

Impact of the UK Government's Welfare Reforms in Wales

Summary

1. This paper provides the Council for Economic Renewal with the latest findings from the Welsh Government's research to assess the impact of the UK Government's welfare reforms in Wales.

Action Required

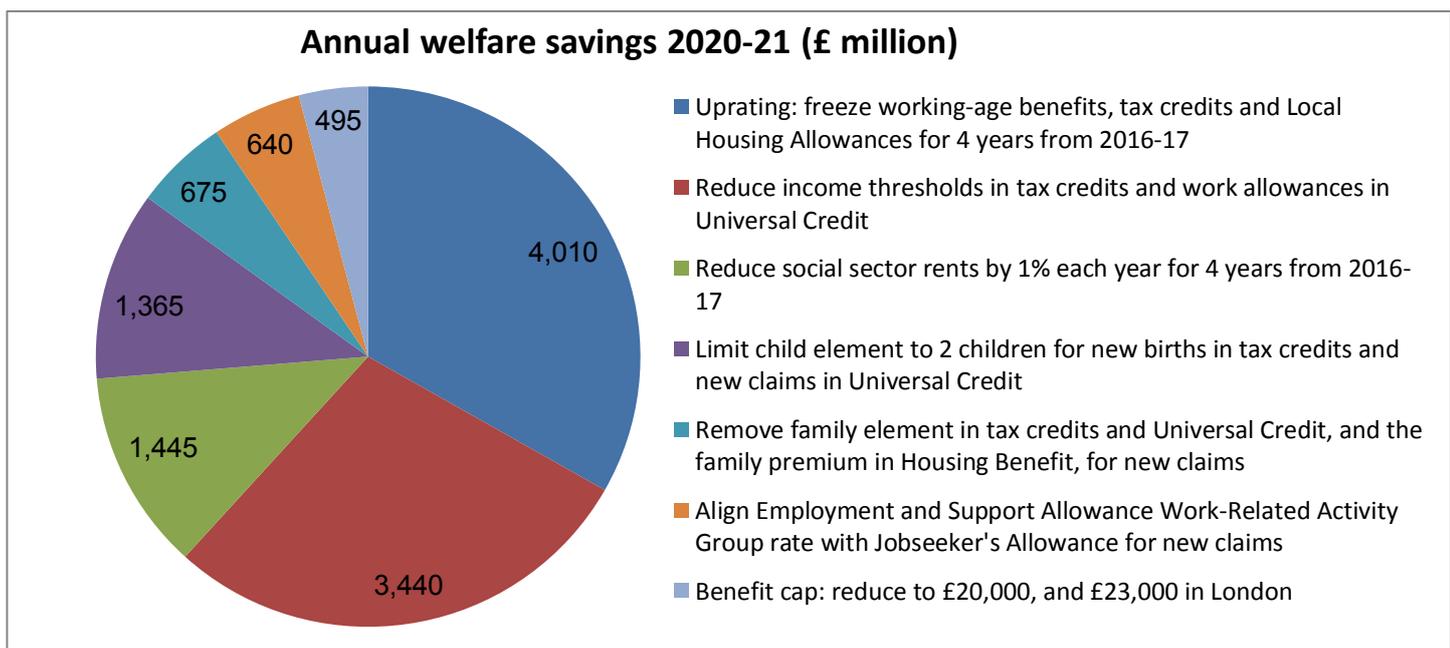
2. To note.

Background

3. The Welsh Government's Welfare Reform Ministerial Task and Finish Group is responsible for assessing and monitoring the impact of the UK Government's welfare reforms in Wales. The Group has recently approved a forward research programme and their latest research report was published on the 18 September.
4. The report analyses the likely impact in Wales of the significant welfare cuts announced in the UK Government's Summer Budget 2015, and also considers the effect of the personal tax measures and changes to the minimum wage.

Key research findings

5. The UK Government's Summer Budget 2015 confirmed annual welfare spending will be cut by £12 billion. This will take four years (i.e. by 2019-20) instead of the two years initially expected prior to the Budget. Annual welfare cuts are forecast to increase further to around £13 billion in 2020-21. The seven main welfare cuts, which account for over 90 per cent of the annual savings in 2020-21, are summarised in the chart below.



Data source: HM Treasury (2015) Summer Budget 2015

Freeze most working-age benefits, tax credits and Local Housing Allowances

6. The largest single cut to welfare spending is set to come from freezing most working-age benefits and tax credits for 4 years from 2016-17, saving around £4 billion a year by 2020-21.
7. The Institute for Fiscal Studies (IFS) estimates 13 million families will be affected across the UK, losing £260 a year on average. 7.4 million of these are in work, losing £280 a year on average. Our estimates suggest amongst those affected in Wales are around 360,000 families in receipt of Child Benefit, 240,000 families in receipt of tax credits, 250,000 Housing Benefit claimants, 47,000 Income Support claimants, 46,000 Jobseeker's Allowance claimants, and 37,000 Employment and Support Allowance claimants. Some claimants will be in receipt of more than one benefit or tax credit affected by the freeze.

Reduce income thresholds in tax credits and work allowances in Universal Credit

8. Another large cut involves reducing the level of earnings at which a household's tax credits or Universal Credit will start to be withdrawn from April 2016. This is a significant change, which will reduce the incentive to work. The IFS estimate this will affect 3 million families in the UK, who will lose around £1,000 a year on average. Our estimates suggest 130,000 – 160,000 families in Wales will be affected.

Limit child element to 2 children for new births in tax credits and new claims in Universal Credit

9. There were 117,000 families with 2 or more children in receipt of tax credits in Wales in 2013-14. These families will be affected if they have any more children after April 2017.

Reduce the annual amount of benefit out-of-work families can receive from £26,000 to £23,000 inside London and £20,000 outside London

10. The Department for Work and Pensions (DWP) estimates an average total of 126,000 households in Great Britain will be affected by the cap in 2017-18, with 92,000 of them additional over the current policy. Within these households, the number of adults affected is 156,000 and the number of children is 330,000. These households will have their benefits reduced by an average of around £63 per week in 2017-18.
11. Our initial estimate is around 5,000 households in Wales will be affected by the lowering of the household benefit cap.

Remove entitlement to housing support for most childless 18-21 year olds who are out of work

12. In February 2015, there were around 1,060 claimants in Wales aged 18-21 in receipt of Jobseeker's Allowance and Housing Benefit with no children. Although the current caseload will be protected from the changes to housing support for out-of-work 18-21 year olds due to be introduced in April 2017, a similar caseload would be expected under Universal Credit if this policy had not been introduced. Therefore, this is used as the best indicator of the impact of the policy in the medium term. Numbers affected would be slightly lower given exemptions to this policy.

Increase Universal Credit parent conditionality to those with children aged 3 and over (instead of aged 5 and over)

13. From September 2017, parents with a youngest child aged 3 or older, who are able to work, will be expected to look for work if they are claiming Universal Credit. DWP estimate this measure will affect around 220,000 claimants in the UK. We expect around 7,000 - 8,000 lone parents in Wales to be affected. Based on evidence of the impact of previous increases to the conditionality regime for parents, it is expected there will be positive impacts on employment.

Align Work-Related Activity Group rate with Jobseeker's Allowance for new claims

14. Employment and Support Allowance payments (and the Universal Credit Limited Capability for Work element) for those deemed able to work will be aligned with Jobseeker's Allowance and the standard rate of Universal Credit. This will apply to new claims only from April 2017.
15. DWP estimate 500,000 families in the UK will be affected in the longer term. We estimate around 37,000 affected claimants will be in Wales. DWP estimate the notional¹ loss for those affected will be around £28 a week.

Remove family element in tax credits and Universal Credit, and the family premium in Housing Benefit, for new claims

16. Those starting a family after April 2017 will no longer be eligible for the family element in tax credits (£545 per year per family). The equivalent in Universal Credit, known as the first child premium (a premium of £45.41 a month), will also not be available for new claims after April 2017. Similar changes will be made to Housing Benefit by removing the family premium for children born, or claims made, after April 2016.
17. The IFS estimate around 4 million families will be affected by this measure. Losses will be notional so there will be no cash losers. The numbers affected in Wales are expected to build up to around 200,000 families in the longer term.

¹ This is a measure of the entitlement claimants would have been eligible for had the policy not been changed, rather than claimants losing income they had already been receiving (i.e. a cash loss).

Further increase in the income tax personal allowance

18. The point at which someone starts to pay income tax, known as the income tax personal allowance, will increase from £10,600 in 2015-16 to £11,000 in 2016-17 and £11,200 in 2017-18.
19. The IFS estimate basic rate taxpayers will be better off by £40 a year as a result of this measure. The biggest gainers are two-earner couples where both can benefit from the higher allowance, and therefore, those in the middle and upper-middle parts of the income distribution gain the most as a percentage of income. Increasing the personal allowance does not increase the incomes of the very poorest in society.

Total impacts of tax and benefit changes, and the effect of the higher minimum wage

20. Analysis by the IFS shows the UK Government's tax and benefit changes take much more from low income households than higher income households between April 2015 and April 2019. For example, households in the poorest income groups lose around 7 per cent of net income on average compared to a negligible loss on average for the richest income group. The average loss for all households is around 1.5 per cent of net income.
21. By household type, on average, working-age households with children lose the most as a percentage of net income (around 3 per cent) compared to working-age households without children and pensioner households (both lose less than 1 per cent). Poor working-age households with children are the hardest hit losing around 11 per cent of net income, on average.
22. The IFS report many of the working families affected by the tax credit cuts will not be compensated by the higher minimum wage, and unequivocally on average, tax credit recipients in work will be made worse off by the measures in the UK Government's Summer Budget.

23. The Welsh Government's full report can be accessed via the following links:

English: [Analysing the impact of the UK Government's welfare reforms in Wales](#)

Cymraeg: [Dadansoddi effaith diwygiadau lles Llywodraeth y DU yng Nghymru](#)

Further research

24. As well as continuing to monitor the impact of the tax and welfare reforms implemented by the previous UK Government, research is underway to assess the following impacts of the new UK Government's reforms:
 - a) *Disaggregation of the impacts of the reforms on income according to the characteristics of the individual and/or household in Wales* (e.g. by income group and family type) – Initial research published 18 September 2015, with further research due to be published later in the autumn.
 - b) *Assessment of the impact on poverty* – expected publication date: autumn 2015.

- c) *Behavioural responses such as moving into work* – expected publication date: autumn 2015.
 - d) *A comparison of the estimated impact in Wales and the UK as a whole, and an assessment of the impact in different areas of Wales* – expected publication date: autumn 2015.
25. The timescale for the remaining research element, mentioned below, will be considered later this year.
- e) *Analysis of the impacts on public services and tenants in Wales*
26. The scope of the research programme will be reviewed on a regular basis, and is therefore subject to change.

Welfare Reform and Work Bill

27. In the announcement of its Legislative Programme, set out in the Queen's Speech at the State Opening of Parliament on 27 May 2015, the UK Government signalled a commitment to develop a Full Employment and Welfare Benefits Bill to ensure it pays to work rather than to rely on benefits. This Bill is now going forward as the Welfare Reform and Work Bill 2015 (the Bill). The UK Government's stated intention was to deliver fairness to the taxpayer while continuing to provide support for those in greatest need, and to help create 2 million new jobs and help move young people into paid employment by giving them the support, skills and experience they need to fulfil their potential.
28. The Welfare Reform and Work Bill Committee are currently considering the Bill. This Bill contains much of what was outlined within the UK Government's legislative programme as the Full Employment and Welfare Benefits Bill with the exception of the removal of housing support for young people aged 18-21 in receipt of Jobseekers which will require amendments to Universal Credit Regulations. The measures contained within the Bill would implement the welfare reforms announced within the UK Government's Summer Budget 2015. The Department for Work and Pensions policy leads for each area of the Bill are liaising with policy officials within the Welsh Government in clarifying further details.
29. In summary the Bill covers the following areas, some of which relate to England only (as indicated):
- Full Employment Reporting Obligation;
 - Apprenticeships Reporting Obligation (England ONLY);
 - Troubled Families Programme (England ONLY);
 - Life Chances Measure;
 - Reform of the Social Mobility and Child Poverty Commission;
 - Removal of other duties and provisions in the Child Poverty Act 2010;
 - Benefit Cap;
 - Freeze of certain social security benefits and certain tax credit amounts for four tax years;
 - Changes to child tax credit;
 - Changes to the child element of Universal Credit;

- Removing the work-related activity component in Employment and Support Allowance and the limited capability for work element in Universal Credit;
- Conditionality for responsible carers in Universal Credit;
- Loans for mortgage interest; and
- Social Housing rents (England ONLY).

30. An update paper to note on the further research and the Welfare Reform and Work Bill can be provided to the Council for Economic Renewal in February 2016.

**Tackling Poverty Division,
September 2015**