



Commentary on the Comptroller and Auditor General's Report *Means Testing Benefits*

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Background note for the Public Accounts Committee

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**Child Poverty Action Group**  
94 White Lion Street  
London N1 9PF  
[www.cpag.org.uk](http://www.cpag.org.uk)

1. CPAG has provided advice on welfare rights for over forty years, and has an expert understanding of how the tax and benefits system affects low income families. On the basis of this experience, **we broadly support the conclusions of the NAO's report on means testing**. We agree with the report's analysis of the costs of means testing, and the finding that these introduce significant friction into the system which can undermine cost effectiveness.
2. We also agree strongly with the report's finding that departments have not adequately accounted for the **burden on claimants** when designing and implementing benefits and tax credits. CPAG's experience shows that the financial, time and psychological costs for claimants is significant, and that this is especially the case for claimants with complex problems who are entitled to multiple benefits that are often contingent on each other (see case 1).
3. As the report rightly identifies, the burden on claimants inhibits many from accessing their full entitlements. As well as causing untold hardship, this **impedes the ability of government programmes to deliver on critical policy objectives** such as the reduction of child poverty, thereby undercutting cost-effectiveness.
4. While quantifying the burden on claimants is challenging, two measures are highly suggestive. First, as the report notes, **take up rates** provide a useful indication of the amount of effort claimants need to expend in order to access entitlements. It is particularly noteworthy that 96% of eligible households take up (currently universal) Child Benefit, compared to 80% of those who are eligible for (means tested) Child Tax Credit. As a result, child benefit reaches more children living in poverty than Child Tax Credit.<sup>1</sup> Second, the **number of appeals** speaks to the complexities and stress experienced by claimants in the means testing process. In 2010-11, for example, of all the decisions appealed, 35% of them were successful.<sup>2</sup> (See also case study 2).
5. The report states that 'effective implementation and design can address many of the adverse consequences of means testing' (p6). However, it is clear that **design elements that are put in place to tackle one problem may simply generate another**. Consider, for example, the tapered withdrawal rates which are a key feature of Universal Credit (UC), and are expected to ensure that work always pays. While this policy objective is laudable, a recent DWP focus group found the taper feature difficult to understand, and even after explanation, were suspicious of the system's ability to guarantee that people would be better off in work than not.<sup>3</sup> Such evidence suggests that it may not be possible to 'design away' some of the costs of means testing.

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<sup>1</sup> Bennett, F with P Dornan (2006) *Child Benefit: Fit for the Future*, London: CPAG

<sup>2</sup> Social Security and Child Support Statistics 1/4/11-31/8/11 Table 2.2

<sup>3</sup> Lotik, M and L Perry (2011) *Perceptions of Welfare Reform and Universal Credit*, DWP Research Report, London: DWP p11.

6. Likewise, while **investments in improved implementation** would certainly do much to improve claimants' experiences of the tax and benefits systems, it is questionable whether better administration can ameliorate all the costs of means testing. Consider, for example, the provision of free school meals (FSM) which are currently passported for families in receipt of out of work benefits. CPAG's analysis suggests that it would be more cost-effective to extend FSM to all families in receipt of UC whether in or out of work, rather than administer a cut-off through a stepped or tapered withdrawal.
7. While UC is expected to remove many of the perverse incentives of the current system, fundamental problems associated with means testing will endure. While the interface for claimants may be simpler, as they apply only once and deal with only one agency, **complexity remains embedded in the benefit**. Advisers with whom CPAG work have, for example, expressed concern that the various components of UC awards will be insufficiently transparent to allow claimants to understand how changes in their circumstances will have impact on their payments, as well for any errors to be speedily identified. Moreover, many are sceptical that the IT system will be able to manage the vast amount of information that claims will require.
8. DWP's recently revised UC Impact Assessment envisages savings of more than £0.5billion a year in administrative costs, once the system is in a steady state.<sup>4</sup> However, as the NAO report highlights, certain systemic features inevitably generate additional administrative costs. One particular area we would draw the Committee's attention to is the issue of **recovery of overpayments**, which the Government have indicated will be pursued regardless of the reasons for overpayment. The NAO report highlights clawback as an added area of complexity (figure 1), and hence we would question the cost-effectiveness of this action.
9. To conclude, in our view, the NAO report is correct in its analysis of the costs of means testing, and in particular we support its assertion that the burden to claimants must be factored into impact assessments. However, we also believe the report is too quick to suggest that these costs can simply be designed or implemented away. Instead, we suggest the government consider moving towards lighter forms of means testing, at least in the medium term.
10. The comparison of child benefit with child tax credits shows, for example, how **universal (or, at least, less heavily means-tested) benefits may cost more, but can prove to be more cost-effective if the policy objectives of programmes are achieved**. When the Joseph Rowntree Foundation estimates that child poverty costs the UK economy around £25 billion annually, including £17 billion a year that could accrue to the Treasury if child poverty was eliminated, we submit that programmes must be designed in ways that are likely to have real impact, rather than make savings which prove, in the long run, to be false economies.<sup>5</sup>

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<sup>4</sup> DWP, Universal Credit: Impact Assessment, October 2011

<sup>5</sup> Hirsch, D (2008) *Estimating the costs of child poverty*, York: Joseph Rowntree Foundation

## Appendix 1

### Case study 1

The client is a lone parent who is sick and who is a carer of her severely autistic 14 year old daughter. She recently moved home and shortly after, she failed the Work Capability Assessment and her Employment Support Allowance (ESA) was stopped. She applied for Income Support (IS) as a carer and claimed Disability Living Allowance (DLA) for her daughter. When her advisers rang CPAG her IS still had not been paid after several months, during which time she was getting a small amount of money from Social Services to help her buy food.

The DWP told her they could not pay her IS claim until they have contacted Carers Allowance to verify that the mother is a carer. However, because the DLA had not yet been granted they could not confirm this. When client phoned DLA they say that they have no record of this claim even though it was sent weeks earlier.

The client had to resend various DWP departments copies of all her other claims. Her advisers tried to get through to the Crisis Loan dept of DWP but they were constantly engaged and they cannot tie their office line up indefinitely as it blocks other service users. The client was threatened with eviction as no Housing or Council Tax benefit had been awarded as she was not yet in receipt of IS, and Social Services informed her they can no longer provide any support.

### Case study 2

The client has temporary residence order for 2 daughters aged 6 and 4. He claimed child benefit (CB) several months ago and was told it would take 16 weeks to determine his claim. He applied for Income Support (IS) as a Lone Parent four times and has been refused on basis that he is not in receipt of CB. Child Tax Credit (CTC) was also been refused (incorrectly) on same basis and he has appealed. He had been awarded crisis loans but has used up his limit and will not be awarded any more. He has no money to live on.

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## **About CPAG**

CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement.

**Child Poverty Action Group**, 94 White Lion Street, London N1 9PF, tel: 020 7837 7979, fax: 020 7837 6414