

# Policy Statement



## **FROM WELFARE TO WORKFARE**

A welfare policy for an  
independent Britain

**January 2010**

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*A Welfare Policy for an Independent Britain*

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## 1. Introduction

The UK welfare system has developed from a simple safety net to a ridiculously complicated system that almost deliberately entrenches poverty and arbitrarily divides society into the paying classes, the recipients and an army of bureaucrats and administrators in between.

It is intolerable that a large number of people choose to abuse the benefits system. Many people now see the benefits system, with its elaborate system of entitlements and payments as an alternative to work. This gives rise to a parasitic underclass of "scroungers", which represents both an unreasonable tax burden on the working population and is a factor in many social pathologies such as crime, anti-social behaviour and educational under achievement.

As well as those who cynically and shamelessly abuse the benefits system, there are a great number of decent, hard working people who wish to come off benefits, but are discouraged from doing so by the current benefits structure. They are too poor to enjoy a meaningful standard of living due to benefits payments, yet they fear taking up training courses as this will see their benefits cut or stopped altogether. Many of these people remain on benefits because they feel it provides a better "deal" than a minimum wage job. It is unacceptable that a sizeable percentage of people on benefits who could move out of benefits dependency and into work are discouraged from doing so by the structure of the current system.

The benefits system has also been implicated in family breakdown. It penalises couples who are married or who are in long term stable loving relationships, and this will often result in a reduction of the entitlements of one or both partners. Some single parents can often receive generous payments, as well as short cuts to the front of waiting lists for social housing. Given these factors, it is perhaps unsurprising that family breakdown occurs, and that the norm of two married adults forming a long-term household unit together is becoming rarer.

Many benefits are means tested. This has the curious effect of punishing those with savings, yet rewards those with little or none. This system makes no sense as, in effect, it penalises those who save and practice financial responsibility whilst rewarding those who do not. The system should not be structured in such a way.

Britain's membership of the EU has allowed unlimited numbers of immigrants from the EU to come to Britain and claim benefits. The overcrowding caused by mass EU immigration has also placed tremendous burdens on social housing, which has been felt throughout the country. The costs associated with translation place an additional unacceptable burden on the taxpayer.

To that end, the UK Independence Party has put together this policy statement on the benefits system. The current welfare system entrenches poverty and welfare dependence. UKIP believes in individual responsibility and independence. This policy paper shows that it is perfectly possible to have a simple, affordable welfare system that alleviates poverty and ensures social cohesion without discouraging work, marriage or savings, or without actively encouraging single-parenthood or fraud.

## 2. The Problem

One in five families receive housing benefits - Daily Telegraph 3/11/09

<http://www.telegraph.co.uk/news/newstopics/politics/6489956/One-in-five-families-receive-housing-benefits.html>

'Disabled' £75K benefit cheat caught doing a break dance - Daily Express 30/10/09

<http://www.express.co.uk/posts/view/136998>

My benefits belong to Allah: Hate preacher Choudary defends £25,000 a year payments from British taxpayers

<http://www.dailymail.co.uk/news/article-1242704/My-benefits-belong-Allah-Hate-preacher-Anjem-Choudary-defends-25-000-year-payments-British-taxpayers.html#ixzz0caf9PqOJ>

Confusion over tax credit leaflet - ThinkingMoney.org 18/9/09

[www.thinkingmoney.org/confusion-over-tax-credit-leaflet/](http://www.thinkingmoney.org/confusion-over-tax-credit-leaflet/)

£52,000 benefits cheat walks free from court - Metro News 29/10/09

<http://www.metro.co.uk/news/759292-52-000-benefits-cheat-walks-free-from-court>

People would rather go on the sick here than take a low-paid job - The Sun 12/10/09

<http://www.thesun.co.uk/sol/homepage/features/2677798/The-Sun-examines-the-blackspots-of-broken-Britain-Day-1-Merthyr-Tydfil-in-Mid-Glamorgan.html>

Claim forms for benefits 'confusing' says watchdog - Daily Mirror 7/5/09

<http://www.mirror.co.uk/news/top-stories/2009/05/07/claim-forms-for-benefits-confusing-115875-21338347/>

21-year-old fathers seventh child BBC 2/4/06

[http://news.bbc.co.uk/2/hi/uk\\_news/england/wear/5138444.stm](http://news.bbc.co.uk/2/hi/uk_news/england/wear/5138444.stm)

3 out of 4 claiming incapacity benefits are fit and healthy - Daily Star 14/10/09

<http://rosalind.dailystar-uk.co.uk/posts/view/103461>

Benefit cheats told to repay £50k fraud at just 85p a day - over 77 years - Daily Mirror 8/10/09

<http://www.mirror.co.uk/news/top-stories/2009/10/08/repay-your-50k-fraud-at-85p-a-day-115875-21731258/>

### **3. Executive summary**

#### **3.1 Welfare State and the Social Costs**

\* The current welfare state leads to a decline in the work ethic and self reliance. It is also implicated in other social pathologies such as family breakdown, criminality and educational underachievement, and requires dramatic simplification.

#### **3.2 Child Benefit, Child Tax Credits and the Education Maintenance Allowance**

\* Child Benefit, the Child Trust Fund, Child Tax Credits and the Education Maintenance Allowance should be merged into an enhanced Child Benefit payable for each of the first three children in each family.

\* The Childcare element of Working Tax Credits, Early Years Funding, Sure Start expenditure and the tax relief on Employer Nursery Vouchers should be replaced with flat-rate, non-means tested nursery vouchers to cover around half the cost of a full-time nursery place for all children aged two to four.

#### **3.3 Housing Benefit and Social (Council) Housing**

\* Instead of social housing being let at below-market rents with tenants liable for full Council Tax, with social tenants entitled to claim income-related Housing Benefit and Council Tax Benefit, local councils should charge social tenants an all-inclusive rent (rent plus Council Tax), set at a flat percentage of the tenant household's gross income.

\* Housing Benefit and Council Tax Benefit for private tenants should be phased out and replaced with 'Workfare' jobs, which will be administered by local councils, to ensure that those who would otherwise not be able to find work can still cover their rent and Council Tax, as well as contributing something of value to the local community (see Appendix 3).

#### **3.4 Job Seekers Allowance and other key benefits**

\* All other 'key benefits' (Jobseeker's Allowance, Incapacity Benefit, Income Support, Carer's Allowance, Statutory Maternity Pay) as well as student maintenance grants should be rolled into a single, flat-rate Basic Cash Benefit ('BCB'), set at the same weekly rate as Jobseeker's Allowance/Income Support.

\* Entitlement to the BCB should be extended to all low- and non-earners, in particular, to married or co-habiting mothers, students and carers, irrespective of household composition, income or assets.

\* The 'BCB' should not be means-tested, however, to ensure that claimants are not at an advantage compared to normal taxpayers, claimants would not also be entitled to the enhanced tax-free personal allowance of £11,500 recommended in UKIP's flat tax policy. Part-time and temporary workers would be allowed to continue claiming the BCB, but once their wages reach the level of the personal allowance, the BCB claimed and the tax paid will net off to nothing.

### **3.5 Disability Allowance**

\* UKIP fully supports those who cannot work and have disabilities. UKIP does not propose any changes to Disability Living Allowance, Attendance Allowance or Mobility Allowance.

### **3.6 Benefit Fraud, Error and Administration**

\* UKIP proposes to replace a myriad of complicated means-tested benefits with straightforward universal benefits, the running cost of the entire welfare and pensions systems will be no more than £1.7bn, giving a saving to the taxpayer of £8bn.

### **3.7 Benefits, Immigration and the EU dimension**

\* EU rules allow immigrants the same benefits as British citizens

\* UKIP would only allow entitlement to welfare benefits after a minimum waiting period of ten years and on obtaining British citizenship for those who originally entered the country with a valid work permit or for reasons of marriage to a British citizen. Anyone who had entered the country under any other circumstances would not qualify.

### **3.8 Welfare dependency and family breakdown**

\* UKIP would remove the "couple penalty" in benefits for married couples. UKIP would also introduce a flat tax policy that would disincentive young single mothers from getting pregnant purely to obtain financial/benefits advantages.

### **3.9 Welfare dependency and willingness to work**

\* UKIP would abolish employers' and employees' national insurance, and introduce a flat tax. This would mean low income workers would keep more of their wages, and thus are not tempted to fall back into welfare dependency.

\* UKIP will require those seeking benefits to take part in 'Workfare' schemes i.e. some kind of work such as litter collection or graffiti removal. These schemes will be decided upon and run by local councils ( see Appendix 3 ).

### **3.10 Part time workers and benefits**

\* UKIP welfare policy would allow full time carers to work, and not worry about a 'cut off point' at which their benefits will be cut if they earn above a certain amount.

## **4. Welfare State and the Social Costs**

4.1 The welfare state is a major feature of modern Britain, and has been since the Labour government of 1945 promised to create a welfare state which would provide welfare "From cradle to grave". However, it would appear that a more appropriate description would be "From cradle to slave", as it has slowly leached away the self reliance and work ethic of many welfare recipients.

4.2 This has led to stubborn long-term unemployment in many parts of the county, and has been a major factor in the creation of 'sink estates'. These estates often have well deserved reputations for benefit dependency, criminality, dysfunctional families and anti-social behaviour.

4.3 Whilst the vast cost to the taxpayer of the welfare state is obvious, perhaps a more serious concern is to reduce the 'social costs' of the welfare state. That is, the pathogenic social and cultural trends that the welfare state has been directly

implicated in. For example, the welfare state has been accused of fostering family breakdown. There is a significant 'couple penalty' inherent in the way the tax and welfare systems interact. For example a single parent with two children working 16 hours at the minimum wage has an income after tax credits of £487 a week, while a two-parent family would have to work 116 hours to gain the same rewards<sup>1</sup>. This provides a disincentive to forming a two-adult family unit. As a result, the traditional family unit is breaking down.

4.4 As a report from the Office for National Statistics states "The proportion of children living with one parent more than trebled over the past 35 years to 23 per cent in 2007.... Births outside marriage became more commonplace during the 1960s and 1970s and by 2006, 43.7 percent of all births in the UK occurred outside marriage, compared with 25.2 percent in 1988"<sup>2</sup>. Furthermore, single-parent families, once seen as a social problem, have been institutionalised. "About 50,000 babies [born] each year, or 7 per cent of the total, are "sole-registered" with only their mother's name on the certificate"<sup>3</sup>.

4.5 The welfare state has also created a brazen culture of benefit "scrounging", whereby individuals who are perfectly capable of working refuse to do so, and go on benefits instead. They frequently justify this by feigning illness. As well as promoting laziness and parasitism, the benefit system allows lucrative avenues for fraud and deceit. The benefits system allows for both breaches of the letter of the law, and the spirit of the law. One woman was recently convicted for claiming £2 million in benefits using 72 different identities<sup>4</sup>. Another man claimed tax credits for each of the 36 children he had sired by multiple mothers<sup>5</sup>.

4.6 Despite the creation of over 2 million new jobs since 1997, the number of people claiming benefits has fallen by a modest 400,000. This leaves over 5 million people still claiming benefits<sup>6</sup>. This would suggest that many people find the benefits system, with its labyrinthine avenues for collecting additional payments, more appealing than searching for a job. Indeed, an investigation by The Sun newspaper found that many people prefer benefits to a minimum wage job. The same investigation also suggested that the benefits system was being used to purchase bloc-votes amongst Britain's urban working class<sup>7</sup>.

## **5 Child Benefits**

5.1 Child-related cash benefits under the current system consist primarily of Child Benefit, the Child Trust Fund, Child/Working Tax Credits. The total expenditure on these items for 2007-08 was £25.4 billion<sup>8</sup>, plus smaller items such as free school lunches and the Education Maintenance Allowance.

5.2 Successive government's obsession with targeting and means testing, the amount of child-related benefits payable for a household with two children varies greatly. According to the Department of Work and Pension's 'Tax Benefit Model Tables' for 2007-08<sup>9</sup> ('TBMT'), the net household income after housing costs for a single mother with no earned income and two children is £116 per week more than for a single adult without children<sup>10</sup>. Conversely, the child-related benefits paid to a married mother of two children with a husband on an average salary is only £41 per week<sup>11</sup>.

5.3 UKIP accepts that bringing up children is of value to society, and that it is only



fair for part of the cost to be borne by society in general. The largest part of the cost the largest part of the cost of having children is the loss of the mother's wages while she is at home for a few years (most women are in work before they have children, and the majority of married/cohabiting mothers return to work once their youngest child has reached school age<sup>12</sup>).

5.4 The alleged 'gender pay gap' between women and men is in fact a 'mother pay gap'. Controlled for other factors, it appears that the gap is approximately seven per cent for every child that a woman has<sup>13</sup>. Rather than attempting to address the pay gap via extra legislation and burdens on employers (which themselves exacerbate the problem, as it makes employers less willing to employ young women or mothers), it seems to make more sense to address this by making sure that the Child Benefit is at least as much as the seven per cent pay gap per child.

5.5 UKIP therefore recommends that all child-related cash benefits be rolled into a single flat-rate, non means-tested Child Benefit of £38 per week for all children aged under 18 in each family, the total cost of which would be broadly equal to the total current cost as outlined above, and will make up a large part of the 'pay gap' faced by mothers, without the need for further 'equal pay' legislation. UKIP further recommends that Child Benefit be restricted to the first three children per family – this reduces the incentive for lower income households to have more children than they can afford and hence become a burden on the taxpayer

5.6 There are various overlapping subsidies for pre-school education. The total cost of Early Years Funding ('nursery vouchers'), Sure Start, the tax relief for Employer Nursery Vouchers and the Childcare element of WTC is around £7 billion per annum<sup>14</sup>. These various schemes involve huge administrative costs, and there is no overall logic to the way in which they are calculated. The nursery vouchers are flat-rate and non-means tested; the Childcare element of WTC is savagely means tested and the value per child of the tax-relief for Employer Nursery Vouchers is three times as high for a higher-earning couple than it is for a family where only one parent is in work.

5.7 A key proposal in UKIP's education paper is to allow parents to choose taxpayer funded education vouchers as an alternative to State education. That such a system would work is illustrated by the fact that a typical full time nursery place costs nearly as much as a private education, but the system works reasonably well because of the various schemes mentioned above.

5.8 UKIP would therefore scrap these separate schemes and replace them with a single scheme of flat-rate, non-means tested vouchers to cover the first £70 per week of the cost of a nursery place (about half the cost of a full time place) for all children aged two to four, which would, assuming a take-up rate of 95% (as for the other schemes) would be cost-neutral.

## 6 Housing Benefit

6.1 Despite the popular belief that the last Conservative government sold off all the UK's council housing, just under a fifth of UK households live in social housing<sup>15</sup>. There are a further 4 million people on the waiting list for council housing<sup>16</sup> and as turnover in social housing is less than one-in-twenty units per year<sup>17</sup>, the wait for a council house can take several years.

6.2 Social tenants receive around £14 billion a year in explicit housing subsidies (Housing Benefit, Council Tax Benefit) plus up to £8 billion a year in 'economic subsidies', in other words, rents in the social sector are below market rent<sup>18</sup>. Average rents (before benefits) in English social housing are £66 per week<sup>19</sup> plus typical council tax of £16 per week. Thus the total net income from social housing, net of benefits, is around £7 billion per annum, or an average net weekly rent of less than £30 per household.

6.3 The main reason for the high unemployment rates among social tenants and the low turnover rates in social housing are because Housing Benefit and Council Tax Benefit are savagely means-tested – they are withdrawn at 85p for every additional £1 of net income (after PAYE and Tax Credits) above certain thresholds, creating a classic 'poverty trap'. The other reason is that even if a social tenant household is on an average income and not entitled to Housing Benefit/Council Tax Benefit, they retain the benefit of the below-market rents.

6.4 Because of the way that the benefits interact, social tenants who are in low paid work have to pay up to 35% of their gross wages in rents, but social tenants on average incomes pay less than 20%<sup>20</sup>. This is not only a huge disincentive for social tenants to seek low paid work, it is also a significant disincentive for 'the better off poor' to leave social housing for the privately rented or to choose owner-occupation.

6.5 UKIP therefore recommends that social rents be set at a single inclusive figure (rent plus Council Tax, net of notional Council Tax and Housing Benefit) calculated at around 20 per cent of each household's gross income: This would ease the poverty trap for the most needy; social tenants on very low incomes would keep 49p for every £1 earned (assuming a flat tax rate of 31%) rather than 4.5p as at present. It would also encourage households on higher incomes to move into the private rented sector or owner-occupation, as above a certain level of income, the social rent they are paying would be higher than a comparable rent in the private sector or the cost of a repayment mortgage. This may seem unfair, but it is exactly these households who will benefit most from UKIP's proposal to double the tax-free personal allowance, so taking the two measures together, very few households will lose out.

6.6 Of course, local councils should be allowed to set a higher or lower percentage, and be democratically answerable for their decision. A lower rate would flatten the poverty trap even further, but receipts would drop and the 'better off poor' would be less motivated to move out and vice versa. Local councils would also be allowed to set upper or lower limits on the rents they charge. At present, there is little motivation for councils to maximise their rental income, as rents are 'ring-fenced' but Housing Benefit and Council Tax Benefit are borne by central rather than local government. UKIP would allow local councils to retain all social rents, thus giving them every

incentive to ensure that as many of their tenants are in work as possible. Once the system for Workfare jobs is established, there is no reason why it should not be extended to all social tenants who are not declaring any income and hence not paying any rent, unless they are elderly or too incapacitated to work at all.

6.7 There is a perception that refugees and asylum seekers are given priority in the allocation of social housing, which is not without foundation, according to official government figures<sup>21</sup>. UKIP recommends that social housing will be allocated on a pure waiting list approach. If a household increases in size then it will not automatically be upgraded, instead it will be asked to reapply for appropriate larger accommodation and wait its turn.

6.8 The total Housing Benefit and Council Tax Benefit paid to tenants in the private sector costs just over £5 billion per annum. Around 800,000 private tenants claim these benefits, so the average weekly claim is well over £100 per week per household. For many households, the value of Housing Benefit/Council Tax Benefit is greater than the value of the Income Support or Jobseeker's Allowance that they receive.

These tenants have very little motivation to find a job, unless it is reasonably well paid, as withdrawal of Housing Benefit/Council Tax benefit reduces their net income to 4.5p for every £1 earned. Further, Housing Benefit is a direct subsidy to private landlords, so it pushes up the rents that non-claimant private tenants have to pay.

6.9 UKIP recommends that Housing Benefit/Council Tax Benefit payments to private tenants be phased out and the money spent on 'Workfare' jobs instead. Local councils, together with local employment agencies will assess whatever skills claimants have that are of benefit to society and ensure that the best use is made of them, whether this is sweeping streets, gardening, assisting in pre- or after school clubs, providing extra tuition for failing pupils, care for the elderly and disabled. Full use should be made of this pool of labour when local infrastructure projects are being built (see appendices) before jobs are offered to workers from Eastern Europe. Local councils would also work closely with local employers, for example by subsidising training places.

6.10 Assuming that a typical Workfare job paid £100 per week tax-free (in addition to the claimant's BCB – see Section 7) and required 28 hours per week, the effective hourly rate for an adult would be similar to that earned by any other adult working 28 hours for the National Minimum Wage (currently £5.52 per hour).

6.11 UKIP believes that all forms of work – whether paid or voluntary – are of great benefit in terms of social interaction, self-discipline and self-esteem. Workfare jobs will be a useful springboard into employment in the private sector. UKIP accepts that local councils will always not obtain 'full value for money' for these jobs, but believes that it is better for people to be doing something rather than becoming completely inactive. Under UKIP's local government proposals, local councils will be freed from central targets and will have more responsibility for their own budgets – there will be less central funding and more local taxation, so there will always democratic pressure to obtain value for money.

## 7 The Basic Cash Benefit

7.1 Income support and Jobseeker's Allowance rates are currently £47.95 for single claimants aged 16 to 24 and £60.50 for single claimants aged 25 or over. The long-term basic rate of Incapacity Benefit is higher at £84.50. Carer's Allowance is lower at £50.55. The standard rate of Statutory Maternity Pay is £117.18 for up to 39 weeks after the birth. (All figures stated are weekly). Student maintenance grants are much smaller amounts and are savagely means-tested.

7.2 The total cost of all these benefits, after means testing, is around £25 billion per annum (see appendices). In the latest year for which HMRC published statistics, taxpayers earning more than the personal allowance but less than UKIP's proposed personal allowance of £10,000 paid a total of £1.3 billion in income tax (another form of income-based means testing), bringing the total net transfer to under £24 billion, or around 1.5% of GDP, which UKIP consider is a relatively small price to pay to alleviate poverty. UKIP's main concern is the social cost of the existing welfare system.

7.3 These social costs arise primarily because of means-testing, which leads to the perverse situation whereby lower earners only keep a few pence for every £1 that they earn and because benefit entitlements are calculated on the basis of households rather than individuals, so the unemployed partner of somebody in work is at a huge disadvantage to a single unemployed person. A further cost is the complexity – the administrative hurdles and short-term loss of benefits act as a high barrier to taking on short-term or low-paid work, as well as fraud, the bulk of which arises from the use of fake identities.

7.4 All these problems can be significantly reduced by radical simplification: All 'key benefits' could be rolled into a single, flat-rate non-means tested 'Basic Cash Benefit' (BCB), payable to all individuals regardless of household composition, thus not discouraging marriage and stable families. The rate of income-based withdrawal could be reduced to UKIP's proposed flat tax rate by offering the BCB as an alternative to UKIP's proposed tax-free personal allowance of £11,500. In other words, claimants would pay a flat rate tax on all their earned income, but not suffer benefit withdrawal as well.

7.5 As previously mentioned, there are currently 5.1 million 'key benefit' claimants. Bearing in mind that with a working age (between 18 and pension age) population of 36.5 million and 29.5 in employment or self-employment<sup>21</sup>, this leaves less than 2 million adults who are neither taxpayers nor welfare claimants. These are predominantly married or cohabiting mothers, non-working spouses and students from average or above-average income households who do not qualify for student grants.

7.6 One of the excuses given for the degree of means testing and employing an army of bureaucrats to restrict welfare entitlement to certain narrow categories is that paying universal benefits is that paying universal benefits would be unaffordable, or alternatively that universal benefits would have to be very low.

7.7 UKIP recommends replacing all key benefits with a single Basic Cash Benefit,

equivalent to current Income Support/Job Seeker's Allowance rates of £45 per week for those under 25 and £60 per week for those aged 25 to retirement age.

7.8 There would be around eleven million claimants - 5.1 million current working age welfare claimants; plus two million non-working spouses and students, plus around four million lower earners (but are not currently entitled to key benefits) – so the gross cost would be around £34 billion gross per annum. This would not be means-tested as such, but as claimants would not also be entitled to a tax-free personal allowance, they would pay £15 billion in income tax so the net cost to the taxpayer would be £19 billion – or around £8 billion less than the cost of current key benefits.

7.9 The three old parties seem keen to adopt the 'Winsconsin model', whereby benefits are time limited. UKIP's view is that if benefits have to be time limited then the system is not working – a lifetime on benefits is only an option if benefits are too generous in the first place. The BCB that UKIP proposes is not intended as a replacement for income from work, it is intended to be a top-up for the wages of lower earners; as a universal student grant and an alternative to a transferable personal allowance for stay-at-home parents and non-working spouses.

## **8 Fraud, error and administration costs**

8.1 With fifty different overlapping types of benefit, the scope for fraud and error is enormous, and averages over 5% of benefit paid out<sup>22</sup>. 5% of the benefits considered in this paper would amount to around £3 billion. These amounts – unlike Tax Credit overpayments, which are accounted for separately and have been treated as administration expenditure – are included in total spending, and so cannot be treated as a saving here.

8.2 Overpayments of universal, non-means tested benefits such as Child Benefit is barely measurable. Fraud and error in non-means tested benefits such as the State Pension amounts to only around 0.1% of the State Pension paid out<sup>23</sup>.

8.3 The Child Benefit and BCB proposed here will be universal and non-means tested, so the level of overpayments will be low. Of course the BCB system will be defrauded - it would be foolish to claim otherwise - but with nearly all benefits boiled down to a single benefit, the simplicity of the system will enable the Department for Work and Pensions (DWP) to concentrate more resources on rooting out claims based on false identities, unreported deaths and people who have moved abroad.

8.4 The total cost of running the DWP is £5.8billion<sup>24</sup>. Her Majesty's Revenue and Customs Annual report states that tax credit overpayments are £1.5 billion and that the means-tested Tax Credit cost 3p for every £ paid out<sup>25</sup>, a further £0.5 billion. The official overpayments figure is flattered by the fact that tax credits are effectively based on the lower of the current year's and the previous year's income. The administration costs of Housing and Council Tax Benefit – being relatively small amounts but particularly complicated benefits - are probably even higher than that, so the cost of administering these is a further £2billion. The total running costs of our welfare system are thus nearly £10 billion – as much as is paid out in Child Benefit alone.

8.5 Universal, flat-rate benefits such as Child Benefit cost just one percent to administer<sup>26</sup>. As UKIP propose to replace a myriad of complicated means-tested benefits with straightforward universal benefits, the running cost of the entire welfare and pensions systems will be no more than £1.7billion, giving a saving to the taxpayer of £8bn.

## **9 Benefits, Immigration and the EU dimension**

9.1 The UK is widely seen, rightly or wrongly, as a haven for welfare claimants. This reduces social cohesion and stokes tensions between the British population at large and recent migrants.

9.2 This problem can be solved quite simply – entitlement to welfare benefits will only start after a minimum waiting period of ten years and on obtaining British citizenship for those who originally entered the country with a valid work permit or for reasons of marriage to a British citizen. No entitlement will accrue to other individuals, such as elderly or sick relatives who are allowed to join their families in the UK for compassionate reasons.

9.3 A system of more-or-less universal benefits for all British citizens as envisaged here, cannot be implemented until we have left the EU, as under EU rules, other EU citizens have to be very afforded similar rights to British citizens. Because Tax Credits are based on the lower of the current year's and the previous year's income, many workers arriving from Eastern Europe are entitled to full Working Tax Credits in the year of arrival, and many also claimed Child Tax Credits and Child Benefit for children who had never set foot in the UK.

9.4 Following withdrawal from the EU, the UK will be able to make migrants from EU countries subject to the same waiting period as migrants from any other country.

## **10 Welfare dependency and family breakdown**

10.1 Welfare dependency has become ever more firmly entrenched over the last thirty years. In the poorest boroughs, eighteen times as many under-age girls fall pregnant as in the wealthiest areas<sup>27</sup>. The rate of under-age pregnancy in England and Wales is six times as high as in The Netherlands. Bearing in mind that young mothers in The Netherlands are not entitled to any extra benefits or free social housing<sup>28</sup>, there can be little doubt that the UK's high rate of single motherhood is partly encouraged by financial incentives, and that reducing the incentives embedded in the welfare system would reduce the number of children born outside a stable relationship.

10.2 As mentioned, the UK's existing tax and welfare systems actively discourage stable relationships, let alone marriage. A single man on an average wage of £500 per week has a net weekly income of £373<sup>29</sup> (before housing costs) and a single unemployed mother has a net weekly income (after housing costs) of £175 per week<sup>30</sup> - a total income for the two households of £548. If the two were to form a stable relationship and report this to HMRC, the local council and the Benefits Agency, the combined household's income falls to £328<sup>31</sup> considerably less than the single man's income before the relationship started. Tragically, there is evidence

showing that relationships have been destroyed by the rules that place those living alone at such an advantage.

10.3 Under UKIP's Flat Tax and welfare reform proposals, an unemployed single mother's income would indeed fall to £138 per week, which would reduce the incentives for young single women to have children. Similarly, the net income of a single earner with a gross wage of £500 per week would increase to £405 per week. Were the two to form a stable relationship, there would be no need to report this to the various authorities, and there would be no reduction in the household's total income – the 'couple penalty' would be ended.

10.4 In the light of such extreme distortions, it is little wonder that there are at least 200,000 covertly cohabiting couples<sup>32</sup> who do so from fear of losing benefits.

## **11 Welfare dependency and willingness to work**

11.1 It is almost a tautology to state that the only true route out of poverty is work. If we could afford a welfare system that guaranteed an income above the poverty line (however it is defined), then there would be little motivation to seek any job that only paid an average wage, and the tax rates to fund such a system would be so high as to deter working even further.

11.2 The Evening Standard reported in June 2008 that "Almost one in ten youths aged 16 to 18 is classed as 'Neet: Not in education, employment, or training' ... Numbers were down slightly on last year, but up nearly 30,000 on 1997. Labour is estimated to have spent £3billion since 1997 on the flagship New Deal scheme, where businesses are paid to take on unemployed workers as a way of getting them back into the jobs market ... But many jobless have simply drifted from scheme to scheme"<sup>33</sup>.

11.3 What successive governments have overlooked is that they cannot rely on the goodwill of the unemployed or yet another imaginatively-named scheme. The unemployed respond to incentives as much as anybody else. If they qualify for free social housing and a reasonable standard of living without work, and taking on a low paid job scarcely compensates them for the loss of means-tested benefits, then no amount of cajoling will change that. Indeed it is almost illogical for people in the poverty trap to seek work.

11.4 UKIP's proposals could be implemented very easily and simply, on an administrative level. Under these proposals, the net incomes of workless households will fall slightly – in particular there will be no automatic entitlement to free housing – which will discourage the workshy. But as those in low paid employment will keep the bulk of their gross wages – rather than a small fraction as at present, there is no reason to assume that significant numbers will end up worse off.

11.5 Much more importantly, the total marginal withdrawal rate for BCB claimants will be reduced from 70p or 95.5p in the £1 to the flat rate of tax ( 31p for example ) for each £1 earned. But it is only in the medium term that attitudes will change. BCB claimants will not face huge administrative hurdles and crippling short term loss of benefit income if they start work – whether temporary or permanent – as they can

choose to continue claiming the BCB while working, and as a quid pro quo, waive the entitlement to the tax-free personal allowance.

11.6 UKIP's welfare proposals also have to be seen in the light of their suggestion that Employers' National Insurance – the most senseless tax of all, being a tax that actively discourages job creation and bears no relation to the employer's profits – be phased out as quickly as possible, which will reduce the cost of employing people, and thus boost employment levels.

## **12 Part-time workers**

12.1 There are three groups of people, not traditionally seen as welfare claimants who will gain enormously from UKIP's changes. For example, Carers, who lose their entitlement to Carer's Allowance of £50.55 per week if their net income from paid employment is more than £95 per week. Carers will be entitled to the normal BCB of £48 or £60 per week (depending on age) but there will be no cut-off point at which this income is lost. Among the jobs that will be covered by the Workfare scheme will be caring for the elderly and disabled, so if a person requires more hours care than close relatives can be expected to provide they will be able to apply to the local council for additional practical help.

12.2 Mothers of young children prefer to work during the week during school terms; students on the other hand usually find it more convenient to work evenings and weekends and during holidays. Entitlement to the BCB will be independent of household composition or the income of other household members, and will be a base on which to build – instead of registering and de-registering for benefits such as Working Tax Credits and overpaying income tax during short periods of work, full-time mothers and students alike will be entitled to the BCB, and as a quid pro quo will pay income tax on all their income while they are working.

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34 'How many lone parents are receiving tax credits?', Institute for Fiscal Studies, Briefing Note 70, 2006

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### **Appendix 1: Notes on Means Testing**

Means-testing is applied to different benefits simultaneously, and it overlaps with the income tax system. The current annual personal allowance of £6,035 (from September 2008) is far below any sensible poverty threshold. A single earner on a weekly wage of £188 pays £23 income tax and Employee's National Insurance ('NI') and can claim £23 per week in Working Tax Credits ('WTC'). This is not only overly complicated, but contributes to a marginal deduction rate of 70 per cent. For every £1 earned, the earner pays 31p in income tax/NI and loses 39p in WTC. In other words, someone on the National Minimum Wage of £5.52 (to be uprated in October 2008) only keeps an extra £1.66 for every additional hour worked. Some claimants who are also entitled to Housing Benefit/Council Tax Benefit only keep 4.5p for every £1 they earn.

The whole system overlooks the simple fact that people respond to incentives:

- Low paid or short-term employment is discouraged as the administrative hurdles and loss of benefits involved do not justify the effort of working.
- Many younger unemployed are deterred from studying because benefit entitlement is conditional on availability for work.
- Young single women with no career prospects see motherhood as an easy way to a fragile form of financial independence.
- Marriage and permanent relationships are discouraged as the entitlement of one partner is reduced if the other partner is in work.
- Savings are discouraged as entitlement to most benefits is lost if the household has any significant savings.
- Older workers who lose their jobs are encouraged to apply for Incapacity Benefit ("IB"), which increases the longer they have been out of work; ultimately it becomes a holding benefit until state pension age is reached. There are currently 2.7 million IB claimants (7% of the working age population) and the total cost of the benefit is

### **Appendix 2: Bibliography**

The Policy Group recommends the following as essential reading:

Simon Ennals “Social Security and State Benefits: A Practical Guide (5th edition)” Tolley’s, 2005, a practitioner’s guide to the welfare system.

Department of Work and Pensions “Tax Benefit Model Tables”, updated annually, available at [www.dwp.gov.uk/asd/tbmt.asp](http://www.dwp.gov.uk/asd/tbmt.asp), which show the impact of the tax and welfare system on different types of household at different levels of earned income.

Patricia Morgan “The War Between the State and the Family”, Institute for Economic Affairs, 2007, <http://www.iea.org.uk/record.jsp?type=book&ID=406>, which explains with examples how the “government divides and impoverishes”.

Hermione Parker “Taxes, Benefits and Family Life”, Institute for Economic Affairs, 1995, <http://www.iea.org.uk/record.jsp?type=book&ID=70>, which highlights similar problems to Patricia Morgan, and recommended replacing means-tested with universal benefits. It is interesting to note how little has changed in the last dozen years and how few lessons have been learned!

### **Appendix 3: Examples of possible Workfare schemes**

#### 1.1. Additional small scale local public projects – low skilled

Litter patrols

Cleaning up graffiti

Snow removal on pavements in harsh weather

Maintenance of parks and gardens, street furniture, railway stations, bus stops, schools, hospitals and social housing

Directing car parking on days when sports/concerts/other large events are in town

Running soup kitchens for the homeless

Packing "goody boxes" for troops stationed overseas

Delivering leaflets for the council, such as council newspapers or info scheme leaflets

#### 1.2. Additional small scale local public projects – semi-skilled and skilled

Extra tuition in the Three R’s

Teaching English as a foreign language

Work in nurseries and after-school clubs

Care for the elderly and disabled

Working as a guide at local historic sites

Administrative assistance on local councils and businesses which agree

Manning telephone switchboard at local council offices

These projects would be ‘additional’ in the sense that they will be in addition to existing baseline local authority services and not supplant existing jobs or employees.

#### 1.3. Large scale public projects

All Government contracts for public works would require the use of the Workfare scheme, including:

Rail projects, such as new high-speed rail lines, reopened lines, rail rebuilding works

Road projects, such as new by-passes and motorways

Local transport infrastructure projects

Energy infrastructure projects

Utility infrastructure projects, such as flood defences, water grids, dams and

reservoirs  
 New hospital projects  
 New school or college building  
 Prison building.

#### Appendix 4: Current welfare spending

The Department of Work and Pensions' forecasts for 2008-09 is as follows (Table 3, [http://www.dwp.gov.uk/asd/asd4/medium\\_term.asp](http://www.dwp.gov.uk/asd/asd4/medium_term.asp))

Key Benefits	£ million
Jobseeker's Allowance – contribution-based	453
Incapacity Benefit - short-term lower rate	166
Incapacity Benefit - short-term higher rate	274
Incapacity Benefit - long-term	5,567
Incapacity Benefit - earnings-related	205
Employment and Support Allowance	201
Maternity Allowance	365
Statutory Sick Pay	49
Statutory Maternity Pay	1,781
Industrial disablement benefits	781
Industrial Death Benefit	36
Other industrial injuries benefits	1
Invalid Care Allowance / Carer's Allowance	1,343
Severe Disablement Allowance	877
Job Grant	49
New Deal 50 plus employment credit	
New Deal for Young People	57
New Deal 25 plus allowances	54
Other small benefits	1
Independent Living Funds	343
Social Fund	393
Return to Work and In-Work Credits	149
Employment and Support Allowance	227
Income Support (under 60 years of age)	7,727
Jobseeker's Allowance - income-based	<u>1,879</u>
Total (Great Britain)	22,978
Add 3% for Northern Ireland	689
Student grants and loan interest subsidy	<u>2,000</u>
<b>Total (UK)</b>	<b><u>25,667</u></b>

Housing-related benefits	£ million
Rent Allowance	11,201
Rent Rebate	5,393

Discretionary Housing Payments	20
Council Tax Benefit	4,253
Total (Great Britain)	<u>20,867</u>
Add 3% for Northern Ireland	<u>626</u>
<b>Total (UK)</b>	<u>21,493</u>

<b>Disability benefits</b>	£ million
Attendance Allowance	4,668
Disability Living Allowance	10,504
Motability / Specialised Vehicles Fund	<u>17</u>
Total (Great Britain)	15,189
Add 3% for Northern Ireland	<u>456</u>
<b>Total (UK)</b>	<u>15,645</u>

## Appendix 5: Complexity and simplification

As the time honoured saying goes, “welfare should be a safety net, not a hammock”. It might be useful to compare the potential career paths of a single, unemployed person in social housing under the current morass and under UKIP’s proposals (all figures rounded to the nearest £).

- Using the figures in the DWP’s ‘Tax Benefit Model Tables’ for 2007-08, an unemployed single adult aged in social housing has a net weekly income of £59 in Income Support/Jobseeker’s Allowance, and the council rent of £51 and Council Tax of £13 are covered by Housing benefit/Council Tax benefit (Table 2.1a).
- If the claimant finds a part time job of 10 hours per week at the National Minimum Wage (‘NMW’), their gross earnings are £55 per week. After an earnings disregard of £5, Income Support/Jobseeker’s Allowance is withdrawn £ for £, so the claimant is £5 per week better off – net income after housing costs increases to £64.
- If the claimant moves up to working 20 hours per week on the NMW, their gross wages double to £110 per week, with the following effects:
  - Income Support/Jobseeker’s Allowance is reduced to nothing.
  - The claimant has income tax and National Insurance deducted from the gross wages, reducing gross wages by just over £2 per week.
  - A claimant who works more than 16 hours a week can claim Working Tax Credits, which are £33 per week, reduced by 37% of the weekly wages less the First income threshold of £100 per week, in this example £29 per week.
  - This gives a net income from employment and WTC of £137 per week. Housing benefit/Council Tax Benefit are reduced at the rate of 85% of a claimant’s net income less the Earnings disregard of £20 and the Personal allowance of £59, so in this example would be reduced to £15.
  - So for working 20 hours rather than 10 hours a week, the claimant’s net weekly income, after housing costs would increase by £13 from £64 to £77.

4. If the claimant then moves up to working 40 hours a week on the NMW, their gross wages double again, to £221, with the following effects:
  - a. Income tax and National Insurance of £34 are deducted.
  - b. WTC are increased by the 30-hours element of £14, from £33 to £47, but again, these are reduced by 37% of the net weekly wages less the First income threshold of £100, so the net total WTC is reduced from £29 to £2 per week.
  - c. This gives net income from employment and WTC of £188 per week, so Housing benefit/Council Tax benefit are reduced to £nil, and the claimant has to pay the council rent and Council Tax of £64 in full.
  - d. So for working 40 hours rather than 20 hours a week, the claimant's net weekly income, after housing costs increases by £48 from £77 to £125 per week.
5. If the claimant then finds a job paying double the NMW, i.e. an average wage, their gross wages double again to £442, with the following effects.
  - a. Income tax and National Insurance of £107 are deducted.
  - b. WTC are reduced to £nil.
  - c. The claimant's net weekly income after housing costs nearly doubles by £145 to £270 per week, as the claimant benefits from the below market rents in social housing. There is thus a huge advantage for the claimant to remain in social housing.

It should not be forgotten that each of the moves between stages 1 and 5 involve huge administrative hurdles – for example deregistering from Income Support/Jobseeker's Allowance and claiming WTC instead and resubmitting Housing benefit/Council Tax benefit claim forms. On the 'way up' the short-term loss of benefits can far outweigh the medium term gains in net income. If a welfare claimant only expects to keep a job short-term, the loss can easily outweigh the expected gain and they will not seek work in the first place – or just as bad, work cash-in-hand.

Under UKIP's proposals, life for an unemployed welfare claimant will be much simpler:

1. The basic level of benefits, £60 for an unemployed single claimant aged 25 or over will remain at £60.
2. If the claimant starts working 10 hours per week on the NMW and continues to claim the BCB, a basic rate of flat tax ( for example 31% ) will be deducted from the wages as well as 20% towards council rent/Council tax but there will be no further means-testing. The claimant's net income will increase by £27, rather than by only £5 as under the current system.
3. If the claimant then works 20 hours per week at the NMW rather than 10 hours, the claimant's net income after housing costs will increase by a further £27 per week, rather than by only £13 per week under the current system.
4. If the claimant then starts working 40 hours per week at the NMW rather than 20 hours per week, the claimant's net income after housing costs will increase by a further £54 per week, slightly more than £48 per week under the current system.

At no stage will the claimant have to report his earnings to the benefits office or register for out-of-work benefits and re-register for in work benefits. The BCB will

not be means-tested as such - instead, BCB claimants will not be entitled to a personal allowance and so pay flat rate income tax (plus 20% council housing surcharge where appropriate, that can be dealt with via the PAYE code) on all their income.

5. If the claimant finds an average job paying double the NMW, or a weekly wage of £442, and expects this to be permanent then the claimant might prefer to waive the BCB and claim a tax-free personal allowance instead.
  - a. The flat tax deducted will be £77 per week rather than £107 ( assuming 31% ), leaving a net income before housing costs of £365 instead of £335.
  - b. As 20% of the claimant's income will be deducted in council rent/Council Tax, the total housing cost will be £88 rather than £64 under the current system, in other words close to a full-market rent.
  - c. However, such a social tenant will have an extra £30 net income to spend and always has the choice of finding privately rented accommodation or moving into owner-occupation.

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