Cutting social security

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The social security budget is a big part of public expenditure. The cost of benefits is variously represented as being in the region of £150 billion (if only the expenditure overseen by the Department for Work and Pensions is taken into account) or £190 billion (if the figure is extended to include Child Benefit and Tax Credits). Table 1 shows the main elements of expenditure for the DWP in 2009-10.[1] The figures are enormous, which is why commentators have taken to referring to the costs in billions (units of £1000 million). The scale of the system means that marginal changes have apparently big effects; failing to increase Child Benefit even by £1 a week saves £625 million pounds per year.

These figures include services administered by bodies outside the DWP – Housing Benefit and Council Tax Benefit are administered by local government – but they exclude other important issues, notably Tax Credits and Child Benefit, which are managed by Her Majesty's Revenue and Customs. Detailed figures from HMRC are not available – they have only recently published outturns for 2009, and the Child Benefit statistics, suspended after HMRC's disturbing loss of personal data, are lagging far behind - but the best estimates are that Child Benefit cost £12 billion[2], and Child Tax Credit and Working Tax Credit cost £27.3 billion.[3]

The figures are not completely reliable. Large discrepancies in the figures in official reports were not uncommon in the 1990s, but the wildest inconsistencies have been brought under control, and figures produced by different departments are now normally close to each other. There are some approximations here - the Department for Work

[1] Department for Work and Pensions (2010) *Benefit expenditure tables* (http://statistics.dwp.gov.uk/asd/asd4/alltables_budget2010.xls).

[2] HM Treasury (2010) Chancellor announces reforms to the benefits system, Press release 48/10, http://www.hm-treasury.gov.uk/press_48_10.htm

[3] National Audit Office (2010) HM Revenue and Customs 2009-10 Accounts: Report by the Comptroller and Auditor-General, London: NAO, para 17.

Table 1: Expenditure on social security, 2009-10		
Benefit	**Expenditure (billions)**	**No. of beneficiaries (000s)**
National insurance		
State pension (including State Second Pension)	67.39	12,417
Pension Credit	8.23	2,742
Widows and bereavement	.65	115
Jobseeker's Allowance – contributory	1.09	297
Incapacity Benefit and Employment and Support Allowance	6.69	1,362
Industrial injuries benefits	.84	269
Non-contributory benefits		
Disability Living Allowance	11.80	3,108
Attendance Allowance	5.26	1,605
Means tested benefits		
Income Support	8.34	1,923
Jobseeker's Allowance – income based	3.60	1,116
Carers Allowance	1.50	526
Housing Benefit	19.98	3,547
Council Tax Benefit	4.70	5,602
ESA – income based	.69	199
Universal benefits		
Winter Fuel payments	2.74	12,625
Category D universal pension	.05	27
Over 75s TV licence	.55	4,128
Discretionary benefits		
Social Fund	.75	n.a.
Independent Living Funds	.34	21
Total benefit expenditure (DWP)	**147.77**	

and Pensions estimates receipt of several benefits by sample survey, rather than by keeping a current tally – but the most important benefits are now being fully recorded. It takes some months to confirm the outturn.

It can be hard to decide what should be classified as ‘social security expenditure’, and what should not be. Child Benefit used to be part of the social security budget budget; Tax Credits replaced Family Credit, another DWP benefit. Free school meals are on the education budget, and free prescriptions are on the health budget. Some benefits have been created because of an effective shift of responsibility between government departments. Housing Benefit exists because governments withdrew the general subsidy from public housing; it could be treated as spending on housing instead, and they have wobbled in and out of the housing figures over the years. The concealed payment of mortgage interest, buried in JSA and Income Support figures, have been pushed up by the loss of the former subsidy to owner-occupiers for mortgage interest relief. Council Tax Benefit has had to reflect the reduction of central government finance for local government. Child Benefit conceals an effective transfer of resources from the amount formerly given in tax relief to families with children. These examples have all added to the social security budget, but that should be balanced against some other factors which were formerly part of the social security budget, and have been moved elsewhere. Payments for residential care for elderly people, and for charges related to supported accommodation, were in the social security budget before they were shifted to the budget for community care. The cost of support for people in work has been reduced by the introduction of a minimum wage and by moves to improve women’s wages; that would still be one of the most effective ways to reduce the cost of Tax Credits.

Presenting the data

Over time, the administration of benefits has shifted from a focus on mechanisms – National Insurance, means tested and non-contributory benefits – to a focus on client groups. Jobcentre Plus deals with ‘working age’ claimants, principally receiving Jobseeker’s Allowance and incapacity benefits. Long term benefits are dealt with by the Pensions, Disability and Carers Service; family benefits have been moved to HM Revenue and Customs.

The change in approach has been reflected in the way that the figures are presented. Under Labour, statistics on expenditure and receipt of benefits were presented in terms of ‘national objectives’, principally focused on older people, children, disability and so on. It sounds straightforward enough, but the change in emphasis has meant that figures are not always comparable over time. After 1996, three benefits provided for people unable to work – Incapacity Benefit, Income Support and Severe Disablement Allowance. Those benefits are still in payment, along with the Employment and Support Allowance introduced in 2008. (IB claimants are being transferred to ESA, in a three year process; SDA was closed to new claimants in 2001, but it still has over a quarter of a million recipients, and will not cease to exist until 2014.) The official statistics have been revised retrospectively, to take all the benefits together; that is why some sources say that there were one and a half million people on Incapacity Benefit before ESA, while others are talking about two and a half million.

Since the 2010 election, the presentation of certain key data has been modified in favour of a basic distinction between people of working age and people above working age. The consultation report on *21st Century Welfare*, for example, declares that there are 5 million people on 'out of work' benefits[4] – lumping together income based JSA, contribution based JSA, Income Support, SDA, Incapacity Benefit, income based ESA and contribution based ESA. The government's intention is apparently to emphasise what they see as the remorseless rise in commitments to people of working age; but the figures tell a different, parallel story. Benefits for people above working age account for £97 billion, which is two-thirds of all DWP expenditure. That includes several benefits also available to people of working age: older people receive, for example, £6 billion in Housing Benefit, £2.5 billion in Council Tax Benefit and £4 billion in Disability Living Allowance.[5] (That last figure is particularly surprising. Most older people are excluded from claiming DLA – they are expected to claim Attendance Allowance instead, which is more restrictive and which does not allow for mobility needs. The older DLA claimants are people who have been able to claim the benefits before retirement age and are allowed to continue and renew their claims. They account for fully a third of DLA claims.) One of the effects of the cuts has been to shift the balance further in favour of older people.

[4] Cm 7913 (2010) 21st Century Welfare, London: DWP.

[5] DWP (2010).

Deciphering the cuts

The cuts have been presented both on the basis of annual savings, and over the life-time of the next parliament.[6] That can lead to mixed messages: cuts in welfare spending have been presented as coming to £18 billion (the annual saving by 2014-15), but some of the savings on individual benefits have been presented cumulatively (for example, the three-year freeze in Child Benefit will save nearly £3 billion over four years). Most of the cuts start to bite only in later years, and for simplicity I have only referred in the following material to the estimated cuts for 2014-15.

The length of time between now and then points to one of the problems in making sense of the figures. The estimates of cuts are educated guesses, not projections of existing entitlements. The estimates of the cost of future upratings, and assessments of the value of freezing benefits, obviously depend on predictions about inflation. The cost of Housing Benefit, and savings from Local Housing Allowances, depend on the market in rented housing. Some of the estimates are based on shaky foundations. The £1075 million in savings to be expected by subjecting claimants of Disability Living Allowance to a medical assessment are based on the current experience with Employment and Support Allowance,[7] where 37% of claimants are dropping out without completing the assessment.[8] As the criteria for DLA are significantly different from ESA, and have nothing to do with work status, the assumptions are questionable. In the Budget, the government expected to save over £300m a year by reducing backdating of claims for Tax Credits;[9] in the Spending Review they suggest they will save a further £300m by responding to changes in circumstances in real time.[10] If they were genuinely able to respond in real time, backdating claims would not be necessary; but in any case the confidence that government will be able to respond on this basis, given its past record

[6] HM Treasury (2010) Budget 2010, HC 61, London: The Stationery Office; Cm 7942 (2010) Spending Review 2010, London: HM Treasury.

[7] HM Treasury (2010) Budget 2010 policy costings, London: The Stationery Office, p 36.

[8] K. Dryburgh (2010) Unfit for purpose, Edinburgh: Citizens' Advice Scotland.

[9] HC 61 (2010), p 41.

[10] Cm 7942 (2010) p 12.

in the delivery of computer systems, seems to be at odds with all past experience, and it is far from clear that there will be any saving at all.

In the lead-up to the Spending Review, the government canvassed a range of options for cuts. The most obvious targets were the universal benefits, generally castigated as wasteful, expensive or "bonkers" – the term used by Iain Duncan Smith, the Secretary of State for Work and Pensions.[11] There were indications that Child Benefit would be limited to younger children,[12] and that policies on universal benefits for older people, like Winter Fuel Payments, fare concessions or the TV licence exemption for people over 75 might be reconsidered. In the event, there has been one significant move in this direction, which was to deny Child Benefit to people on higher earnings. This was not, however, done either by taxing the benefit (which has been done before) or by means-testing it: means testing would have been costly, problematic and difficult to administer. Rather, it was done by selecting households with a higher-rate taxpayer. This looks like a relatively simple trigger, though it has since emerged that HMRC does not have an effective system for identifying which families it applies to. It is not as complicated as means-testing would be, but it creates obvious problems in equity – two-earner households may have a higher income without being denied the benefit. The powerful protests may have deterred the government from further action in this field. There are more problems to come: the change threatens to create problems when fluctuating income, interrupted earnings or marital breakup affect the status of potential recipients.

The next targets were benefits for people with disabilities. Since Incapacity Benefit was being replaced before the Conservative Manifesto undertook to do it, the scope for toughening up Employment and Support Allowance was limited. The Work Focused Health Assessment built into ESA has been suspended for two years pending further decisions about the new Work Programme, and medical reassessments are taking place without it. The government had made a particular point of stigmatising Disability Living Allowance,[13] but in the event the basic structure of the benefit has been left alone; they

11 R Winnett (2010) Child benefit to be withdrawn from middle classes, Daily Telegraph 4th October.

12 J Sherman and R Bennett (2010), Millions may lose out in reform of child benefits, Times 11th June, p 1.

13 Cabinet Office (2010), The state of the nation report: poverty, worklessness and welfare dependency in the UK, http://www.cabinetoffice.gov.uk/media/410872/web-poverty-report.pdf

are relying instead on a further medical assessment to limit claims. Suggestions that benefits might be means-tested or taxed came to nothing. The major change that has been introduced is the introduction of a time limit on contributory ESA – not an American-style time limit, but rather a replication of the old rules for Unemployment Benefit. The main effect should be to limit entitlement for people with partners, or those who have taken early retirement with an occupational pension.

A third element might have been a stronger focus on means-testing. The government's policy in *21st Century Welfare* argues for the development of a Universal Credit which would reduce the poverty trap.[14] Adjusting the tapers , which determine the speed at which benefits are withdrawn, seemed an obvious move. The tapers of the Tax Credits are being increased from 39% to 41%, but there it apparently stops. The structure of Housing Benefit and Council Tax Benefit have largely been left intact, and there has been no movement yet towards the Universal Credit.

The reforms that have been introduced have been are, for the most part, much less ambitious, and they do not try to address fundamental issues. Rather, they are incremental and parsimonious. The largest single cut comes from the shift to using the Consumer Price Index for upratings, because the CPI calculates inflation in a lower ratio than the alternatives. The budget estimated that the switch to using the CPI would yield over £6.2 billion in 2014-15 alone (though that figure includes public sector pensions, which are not part of benefit expenditure).

The group that is most directly been affected by the decisions in the Budget and the Spending Review are families with children. Apart from the freeze on Child Benefit, there are cumulative reductions in Tax Credits, including abolition of allowances for children under two; the removal of Health in Pregnancy grants, and of Sure Start maternity grant after the first child; the end of the Child Trust Fund. Lone parents will have to be available for work earlier; there will be a (still unspecified) restriction of Educational Maintenance Allowance. There are also several cuts in other benefits that the government considers too generous: cuts in the rents allowed under Housing Benefit, a 10% cut in entitlement for some after a year on benefit, and the introduction of a maximum weekly benefit for each household that in practice will mainly affect allowances for housing.

[14] Cm 7913 (2010).

Trends in expenditure

Expenditure on social security increased has increased as a proportion of Gross Domestic Product from under 5% in the 1950s to over 10% now. At its highest, in the mid-1990s, it passed 12%.[15] The current proportion of GDP spent on social security is not very different from the early 1980s, when there was mass unemployment; reductions in the number of unemployed people have been offset by increasing numbers of pensioners. The rise of expenditure as a proportion of GDP may give the impression that benefits have improved more than national income, but that is not universally true. Although the main earnings-replacement benefits have been uprated in line with inflation, this has not necessarily kept pace with national income. What has happened instead is that there has been a gradual increase in the extension of entitlement for some long-term claimants, mainly pensioners and people with disabilities.

The first element has been the growth in the elderly population, who have retired earlier and living longer than previous generations, but who have established rights. Governments are unable to reduce the numbers of entitled elderly people, and find it difficult to renege effectively on previous undertakings. The maintenance of established benefits along with guaranteed upratings for older people will increase, rather than reduce, expenditure – the Spending Review puts the likely impact at just over a billion pounds per year.

Second, there is the recognition of the needs of people with disabilities. Three benefits in table 1 – Attendance Allowance, Carer's Allowance and Disability Living Allowance – come to 12% of the DWP budget; Incapacity Benefit and ESA make another 5%. These benefits did not exist when the first national research on disability was done in the 1960s. There is nothing inevitable about having to meet need when claims are made, but governments have found themselves trapped on one side by a disparate but effective campaigning force, and on the other, by the dawning realisation that if millions of people who are disadvantaged financially are also physically disabled, then once the basis of provision has been established, it is very difficult to deny the validity of their claims. Many subsequent reforms have been a rearguard action by governments trying to limit the financial damage.

Third, there is the problem of unemployment. Alcock et al write of the 'detachment' of large numbers of older males from the labour market,

[15] Department for Work and Pensions (2003) The Abstract of Statistics: 2003 edition, chart A.

through a combination of redundancy, ill health and early retirement.[16] Mass unemployment is also reflected in the numbers of other non-employed groups, including people with incapacity and lone parents.

The impact of the cuts

Successive governments have tried to rein back on benefit expenditure: paying less for disability, reducing fraud, reclassifying people as unemployed rather than as long-term sick and limiting Housing Benefits. Most of these measures are marginal. For example, the cuts in Housing Benefit for long-term unemployed people will often amount to less than £10 a week. That difference could be devastating for claimants, but as a proportion of benefit expenditure the potential saving is very limited - the government estimates it will be about £110m in 2014-15.

Efficiency savings do not do very much to save money; the main options for governments who want to cut are to reduce entitlements, or to reduce the level of benefits. Both are unusual, and more typically, attempts to economise usually depend on progressive tightening of rules – for example, upping the tapers on Tax Credits, or reducing eligible rents in Housing Benefit. That kind of incremental change is typical of the approach in this Spending Review.

The analysis of the long-term trends puts the likely impact of these cuts in some perspective. The Spending Review has not focussed on any of the key factors driving increased expenditure – the growth in the numbers of old people, the growth in unemployment, the issues that have emerged around disability, or the extension of entitlements. The largest effect on any of these factors will be the increase in pension age, and it will be some time before that takes effect. There have been unlikely claims that unemployment might shrink under the influence of conditionality and 'incentives' for longer-term unemployed and chronically sick claimants, but even if it was to happen, which is questionable, the importance of those groups within the overall distribution of claimants is very marginal. The impact of economic depression and the destruction of nearly half a million public sector jobs can be expected to dwarf the impact of any changes in benefit regime. That will lead, in turn, to more claims from unemployed people under different headings – more disability, more marital

[16] P. Alcock, C. Beatty, S. Fothergill, R. Macmillan and S. Yeandle (eds) (2003) Work to welfare, Cambridge: Cambridge University Press.

breakdown and more early retirement. The bill for benefits is going to grow, and it is likely that it will grow rapidly.

Inevitably, cutting benefits to individual claimants can be the source of considerable hardship. The reductions in family benefits will make life more difficult for many; cuts to Employment and Support Allowance, Disability Living Allowance and Housing Benefit can only create problems. The government has tried to give the impression that this is part of a systemic realignment of benefits, rationalising the system, making it “fairer” (by their lights) and addressing the problems of an unruly system. This is spin, and it bears little relationship to what is actually being done. What is happening, on the contrary, is an incremental series of cuts which cannot have the effect the government intends. It follows that, before very long, they will be back for more.

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