Council for Economic Renewal

Impact of the UK Government's Welfare Reforms in Wales

Summary

1. This paper provides the Council for Economic Renewal with information on the UK Government's welfare reforms and on the estimated impact in Wales.

Action Required

2. For discussion.

Background

3. The UK Government's Welfare Reform Act legislates for the biggest change to the welfare system for over 60 years. The main elements of the Welfare Reform Act and wider welfare changes include:

- **All working age benefits increased by the Consumer Price Index** (previously increased by the Retail Price Index): From April 2011;
- **Housing Benefit Reforms**: April 2011 onwards (e.g. the benefit cap applied through housing benefit and the bedroom tax);
- **Child Benefit**: April 2011 (rates frozen), Jan 2013 (rate tapered for those earning £50,000+) or withdrawn (an earner £60,000k +), April 2014 (rates increased by 1% for two years) ;
- **Working Tax Credits / Child Tax Credits**: changes from April 2011 onwards;
- **Income Support - Lone parent conditionality**: introduced March 2012;
- **Time Limit Contributory Employment and Support Allowance to 1 year**: April 2012;
- **Abolition of the Employment and Support Allowance Youth Provisions**: April 2012;
- **Universal Credit**: often billed as 'the £2.4 bn centrepiece of the reforms'. It aims to introduce a single benefit and tax credit system that combines six of the current income based in-and-out of work benefits. A pathfinder was introduced for a limited customer group from April 2013; and extended to further Pathfinder sites, including Shotton from April 2014. There has been further expansion to around 90 Jobcentres in the North West of England from the summer 2014. Detailed plans for the roll out and migration to Universal Credit are yet to be confirmed by the Department for Work and Pensions.
- **Working-age discretionary benefits and tax credits:** increase by 1% for three years.
- **Personal Independence Payment** reforms to Disability Living Allowance, through the introduction of this new payment, it excludes children and those 65+, introduced from April 2013 onwards;
- **Council Tax Benefit** & **Social Fund** abolished by the UK government and the budget and responsibility for successor arrangement 'devolved' to the Welsh Government (April 2013);

In addition:

- a stronger approach to reducing fraud and error with tougher penalties for the most 'serious offences'; and
- a new claimant commitment setting out the requirements for receipt of benefit with benefit sanctions for those who fail to comply without good cause. We understand that DWP is proposing to extend this benefit conditionality to employed people claiming Universal Credit on the basis of a low income. It is proposed that this will be based on an earnings threshold of the National Minimum Wage multiplied by the number of hours that a person is considered able to work (to a maximum of 35 hours each week).

The Impact for Wales

4. Although the reform of welfare benefits is a non-devolved matter, the UK Government's reforms were expected to have significant and wide ranging implications for devolved services, individuals and communities in Wales. As a result, the First Minister established a Ministerial Task & Finish Group which continues to operate and is responsible for assessing and monitoring the impacts of the reforms in Wales. As part of this remit, the Group, which I Chair, commissioned a three-stage programme of research to analyse the impacts.

Mitigation

5. Whilst the Welsh Government cannot meet the shortfall created by these changes, as set out in our Programme for Government, we are committed to take action to mitigate the impacts of the reforms, as far as we are able within the context of our own reducing budgets. We will continue to use the findings from our research to help target support and to prioritise resources to reduce poverty in Wales.

6. This paper focuses on the consequences of the reforms in Wales but in considering this, the Forum may also wish to reflect on some of the action that the Welsh Government has taken and continues to take, in helping to mitigate some of the worst effects of the reforms. For example, for 2013/14: the Welsh Government made an additional £1.3 million available to local authorities in Wales for discretionary housing payments; an additional £20 m funding to support the building of one and two bedroom affordable homes by Registered Social Landlords across Wales; and further investment of £20 m over the next 2 financial years.

7. Since 2012, the Welsh Government has provided £2.2 million per annum to support Citizens Advice Cymru to deliver the benefits take-up scheme, *Better Advice, Better Lives*. This targeted service supported almost 21,000 people in the last financial year and generated £16.4 m in additional benefits. In 2013/14, the Welsh Government also provided an extra £1 million to support front-line advice and support on issues relating to welfare benefits; housing; debt and discrimination. I have recently announced a further £2 million in 2014/15 and this grant will have a strong focus on helping those people hit hardest by the changes to the benefits system and on tackling poverty and inequality in our society, more widely.

8. In addition, we are providing wider assistance, for example, through our digital support programme, Communities 2.0. This programme is helping unemployed people to acquire digital skills to support their job search, help with money management and prepare for the digitalisation of welfare benefit. We have extended this programme to the non-convergence areas of South East Wales with additional funding of £1 million from a combination of Welsh Government and European Regional Development Fund money.

   Our response to the UK Government's welfare reforms is set out in the context of our Tackling Poverty Action Plan and further detail is published at:

   ttp://wales.gov.uk/topics/people-and-communities/tacklingpoverty/publications/taking-forward-tack-pov-plan/?lang=en

The Welsh Government's Programme of Research

9. **Stage 1**
   The Stage 1 report was published in February 2012 and aimed to analyse the existing evidence on the cumulative impact of the tax and benefit changes on individuals and households in Wales.

Stage 2

10. The Stage 2 reports were published in February 2013. This stage was undertaken via a combination of internal and external work. The internal work, estimated the direct effects of the main welfare reforms on household incomes in Wales, and provided a more detailed assessment of the wider economic and social impacts of welfare reform (building on the Stage 1 research) and also, the potential implications for devolved public services in Wales.
    The external work, undertaken by the Institute for Fiscal Studies (IFS), analysed the impact of the welfare reforms on income and labour supply in Wales.

Stage 3

11. The first part of the Stage 3 research, published in July 2013, assessed the impacts of the welfare reforms on those with protected characteristics (e.g. gender, age, disabled people, and race and ethnicity) while the second part, published in February 2014, has assessed the impact in local authority areas in Wales.

Further research

12. Following the completion of the three-stage research programme, the Ministerial Task and Finish Group reviewed future research requirements. It was agreed that the research undertaken by the IFS (as part of Stage 2) to assess the impact of the welfare reforms on incomes in Wales would be updated and extended. This now includes reforms announced up to and included in Budget 2014, and the tax changes as well as the benefit changes. This research report was published in July 2014.

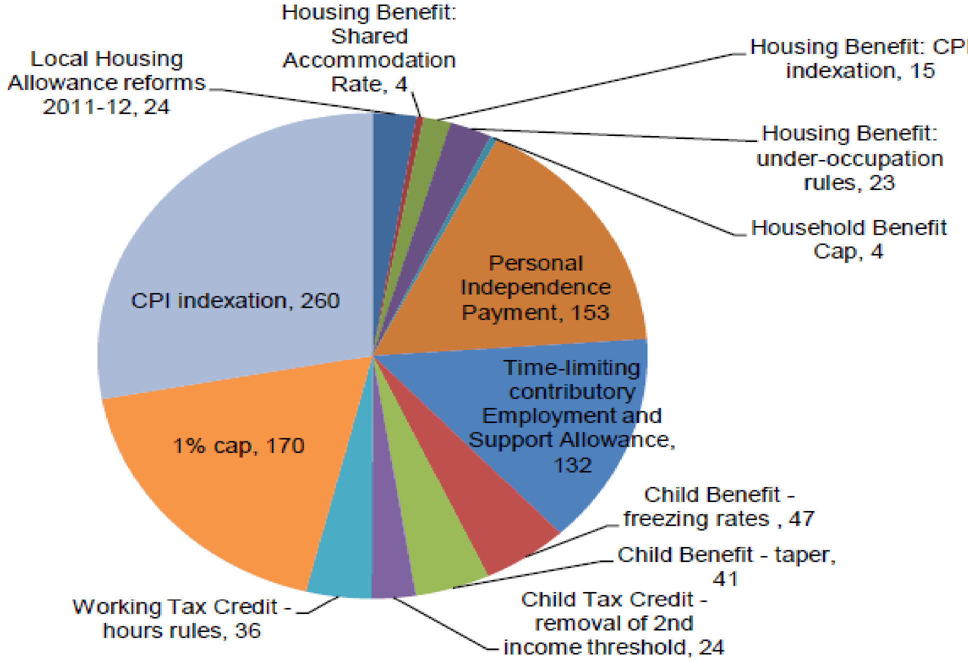
Latest research findings:
Stage 3 analysis (undertaken internally by the Welsh Government)
http://wales.gov.uk/topics/people-and-communities/welfare-reform-in-wales/analysingreforms/?lang=en

Impact of Welfare Reform in Wales

13. The policy changes that have been assessed[1], and which focus on working-age people, are estimated to reduce annual benefit and tax credit entitlements in Wales by around £900 million in 2015/16. To put this overall loss into context, benefit and tax credit expenditure and gross disposable household income are estimated to be around £6 billion and £45 billion respectively in 2015/16.

14. As illustrated, around half of this loss is due to the way benefits and tax credits are uprated[2]. Other large financial losses arise from a reduced caseload under Personal Independence Payments (PIP) compared to Disability Living Allowance (DLA) and the time-limiting of contributory Employment and Support Allowance (ESA) to one year for those in the work-related activity group. By contrast, some of the Housing Benefit (HB) reforms and the Household Benefit Cap result in much smaller total income losses in Wales.

Impact of welfare reform in Wales, 2015/16, £m



Source: Welsh Government estimates. Note: PIP only covers loss of entitlement and assumes full implementation by 2015/16 although this is not planned to happen until 2018/19. The financial loss as a result of the freezing of Child Benefit rates relates to 2013/14 (i.e. the last year of the freeze).

[1] Welsh Government estimates based on: Department for Work and Pensions (DWP) benefit expenditure estimates for Wales for 2011/12 and GB forecasts for 2012/13 onwards (includes Attendance Allowance, Bereavement benefits, Carer's Allowance, DLA, ESA, Incapacity Benefit, Housing Benefit, Income Support, Industrial Injuries Benefits, Jobseeker's Allowance, Maternity Allowance, Severe Disablement Allowance and Statutory Maternity Pay), HM Revenue and Customs (HMRC) tax credit and Child Benefit expenditure data for Wales for 2012/13 and GB forecasts for 2013/14 onwards, Office for National Statistics (ONS) household income data and Office for Budget Responsibility (OBR) inflation forecasts.
[2] Includes: Switch to uprating most benefits and tax credits by CPI (rather than RPI or the Rossi Index), 1% cap on most working-age benefits and tax credits (excluding disability and carers benefits) and Child Benefit, increasing LHA rates by the 30th percentile of local market rents rather than the median (included in LHA reforms 2011-12), and increasing LHA rates by CPI rather than the 30th percentile of local market rents.

15. Although losses will vary widely depending on individual circumstances, the average annual loss per working-age adult in Wales is estimated to be around £500 in 2015/16.

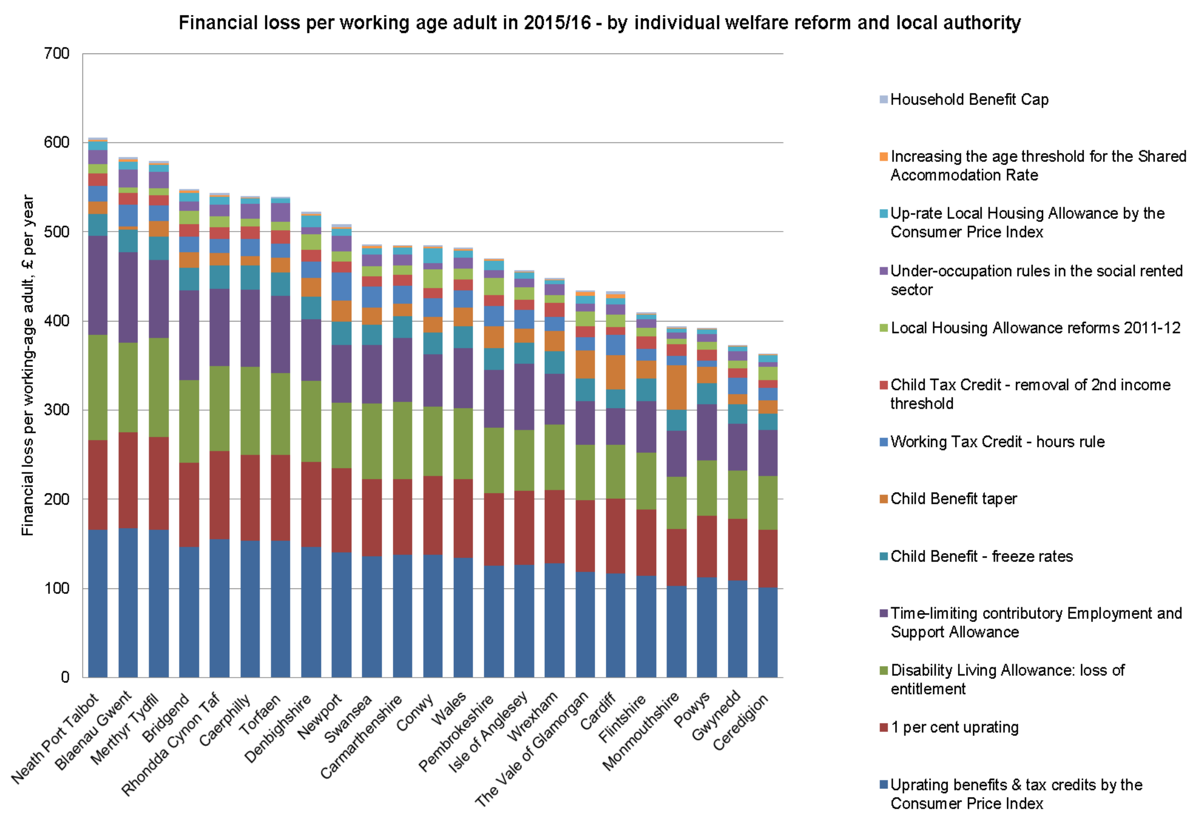
16. For those whose income is affected by the welfare reforms, there may be subsequent changes in spending and wider knock-on effects for the economy. For example, less money in people's pockets means that they buy less goods and services, the firms producing those then employ fewer people, leaving those people with less money to spend. However, in the event that the welfare reforms are successful in increasing employment, in the long run, this may lead to increases in economic output.

Impact of Welfare Reform in Welsh Local Authority Areas

17. The findings clearly illustrate that the impact of welfare reform varies across local authority areas in terms of the number and proportion of individuals / households affected and average financial losses. As illustrated by the chart, in Wales, Neath Port Talbot, Blaenau Gwent and Merthyr Tydfil are estimated to be the hardest hit by the welfare reforms analysed. Although losses will vary widely depending on individual circumstances, the average annual loss per working-age adult in these areas is estimated to be around £600 in 2015/16 compared to £500 for Wales as whole.

18. Nearly a quarter of the population aged 16-64 in these areas claim working-age benefits, the highest proportion in Wales. These areas are particularly affected by the changes to the way benefits and tax credits are uprated, time-limiting of contributory ESA, the introduction of PIP and the size criteria in the social rented sector. Such impacts reflect the relatively high overall working-age benefit claimant rates, particularly for disability and sickness benefits (i.e. DLA and ESA), and the high proportion of rented housing stock that is in the social rented sector.

19. At the bottom end of the scale, on average, Powys, Gwynedd and Ceredigion are much less affected by the welfare reforms analysed. This reflects their relatively low benefit claimant rates with just over a tenth of the population aged 16-64 in these areas claiming working-age benefits, the lowest proportion in Wales. Again, although losses will vary widely depending on individual circumstances, the average annual loss per working-age adult in these areas is estimated to be around £400 in 2015/16, around two-thirds of the loss experienced by the hardest hit areas.



Source: Welsh Government estimates.

20. The above findings are based on average losses per working-age adult, which can sometimes mask differences in impacts within large local authority areas. If we consider the absolute income losses and the shares of the total Welsh loss borne by each local authority area, the greatest losses are estimated to be incurred by: Cardiff (£103 million); Rhondda Cynon Taf (£81 million); and Swansea (£75 million) - each equivalent to 8-11% of the Welsh total in line with their working-age population shares. While Merthyr Tydfil (£22 million), the Isle of Anglesey (£19 million) and Ceredigion (£18 million), which are among Wales' smallest local authority areas based on population shares, see the lowest total income losses (each equivalent to 2-3% of the Welsh total).

Further research (undertaken by the IFS)

The Distributional Effects of the UK Government's Tax and Welfare Reforms in Wales: an update

21. This research presents updated analysis on the impact of the personal tax and benefit reforms implemented, or due to be implemented, by the UK's coalition government from when it was elected in May 2010 up to and including April 2015. This includes those measures that had been pre-announced by the previous Labour government which the new government chose to implement. Attention is restricted to personal tax and benefit reforms alone: it does not examine the impact of reforms to corporation tax and other taxes formally paid by businesses, nor the impact of changes to spending on public services. This is to ensure the analysis remains tractable and focused.

22. Looking at reforms up to April 2015 includes almost all the major reforms currently in the pipeline. But Universal Credit (UC) will still be only partly in place. A combination of a long roll-out period and significant transitional provisions means that it will be a long time before UC is operating in a 'steady state'. Similarly, while new claimants in Wales have been required to claim Personal Independence Payments (PIP) instead of Disability Living Allowance (DLA) since June 2013, existing working age claimants of DLA are being transferred slowly and most are not expected to be moved over until 2016 or 2017. For this reason, the research considered the reforms both including and excluding UC and PIP. The paragraphs that follow relate to the impact of the tax and benefit reforms including UC and PIP. However, analysis of the tax and benefit reforms excluding UC and PIP can be found in the full report, which can be accessed via the following link: http://www.ifs.org.uk/publications/7258

23. The tax and benefit changes are expected to result in a loss of around £720 million in Wales. This is equivalent to an average weekly loss of around £11 per household per week (2% of net income).

24. As mentioned earlier in this paper, the Welsh Government figure, which focuses on the impact of the benefit reforms (in isolation from the tax reforms) on working-age people, estimates a total loss of around £900 million. The difference between the IFS and Welsh Government estimates can be explained by them covering different reforms. For example, the IFS estimate includes the impact of the tax reforms and also the impact of the welfare reforms on pensioners. However, once differences in coverage are accounted for, the IFS and Welsh Government figures broadly match.

25. Overall, UC is now expected to be a small net takeaway in Wales rather than a giveaway. This reflects further announcements since Budget 2012 that have made it less generous to working households (e.g. cuts to work allowances – the amount a claimant can earn before their UC payment is affected).

26. Together, UC and PIP reduce average household incomes by around £3 per week, or £170 million in total across Wales. The full roll out of UC and PIP after 2015 will, together, help the poorest households. But it will hit those households who are expected to lose entitlement to disability benefits, most of whom are currently in the middle of the income distribution. Overall, it is those households around the poverty line (rather than middle or higher income groups) that will lose the most from the tax and benefit reforms (around 4.5% of net income).

27. Impacts of the tax and benefit reforms are not spread equally. Some households will be hit much harder - particularly those around the poverty line, working-age disabled households, non-working households, those with children, and low income working-age households without children. The winners are middle and upper middle income working-age households without children, and lower income pensioner households.

28. By disability status, households containing working-age disabled adults are hit harder than working-age non-disabled households. Average net income losses

are 6.5% (nearly £34 a week) and 1.5% (£10 a week) respectively. This is because they are hit directly by cuts to disability benefits. Also, as disabled households are more likely to have lower pre-tax-and-benefit incomes, they may be subject to other benefit cuts and are less likely to gain from increases in the personal tax allowance.

29. By household type, compared to working-age households without children and pensioners, working-age households with children (particularly those around the poverty line) are the hardest hit as they are more reliant on benefit income particularly if they have a low income. They see an average net income loss of around 4% (£27 per week) compared to less than 1% (less than £6 per week) for the other two groups. Amongst working-age households with children, it is those around the poverty line that lose the most in percentage terms (around 7% of net income). Pensioners are hit least hard as they protected from most benefit changes and pensions are ‘triple locked’, but the tax changes reduce income as pensioner tax allowance is not increased.

30. By working status, non-working households particularly those with children are expected to incur greater income losses than working households as a result of the tax and benefit changes. Most notably, non-working couples with children and non-working lone parents are estimated to lose around 12% of their weekly net income (£40-£55 per week) on average compared to an average loss of around 2% (£11 per week) for all Welsh households. However, some of those in work are also expected to see sizeable income losses. For example, working lone parents and one earner couples with children see an average loss of around 5% (£26-£32 per week).