also the problem of benefit take-up, which has been discussed previously.

Another claim that could be made for the UK system is that it is predominantly rights based – there is very little scope for official discretion in the amounts received, or in the circumstances that determine the amounts received. Claimants have a right to appeal to an independent tribunal if they dispute the decisions made on their claims (although, as noted above, the rates of benefit payable whilst appealing to a tribunal may be lower than those which the appellant would otherwise be entitled to).

A possible disadvantage of this is that the scheme is short on flexible, individualised justice. There are no social workers with the capacity to vary rules to take account of exceptional circumstances and thus, in order to treat like cases alike and unlike cases unlike, the rules are quite complicated.

Against these possible advantages of comprehensiveness are a number of criticisms to be made of the UK scheme:

- A large means-tested element to a social security system is inevitably expensive to administer.⁴¹
- Both the out-of-work and in-work schemes have very high marginal tax rates on earnings. For several of the key means-tested benefits supporting those out of work, a marginal tax rate of 100 per cent on earnings over the very low disregard limits is employed. The in-work scheme also has very high marginal tax rates arising from income tax and National Insurance contributions, and the loss of CTC, WTC, HB and CTB (though as a result very few of those in work are on HB in particular). The marginal tax rates are illustrated in Figure 8 for a couple with two children, with one earner earning the current minimum wage (and assuming no other income for the second adult). The horizontal axis gives the

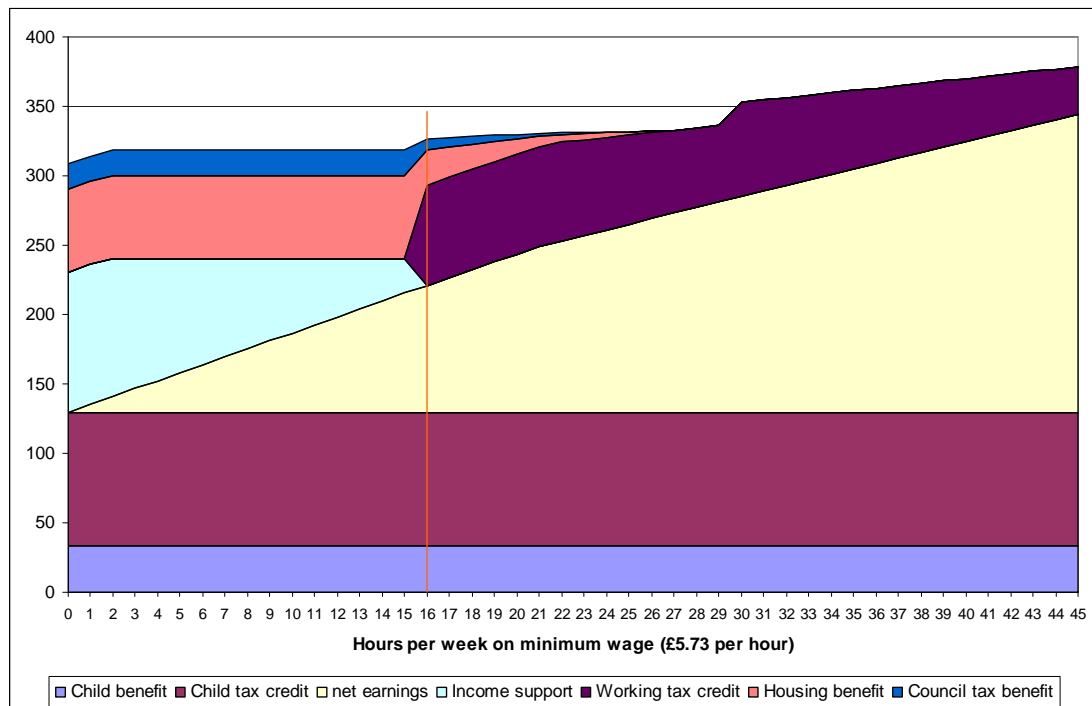
³⁹ <https://lha-direct.therentservice.gov.uk/Secure/Default.aspx>.

⁴⁰ Harvey, J. and Houston, D. (2005) *Research into the Single Room Rent Regulations*, Department for Work and Pensions Research Report 243, Leeds: Corporate Document Services.

⁴¹ The DWP appears to have stopped publishing the administrative costs of different benefits but some years ago the basic pension cost 1% of benefit expenditure to administer compared with 9% for Income Support.

hours worked and the vertical axis gives the net incomes. The marginal tax rate is at least 70 per cent across the range of hours, and as high as 85 per cent at certain parts of the range. At 16 hours' paid work per week, this family would receive £262.71 per week after housing costs,⁴² and at 40 hours' work they would receive £292.12 – a difference of £30 for 24 more hours' work. These marginal tax rates may not only be having an impact on the hours supplied (if anyone is able to understand the system) but also deterring second earners.

Figure 8: Net disposable income for a couple plus two children before housing costs by hours supplied at the minimum wage from April 2009. Rent = £60 per week, Council Tax = £18.00 per week



Note: This chart shows a slope between 15 and 16 hours and 29 and 30 hours. This is because we have plotted single hours. In reality there would be a precipice.

The UK scheme has always had a disjunction between in-work and out-of-work support. This means that moving from one system to another is never a seamless process. People moving into work have to give up IS and claim WTC, and their HB and CTB will be reduced (though in some cases people can receive 'extended payments' of HB and CTB which mean that they continue to get their out-of-work rates for four weeks after returning to work); their CTC entitlement is also likely to decrease eventually. Figure 8 shows this for one family type.

Table 7 gives the relativities for more standard family types. These are the net incomes that are delivered by the minimum income schemes in the UK in the out-of-work scheme and the in-work scheme. We have shown the amounts at 16 hours as well as 40 hours because 16 hours is the threshold for switching to in-work benefits/tax credits.

⁴² Housing costs are rent plus council tax.

Table 7: Net income. Tax/benefit system April 2009⁴³

	<i>Before housing costs</i>			<i>After housing costs</i>		
	Not working	One earner 16 hours on minimum wage	One earner 40 hours on the minimum wage	Not working	One earner 16 hours on minimum wage	One earner 40 hours on the minimum wage
Single	£137.80	£146.17	£204.90	£64.30	£72.66	£131.40
Couple	£178.96	£188.96	£240.60	£100.96	£110.96	£162.60
Lone parent + 1	£211.21	£261.70	£314.01	£137.71	£188.2	£240.51
Couple + 2	£308.47	£340.71	£370.12	£230.47	£262.71	£292.12

Rent = £60 per week and Council Tax = £18 per week (before single occupancy discount where applicable)

By far the most important criticism of the UK scheme concerns the issue of adequacy. This has been discussed already. The differentials between different rates of benefit, the result of the uprating formulae discussed above, are now very difficult to justify. Why should a single person aged 59 receive £64.30 per week in IS, while a year later, aged 60, they would be entitled to £130 per week?

The UK government has pursued a deliberate strategy to target pensioner and child poverty; but the result has been these kinds of anomalies. No one has made a rational decision about this situation. It is not based on any evidence of need, nor any principled arguments of desert. It has occurred because from the 1980s one benefit has been uprated with prices and the other by earnings. The gap between the living standards of, for example, a single person unable to work because of, say, mental illness on the one hand and the incomes of families with children and pensioners and people earning on the other is unfair and unsustainable.

⁴³ Assumptions and notes: 1) No rent restrictions apply in any cases. 2) Children are over the age of 1 and under 16. 3) No childcare costs apply. 4) All claimants are assumed to be over 25 and under 60. 5) In addition to incomes noted, some claimants may also be entitled to passported additional benefits. 6) Single occupancy discount on Council Tax is 25% (£4.50); discount is deducted before CTB is calculated. 7) Where in work, all claimants are assumed to have been in work and earning the same income in the previous financial year (2008-09) as the current financial year (2009-10).

3. Links between the minimum income scheme and the other two pillars of the active inclusion strategy

3.1 Employment and training programmes

The current Government has expanded employment and training programmes, and many of these are linked to benefit receipt, including the length of time claimants have spent on benefit. However, the distinction is largely not between those who are on social assistance and others (e.g. on national insurance benefits), but between those on different benefits and (for parents) with children of different ages. In future, the Government wishes to move towards an increasingly personalised conditionality regime, in which the support offered would be linked to the client's characteristics rather than what benefit they are claiming.⁴⁴ Indeed, in the longer term the Government also proposes to abolish Income Support, with all claimants of working age on either JSA or ESA (although it has not yet decided how to treat carers for disabled or elderly people in such a regime).⁴⁵ For the moment, however, benefit category and length of time on benefits still tend to determine what support is offered and/or the nature of the expectations of claimants.

Previously, different New Deals made differing offers depending on category of claimant. By and large, New Deals (such as those for young people and the long-term unemployed/25 plus) which were compulsory after a certain time on benefit offered more options and enjoyed higher investment; voluntary New Deals (e.g. for partners and lone parents) offered help from a personal adviser, but did not usually include training, subsidised jobs etc., as the other schemes did.

The Flexible New Deal which combines the previous programmes will be introduced later in 2009, as a new employment programme for those who claim JSA for a year, or after six months for those assessed as having greatest need of help to find work. The groups subject to conditionality are increasing, with a lower age (of children) at which lone parents have to claim JSA instead of IS, and involving parents with younger children and people on the work-related activity element of ESA in developing personal action plans and in carrying out 'progression to work' activities. A primarily 'work first' approach has now moved further towards a human capital approach, with claimants often undergoing a skills check, and more support is being given for jobseekers to improve their literacy, language and numeracy skills. But training provided by the employment service is still likely to be no longer than eight weeks. More intensive support is available for those with multiple problems. Greater discretion is to be given to personal advisers (PAs) in Jobcentre Plus offices; and a recent review of conditionality for the Government suggested that claimants should have greater control over the action plan they draw up with their PA.⁴⁶ There has been greater discretion hitherto in terms of the support and services that claimants can draw on in (e.g.) Employment Zones in deprived areas.

⁴⁴ Gregg, P. (2008) *Realising Potential: A vision for personalised conditionality and support – An independent report to the Department for Work and Pensions*, Norwich: Department for Work and Pensions/The Stationery Office.

⁴⁵ Department for Work and Pensions (2008) *No-one Written Off: Reforming welfare to reward responsibility*, Green Paper, Cm 7363, London: The Stationery Office:
<http://www.official-documents.gov.uk/document/cm75/7506/7506.pdf>

⁴⁶ See Department for Work and Pensions (2009) *Realising Potential: Developing personalised conditionality and support – A discussion paper on next steps in implementing the Gregg Review*, London: DWP.

3.2 Access to quality services

In some circumstances, claimants of certain means-tested benefits may also be 'passported' to certain other benefits, or can also qualify for certain payments. These are described below.

3.2.1 *Social Fund*

There are two parts to the Social Fund, the regulated payments and the discretionary payments (CPAG, 2008, pp. 484-525). The regulated payments include provision for maternity costs, cold weather, winter fuel costs and funeral expenses. Women on IS, income based JSA, CTC exceeding the family element, WTC and Pension Credit can claim a Sure Start Maternity Grant of £500 when they are pregnant or have had a baby, if they make contact with a health professional. Limited grants for meeting funeral expenses are available for certain people if they are responsible for such costs, if they are on IS, income based JSA, HB, CTB, CTC exceeding the family element, WTC for disabled people or Pension Credit. Cold weather payments are made to those on Pension Credit and certain groups on IS during weeks of exceptionally cold weather. (Winter fuel payments are not means-tested or passported benefits, but go to all over-60s in winter.)

The discretionary Social Fund can provide community care grants or budgeting loans to those who receive IS, income based JSA or ESA, or Pension Credit. It has a limited budget in each local area and there is no legal entitlement to a payment (unlike weekly IS). 'The consistency and standard of decision making have been heavily criticised. In part, this is a reflection of the contradictory nature of the SF's aim to meet need within a strictly limited budget' (CPAG, 2008, p. 488). Community care grants are very limited and are given to those with very little capital to (e.g.) meet one-off needs relating to remaining in the community or coming out of residential care, to ease exceptional pressures, or for certain travel expenses. Interest-free budgeting loans are intended to help with intermittent expenses which are difficult to budget for after a time on benefit (6 months or more) for people with little capital. Only certain expenses are eligible, and you must be able to repay the loan in 2 years; repayments are at fixed rates depending on circumstances.

Crisis loans are to help people in emergencies and you do not have to be in receipt of social assistance benefits to qualify. There is no legal entitlement. Crisis loans are often currently given when other benefits have not yet arrived, but in future this system is likely to be replaced.

In the last 6 months of 2008, over half of all community care grants were refused, as were about a third of crisis loans and about a quarter of budgeting loans.⁴⁷

3.2.2 *Health services and benefits*

The National Health Service provides free health care for all; but recipients of Pension Credit guarantee credit, IS, income based JSA and CTC (up to a threshold) are entitled to exemption from prescription charges, and to free dental and optical treatment. (Those on low incomes but not in receipt of a means-tested benefit may also be entitled, but have to complete a means test.) They may also be entitled to exemption from charges for social care services provided by their local authority, though there is no national policy covering such charges. Pregnant and nursing

⁴⁷ House of Commons *Hansard* (2009), Written Answers 11 February, col. 1987W; this does not include awards made after review.

mothers on IS, income based JSA or CTC (up to a limit, and without WTC) are entitled to Healthy Start food vouchers and vitamins if they make contact with a health professional.

3.2.3 Other in-kind benefits

School-aged children of recipients of IS, income based JSA, Pension Credit guarantee credit and CTC (up to a limit, and without WTC) are entitled to free school meals in term-time. Some local authorities give school clothing grants, but they determine their own eligibility rules. Young people staying on at school/college beyond the minimum school leaving age may get means-tested education maintenance allowances and students can get some loans and means-tested grants. Education benefits are not usually treated as part of the social security system.