

Evidence Paper on Benefits in Wales: Options for Better Delivery. Equality, Local Government and Communities Committee.

The purpose of this paper is to provide written evidence to the Equality, Local Government and Communities Committee inquiry on Benefits in Wales: options for better delivery.

Context

1. The timing is right to begin a more in-depth exploration of the case for devolving the administration of welfare benefits to Wales. The last few years have seen the UK Government implement significant welfare reforms, notably the introduction of Universal Credit (UC). At the same time eligibility rules have been changed, with most of these changes restricting the availability of financial support to individuals and families in need.
2. There is widespread consensus that the UK Government's reforms to welfare benefits and tax credits, through the Welfare Reform Act 2012 and Welfare and Work Act 2016, coupled with austerity, are causing significant hardship in Wales. Furthermore, many of the benefit cuts announced since 2015 are only partly implemented, with more cuts to come.
3. A report published by the Welsh Government in March 2019 on the impact of the UK Government's welfare reforms on households in Wales refers to analysis that shows households in Wales are estimated to lose 1.5 per cent of their net income (or around £480 a year) on average from the overall package of tax, welfare and National Living Wage reforms announced since 2010. This is based on analysis undertaken by Landman Economics and Aubergine Analysis on behalf of the Equality and Human Rights Commission (EHRC) and covers the reforms announced between May 2010 and January 2018. Although this does not cover any changes announced since then, more recent analysis by the Institute for Fiscal Studies (IFS) shows that the Budget 2018 welfare changes, which increased the generosity of Universal Credit, make relatively little difference to household incomes, on average, in the long run.
4. The overall effect of the reforms is still expected to be regressive, with the largest impacts felt by people on the lowest incomes, and particularly those with children. As a result, relative child poverty in Wales is estimated to increase substantially over the next few years. There is also a disproportionately negative impact on the incomes of several protected groups. This includes disabled people, certain ethnic groups, and women, with particularly negative impacts on intersectional groups who experience multiple disadvantages.
5. Welsh Government has expressed deep concern that the design of UC includes significant flaws that can tip vulnerable individuals into destitution. The minimum '5 week wait' for the first payment and then the DWP's widespread use of advanced UC payments as a short-term 'fix', can increase the risk of indebtedness for the most vulnerable. Welsh Ministers have repeatedly called on the UK Government to address these major flaws and halt the further roll out of UC. The Welsh Government's Discretionary Assistance Fund has seen an

increase in applications with a sharp increase in demand from March 2018. This is as a direct result of recent welfare benefit changes, particularly from people struggling with Universal Credit payment delays. The budget allocated for 2018-19 was £8.4m, but end of year spend reached £10.5m. An extra £2m has been made available this financial year to accommodate the continued increase in demand.

6. There have been recent announcements from the UK Government indicating a softening of approach. For example, DWP Work Coaches are now more open to using the DWP's Flexible Support Fund to meet childcare costs. However, the breadth and extent of the changes to be developed or implemented are as yet not fully known, and their impact so far is likely to be small until they are rolled out more widely.

Devolution of Administration

7. The First Minister announced on the 5 February that the Welsh Government had asked the Wales Centre for Public Policy (WCPP), as part of their work programme for 2019-2020, to explore the case for devolving administration of aspects of the benefit system to Wales. This inquiry by the Equality, Local Government and Communities Committee, as well as reports by organisations such as the Bevan Foundation and Cardiff University, are welcome and timely contributions to this exploration.
8. The welfare state is an essential component of a United Kingdom: one where there is collective responsibility to support those in need by the pooling of resources and the redistribution of income. Devolution should not undermine this collective responsibility.
9. In Wales, the Department for Work and Pensions (DWP) is responsible for most means-tested benefits, local authorities manage housing benefit, and HMRC administers child benefit, guardian's allowance and the tax credit system. However, in recent years the UK Government has chosen to devolve certain benefits to Wales. Consequently we now have considerable experience of administering welfare payments, for example the Council Tax Reduction Scheme, Discretionary Housing Payments and the Discretionary Assistance Fund. The devolution of 10 benefits to Scotland alongside the flexibilities in the administration of Universal Credit also give us some evidence to build on.
10. It will be important to learn from the Scottish Government which of their administrative powers, devolved as part of the 15% of welfare benefits transferred following the Scotland Act 2016, they are finding can most effectively be integrated with their existing powers. The Scottish Parliament now has powers over benefits falling within certain categories; disability, industrial injuries and carers' benefits; benefits for maternity, funeral and heating expenses; and Discretionary Housing Payments. The transfers are still in the process of being implemented and integrated, and have resulted in net set-up and running costs to the Scottish Government, which the Welsh Government wishes to understand further.

11. Devolution of administration could enable a different approach to welfare in Wales, one based on compassion and fairness. The welfare system should treat people with respect and dignity while promoting simplicity and efficient administration. Devolution of the administration of benefits in Wales may be able to deliver a new approach and the scope for this will be a key consideration. Administration may however bring limited flexibility and scope for change as some design features constitute policy rather than administration. The welfare system is underpinned by a complex and interrelated set of administrative and legal frameworks.
12. The committee will be very aware that any consideration of devolving welfare administration must consider the potential increased fiscal risk. The experience of the Welsh Government with the closure of the Council Tax Benefit scheme, where the funding transferred to the Welsh Government was top-sliced by the UK Government, is one example. In Wales, following the transfer, £244 million was added to the Revenue Support Grant for the new Council Tax Reduction Scheme for 2013-14. This comprised a fixed budget of £222 million which was transferred to the Welsh Government from the UK Government and an additional £22 million provided by the Welsh Government to enable local authorities to maintain full entitlement to support for all eligible applicants. The Welsh Government continues to maintain this commitment and £244 million has again been provided for CTRS as part of the 2019-20 settlement. Although at a cost, this approach has allowed a national scheme that is efficient and fairer than the local authority based scheme in England.
13. 'Devolving Welfare: How well would Wales Fare?', a report by the Wales Fiscal Analysis Unit at Cardiff University's Wales Governance Centre, has looked at the financial risks associated with devolving to Wales the same set of benefits that have been devolved in Scotland. The report finds that if these were devolved on the same basis as is happening in Scotland, there could be a financial gain to the Welsh Government because of the particular age profile and possible future trends in the benefit recipient group in Wales. The Welsh Government is not seeking the devolution of policy over benefits, as has happened in Scotland, but it is important to note that were benefits to be devolved to Wales, it would most likely be in a way that is not expected to confer financial advantage to either the Welsh Government or the UK Government. It cannot be assumed that the same arrangements would be put in place if these benefits were devolved to Wales. It is worth noting that the fiscal framework agreements governing tax devolution in Scotland and Wales are quite different from each other, reflecting the different circumstances in the two countries.