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## **Inquiry into Benefits in Wales: options for a better delivery**

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Accepted/In press: 01/01/2021

Publisher's PDF, also known as Version of record

[Cyswllt i'r cyhoeddiad / Link to publication](#)

*Dyfyniad o'r fersiwn a gyhoeddwyd / Citation for published version (APA):*

Beck, D., Closs-Davies, S., & Gwilym, H. (2021). Inquiry into Benefits in Wales: options for a better delivery.

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Ymchwiliad i Fudd-daliadau yng Nghymru: opsiynau i'w cyflawni'n well

Inquiry into Benefits in Wales: options for better delivery

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Response from: Dr David Beck Dr Sara Closs-Davies Dr Hefin Gwilym (Bangor University)

**1. arguments for and against the devolution of welfare benefits**

- a. **For** – The level of relative poverty in Wales is the highest of all devolved nations. Current evidence shows that the majority of tax credit overpayments are suffered by claimants in Wales (as evidenced in HMRC statistics from 2003/04). Such overpayments worsen financial hardship and create serious health problems for claimants (Citizens Advice, 2007). In addition, Universal Credit (UC) has proven to be problematic and has worsened financial hardship and poverty for claimants. Given the effects of the tax credits system, the potential effects of the UC system on claimants in Wales is no exception. The Joseph Rowntree Foundation (JRF, 2018) have found that in Wales, although income poverty has fallen, it is still higher than England, Scotland and Northern Ireland. JRF (2018) also finds that relative poverty across Wales is associated with reductions in working-age benefits coupled with rising cost of living. Thus, Wales should be allowed the opportunity to alleviate financial and non-financial suffering of Welsh welfare recipients, before UC is further imposed across the country. Designing a welfare system that specifically engages with Welsh recipients' experiences and needs would cater towards local, Welsh-specific goals that could include: carers allowance, improving benefits for carers by increasing the Carer's Allowance; benefits for people with disabilities and/or ill health; help with heating costs. In turn, this would help Wales become a more versatile, stronger and healthier nation, which will not only benefit the wellbeing of the people in Wales, but also increase benefit take-up and improve the Welsh economy and its public finances.
- b. **For** – Further detailed reasons given in the sections below
- c. **Against** – The devolution of benefits to Wales might end national benefit scales throughout the UK. This could have implications in defining the poverty line for the whole of the UK. It might also have a knock-on effect on public sector pay if the UK wide principle of national pay scales is abandoned.

## 2. Lessons learned from the devolution of some social security powers to Scotland;

- a. It is understood from research that the transition from out-of-work-benefits over to paid employment can be a difficult path for the long-term unemployed to negotiate (Beck and Gwilym, forthcoming). Typically, out of work benefits stop immediately once a (full-time) job is secured, yet, most employers now pay monthly. As a result, the new worker will be expected to wait until the next pay date from their new employer (working almost a month 'in-hand'). This is understood to be the cause of some financial hardship for low-income people, and this transition period is understood to be a 'poverty trap', trapping people on out-of-work-benefits, as negotiating a month without income can be an insurmountable task (Beck, 2018).

The introduction of Universal Credit was, with support from across the political spectrum, a way to allow for smooth transition from out-of-work benefits, over to paid employment, as UC is intended to be paid monthly to mimic paid employment. However, as research has shown (Wright et al, 2018) negotiating this transition, especially for those who have been long-term low-income is difficult, especially for families and people with mental health or budgeting issues. Scotland however, has the power to provide UC payments on a fortnightly basis, a method that seems to be more helpful in smoothing a transition from out-of-work-benefits, over to paid employment.

For those who are out of the employment market due to health or social care issues, the power for Scotland to be able to make fortnightly payments is also a way to help people who are not making the transition into paid work - due to long-term ill health etc. - more manageable through 'bite-sized' benefit payments.

- Issues of gender-based control or gender-based violence through coercive financial means can also be reduced in Scotland, as they have the power to share UC payments across the family. The introduction of UC means that a **single payment** is made to a named family member (typically the male/highest earning). However, this is a return to the Beveridge male breadwinner model of the 1950s and can be used, in some circumstances as a method of financial control. The introduction of Child Benefit was a 'wallet-to-purse' tax, ensuring that the woman in the relationship did not have to depend upon asking her male partner for 'spending

money'. However, under the single household-single payment policy of UC this runs the risk of creating a situation whereby there could be a rise in domestic violence due to financial abuse and coercive financial behaviour.

**3. options for different forms of devolution (i.e. Universal Credit flexibilities, the devolution of specific benefits, the ability to create new benefits etc.)**

- a. UC combines six different benefit payments into one single payment. Its administration and spending so far has not been delivered in a cost-efficient way, due to its design and IT flaws (National Audit Office, 2018): Its estimated administrative costs to process one claim increased from £173 to £699 (*ibid.*, p. 9). Since its rollout, many recipients experienced significant delays in receiving financial support - twenty per-cent of UC recipients had to wait five-months or more between January and October 2017 (*ibid.*, p. 36) - worsening poverty, homelessness and increasing food bank dependency (Beck, 2019).
- b. It is already evidenced by several charities that the administration and application process for UC is significantly slow and has significant financial effects on claimants. In addition, depending on digitised online application procedures magnifies this difficulty for claimants who have no access to the internet or lack the necessary IT skills. Wales is still yet to benefit from high-speed fibre broadband in many of its areas. Although UC was designed to be a simpler system, it is complex because it deals with several different benefits and aspects of a person's, ever-changing, household activities. In combination, it can lead to stress and confusion to many who depend on its financial support. There have been many calls for the Government to stop the rollout of UC until it has been more fully developed, its IT problems and issues of transition from tax credits to UC resolved (e.g. LITRG, 2018).
- c. As recommended above, there are specific challenges that arise through Universal Credit, especially as they pertain to issues of persistent low-income (as an acknowledged existence across Wales – JRF (2018) research has pointed to), and transitions to earned income. More so, these difficulties exist for people who are far from the employment market, due to their skills level, or due to their ill health (mental ill health or otherwise). – there should be the space to allow for devolved powers over fortnightly payments for UC.

- d. As an acknowledgement of the power of coercive and controlling behaviour, Universal Credit presents a particular challenge for low-income women (especially within low-income couples), as they may not have the same access to this shared social security, and therefore could become victims of financial abuse. – there should be a specific law created to ensure partners share equal access to all ‘family income’.
- e. It is already evidenced that both the tax credits and UC systems are overly complex for recipients. Thus, information provided to welfare recipients should be made more clearly and communicated in a more meaningful and humane way. This would empower recipients to work out, understand and challenge their welfare claims (Closs-Davies, Forthcoming).
- f. As has been acknowledged by many studies (Dwyer and Wright, 2014 or Wright et al, 2018 for example) UC payments now includes housing benefits payments. As with the recommendation above, families, particularly those with low-incomes and young children may run the risk of heightened threat of homelessness, given the inclusion of housing benefit as part of the whole payment of UC. Should any financial abuse occur, or any mismanagement of the family budget, the children are at risk of becoming homeless, should the family not be able to make good on the rental payments.

– A recommended policy move would be to maintain housing benefit payments directly to the landlord (shared between both partners equally), and to not have them inclusive in UC payments.

- g. As a high proportion of Wales is rural, and thus potentially a high proportion of people employed in agriculture, and or other self-employed businesses, the removal of the ‘minimum income floor’ would be a welcome policy shift. This policy means that those who are self-employed have to show that they are earning a minimum income from their business, or face having to enter into talks with a JCP advisor about boosting their earnings from self-employment. We have no doubt that all self-employed people are aware of their business limitations and market, and therefore are probably already working towards profit maximisation. This has been understood to be already causing issues in

the farming community, who have seen declining profits due to the impact of supermarket shopping, globalisation, and not to mention the changes afoot through Brexit and the changes in the CAP.

**4. Practical considerations of devolution (i.e. the financial implications, integration of devolved and non-devolved systems, delivery infrastructure etc.)**

- a. From April 2019, the UK government will reduce the 3 rates of Income Tax paid by Welsh taxpayers:
  1. basic rate from 20% to 10%
  2. higher rate from 40% to 30%
  3. additional rate from 45% to 35%
- b. The Welsh Government will then decide the Welsh rates of Income Tax that will be added to the reduced UK rates. Where possible the Welsh Government should seek to consider in the near future raising the level of income tax in Wales to subsidise anti-poverty initiatives, particularly cheaper and more free childcare.

**5. The principles that could underpin the delivery of benefits in Wales.**

- a. The principal that could be the driver of radical changes in the delivery of UC in Wales would be to attach change to the Wellbeing of Future Generations (Wales) Act 2015. As a legally binding proposal, the benefits of ‘political shelter’ that could be afforded to the people of Wales through the Wellbeing of Future Generation (Wales) Act should be used by the Welsh Government. This is a position that the authors of this evidence fully endorse.

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