

# Welfare Reform: Cost of the Cuts 2015

**Business Intelligence Service**

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## 1. Introduction

Following the 2015 general election, the government has announced a significant list of new legislation and policy, much of which will have sizeable local impacts. These announcements came primarily via an 'emergency' summer budget and via the Queen's Speech.

This report identifies the key proposals, and estimates the likely impacts on Oldham, both in terms of the financial impacts on the borough, and on the numbers impacted.

While most of the impacts will be connected with welfare reform, some will be on taxation, housing or other areas. All impacts thought likely to have local financial repercussions of any scale have been included, even if in some cases they cannot be estimated at this stage.

We have also listed some of the key secondary (indirect) effects. It will not be possible to quantify these at this stage, but a later report in this series we may be able to give more detail on these.

This briefing note is based on the position as we understand it at present. Proposals are currently going through the legislative process, so further information is expected to become available, which may change the detail and financial impact on residents.

The figures and estimates provided in this report are based on the best information currently available to us. They primarily draw upon information and data from the Department of Work and Pensions (DWP), HMRC (Her Majesty's Revenue and Customs), ONS (Office of National Statistics), Oldham Council, Unity Partnership and national research published by the Institute for Fiscal Studies (IFS). Approximations of impacts on residents, where necessary, use predictive modelling tools.

## 2. Summary of impacts

Five main types of impact from the proposed government changes to the tax and benefits regime have been identified through this briefing note:

- **Benefit freezes:** most working age benefits have been frozen for four years.
- **Tax credit changes:** significant restrictions have been put in place across tax credits. Many of these apply to new claimants.
- **Threshold changes:** significant changes to the benefit cap, to minimum wage, and to tax thresholds.
- **Housing changes:** a number of changes to housing benefits and social housing payments.
- **Other changes:** a small number of other proposals, including a new youth allowance and the extension of free childcare from 15 to 30 hours for working parents.

### OVERVIEW: losses to Oldham of proposed 2015 welfare and tax changes (£m)

Item	16-17	17-18	18-19	19-20	Total 4 year loss
Benefit freezes	£4.20	£9.80	£16.10	£22.70	£ 52.80
Tax credit changes	20.10	22.10	23.90	25.90	92.00
Threshold changes	-£7.50	-£16.70	-£25.90	-£35.10	-85.20
Housing changes	0.15	0.29	0.43	0.59	1.46
Other changes	3.50	-2.05	-2.05	-2.05	-2.65
<b>Total</b>	<b>£20.45</b>	<b>£13.44</b>	<b>£12.48</b>	<b>£12.04</b>	<b>£58.41</b>

The table above shows an estimated **cumulative loss to Oldham** from the new proposed changes **over the next 4 years of over £58m**.

The **worst affected 2000 families in Oldham** stand to **lose, on average, more than £3,800 per year** as a result of the reforms, once fully implemented.

Many people will be impacted by more than one benefit or tax change. It is therefore not possible to produce one single figure for the number of Oldham residents affected.

Indications are that:

- Over 10,000 residents will be impacted by JSA (Jobseeker's allowance), Universal Credit and ESA (Employment and Support Allowance) freezes.
- More than 31,000 households impacted by child benefit freezes.
- Approximately 23,000 households impacted by tax credit changes.
- Approx. 93,000 residents affected by changes to income tax and national insurance.
- Over 2,800 residents affected by changes to the minimum wage.
- Approx 8,700 residents affected by changes to housing benefit.

National research undertaken by the Institute of Fiscal Studies (see ch. 8) moreover allows us to extrapolate that, in Oldham, lone parents are the family group most heavily adversely affected by these changes.

The following sections will look at each of these themes in more depth.

### 3. Benefit Freezes

#### The proposal

Most working-age benefits will be frozen in cash terms until April 2020.

#### Exempt benefits

The following are exempt from the freeze: Maternity Allowance; Statutory Sick Pay; Statutory Maternity Pay; Statutory Paternity Pay; Statutory Shared Parental Pay; and Statutory Adoption Pay; disability, carers' and pensioners' premia in the frozen benefits; the ESA (Employment and Support Allowance) Support Group (disability) component; and other disability, carer and pensioner benefits, which will continue to be uprated in relation to prices or earnings as applicable.

#### The Impact

According to the Institute for Fiscal Studies (IFS), this represents a 4.8% real terms cut by 2019-20, given Office for Budget Responsibility (OBR) Consumer Price Index (CPI) forecasts. Our own estimates show the real impact on those receiving benefits to be higher, as inflation over the period appears to be a cumulative 7.2%. A freeze therefore will equate to a 6.7% loss. This is partially due to CPI rising substantially over the period of the freeze.

Benefit	Peak numbers affected	Peak annual loss to the economy of Oldham
JSA (Jobseeker's Allowance)	2380 individuals <sup>1</sup>	£0.6m
ESA (Employment and Support Allowance)	6310 individuals <sup>1</sup>	£2.0m
Income Support	3870 individuals <sup>1</sup>	£1.1m
Child Benefit	31320 households <sup>2</sup>	£4.0m
Tax Credits	23000 households <sup>3</sup>	£12.5m
Universal Credit*	2908 individuals <sup>4</sup>	£0.6m
LHA (Local Housing Allowance)	7850 households <sup>5</sup>	£1.9m

\*Figures for Universal Credit are based on a number of assumptions, as detailed financial data is not available.

Clearly, many people will be impacted by more than one benefit freeze. As such, it is not possible to produce one headline figure for overall numbers impacted at this point until further detail becomes available as part of future planned reports (see ch.10).

#### Benefit freezes - loss per year

Item	16-17	17-18	18-19	19-20
Cumulative inflation	1.0%	3.2%	5.2%	7.2%
All benefits freeze loss	£4.2m	£9.8m	£16.1m	£22.7m

<sup>1</sup> DWP 2015 [Online] [Accessed August 2015] available from <https://www.nomisweb.co.uk/default.asp>

<sup>2</sup> HMRC 2015 [Online] [Accessed August 2015] available from <https://www.gov.uk/government/collections/child-benefit-geographical-statistics>

<sup>3</sup> HMRC 2015 [Online] [Accessed August 2015] available from <https://www.gov.uk/government/collections/personal-tax-credits-statistics>

<sup>4</sup> DWP 2015 [Online] [Accessed August 2015] available from <https://stat-xplore.dwp.gov.uk/>

<sup>5</sup> Oldham Council 2015, data provided by Unity Partnership

## 4. Tax Credit Cuts

### The proposal

A combination of **restrictions on tax credits**, all from April 2017 except working families' tax credits. Implemented from April 2016:

- **Abolition of the family element in child tax credit (CTC)** (and equivalent in **Universal Credit - UC**) **from April 2017**. This applies to extra money currently received for the first child and will affect new claimants only.
- **Removing tax credit / Universal Credit (UC) entitlement for third and subsequent children** from **April 2017**. For new claimants only. This reduction will impact on larger families, both in and out of work.
- **Working families tax credits**. Implemented from **April 2016**. Sizeable reduction in how much families can earn before tax credits/universal credit start to be withdrawn. Tax credits start to be withdrawn once family earnings above £3,850 rather than £6,420.

Change	Peak numbers affected	Peak annual loss to the economy of Oldham
Family element of CTC abolished	20,600* households <sup>6</sup>	£11.2m*
Remove entitlement past 2 <sup>nd</sup> child	4,470* <sup>6</sup>	£16.4m*
Reduction in earnings thresholds for withdrawal of tax credits/UC from April 16	15,900 families <sup>6</sup>	£18.3m (2016)

\*Once all claimants are affected. New claimants only measure, so will phase in over up to 18 years. 1180 families are estimated to be impacted each year by the family element, based on births, but this does not take account of labour market churn so will be an underestimate. 3<sup>rd</sup> and subsequent child entitlement will also phase in over a long period, but a greater proportion will happen sooner.

### Tax Credit cuts - loss per year

Item	16-17	17-18	18-19	19-20	Future
Family element abolished	£0.6m	£1.3m	£1.9m	£2.6m	£11.2m
Remove entitlement past 2 <sup>nd</sup> child	£1.2m	£2.5m	£3.7m	£5.0m	£16.4m
Earnings threshold reduced	£18.3m	£18.3m	£18.3m	£18.3m	£18.3m

<sup>6</sup> HMRC 2015 [Online] [Accessed August 2015] available from <https://www.gov.uk/government/collections/personal-tax-credits-statistics>

## 5. Threshold Changes

### The proposal

There are several strands affecting income thresholds:

- Lower the **benefit cap** so that the total amount of benefits a non-working family can receive in a year would be £20,000 (outside London). Households are exempt where someone is entitled to Working Tax Credit or is in receipt of benefits relating to additional costs of disability, or war widow's and widower's pension.
- **The National Minimum Wage** will be 'rebranded' as the National Living Wage and will be increased to £7.20 per hour for those 25 or over from April 2016 (from £6.70 in October 2015). It will reach £9.00 per hour by 2020.
- **Increases to the income tax personal allowance** to reflect the national minimum wage (no one working 30 hours a weeks on the minimum wage pays income tax). In 2016-17, the personal allowance will increase to £11,000, expected to rise to £12,500 by the end of this parliament.
- Setting a **ceiling for the rates of Income Tax, VAT and National Insurance** - cannot be raised above their current levels over the next five years.

Change	Peak numbers affected	Peak annual loss to the economy of Oldham
Benefit cap	803 <sup>7</sup>	£2.13m
Minimum wage	2829 <sup>8</sup>	(£10.2m)
Income tax	93015 <sup>9</sup>	(£35.3m)

Minimum wage increase estimates are subject to a number of assumptions. We have assumed a relatively even annual increase of 50p per year in 2017, 2018 and 2019. We have also made assumptions about the age profile of those on minimum wage, and that only those on minimum wage are affected: in actuality there will be a cohort just above minimum wage also affected.

### Threshold changes - loss per year

Item	16-17	17-18	18-19	19-20	Peak
Benefit cap	£2.1m	£2.1m	£2.1m	£2.1m	£2.1m
Minimum wage	(£2.2m)	(£4.4m)	(£6.6m)	(£8.8m)	(10.2m)
Income tax	(£7.4m)	(£14.4m)	(£21.4m)	(£28.4m)	(£35.3m)

<sup>7</sup> Oldham Council 2015, data provided by Unity Partnership

<sup>8</sup> DWP 2015 [Online] [Accessed August 2015] available from

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/342381/NMW\\_jobs\\_UK\\_2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/342381/NMW_jobs_UK_2013.pdf)

<sup>9</sup> Oldham Council 2015, data provided by Unity Partnership

## 6. Housing-Related Changes

### The proposal

A range of varied changes are proposed:

- **Remove automatic entitlement to housing benefit** for most childless 18-21 year olds (new claimants), from April 2017.
- **Housing Benefit family premium abolished.** Awarded once to all families with dependent children. From April 2016 for new claimants.
- **Rents for social housing** will be reduced by 1% a year for 4 years.
- £800 million of funding is designated for **Discretionary Housing Payments** over the next 5 years (appears to be equivalent to previous years). However, it is highly likely that there will be an increase in demand for DHP within Oldham, as more households will be eligible due to impact of other welfare and tax credit changes.
- Social housing tenants with household incomes of £30,000 and above will be required to pay a **market rent**.
- Extend **Right to Buy** discounts to Housing Association tenants.

In many cases, these housing changes will have three broad impacts:

- Financial impacts on tenants
- Financial impacts on housing associations
- Impacts on the housing market in Oldham

Only those items with financial impacts on tenants are listed below. A future report could examine the wider impacts on the housing sector.

Change	Peak numbers affected	Peak annual loss to the economy of Oldham
Remove HB entitlement for 18-21's	129 households <sup>10</sup>	£0.58m
Abolish family premium	8742 claimants <sup>10</sup>	£0.15m
Reduce social housing rents	Not calculable at present- subject to future analysis	
Market rent requirement		
DHP funding	0	0

### Housing changes - loss per year

Item	16-17	17-18	18-19	19-20	Long term
Remove HB entitlement for 18-21's	£0m	£0.14m*	£0.28m*	£0.44m	£0.58m
Abolish family premium	£0.15m	£0.15m	£0.15m	£0.15m	£0.15m
DHP	-	-	-	-	-

\*We have assumed only demographic replacement, so this will be an underestimate. Full effect will be in 2020-21.

<sup>10</sup> Oldham Council 2015, data provided by Unity Partnership

## 7. Other Changes

### The proposal

Three other measures are proposed:

- **New Youth Allowance for 18-21 year olds:** conditional on an apprenticeship, training or community work placement after 6 months.
- Increase **free childcare** to 3&4yo to 30 hrs (from 15) for working parents from 17/18 (with trials from 16/17 – Oldham is considering a bid to be part of a trial).
- Abolishing **work-related activity group (WRAG)** premium in ESA (Employment and Support Allowance) for new claimants.

There appears to be little information at present about the new **Youth Allowance**, and we would therefore assume this is a rebranding of Universal Credit, but with conditionality. The ethics of such “workfare” initiatives have been widely debated, but there would appear to be no direct financial impact for those that take up such placements. We would expect that the additional complexities of this conditionality will increase the sanctions rate for this age group, but this cannot be estimated at this stage.

For **free childcare**, we have assumed the current 98% take-up rate of ‘free’ childcare and applied this to a 30 hour entitlement for working parents (single and couples) from 17/18. There will be a non-financial benefit of more hours of childcare received.

Benefit	Peak numbers affected	Peak annual loss to the economy of Oldham
Youth Allowance	430 individuals <sup>11</sup>	Zero change estimated
Free childcare	3830 children <sup>12</sup>	(£5.55m)
Employment and Support Allowance (ESA) WRAG (work-related activity group)	2340 individuals <sup>11</sup>	£3.5m

### Other changes - loss per year

Item	16-17	17-18	18-19	19-20
Youth Allowance	-	-	-	-
Free childcare	0	(£5.55m)	(£5.55m)	(£5.55m)
ESA WRAG (work-related activity group)	£3.5m	£3.5m	£3.5m	£3.5m

<sup>11</sup> DWP 2015 [Online] [Accessed August 2015] available from <https://www.nomisweb.co.uk/default.asp>

<sup>12</sup> ONS (Office for National Statistics) Mid Year Population Estimates 2013



## 8. Who is impacted?

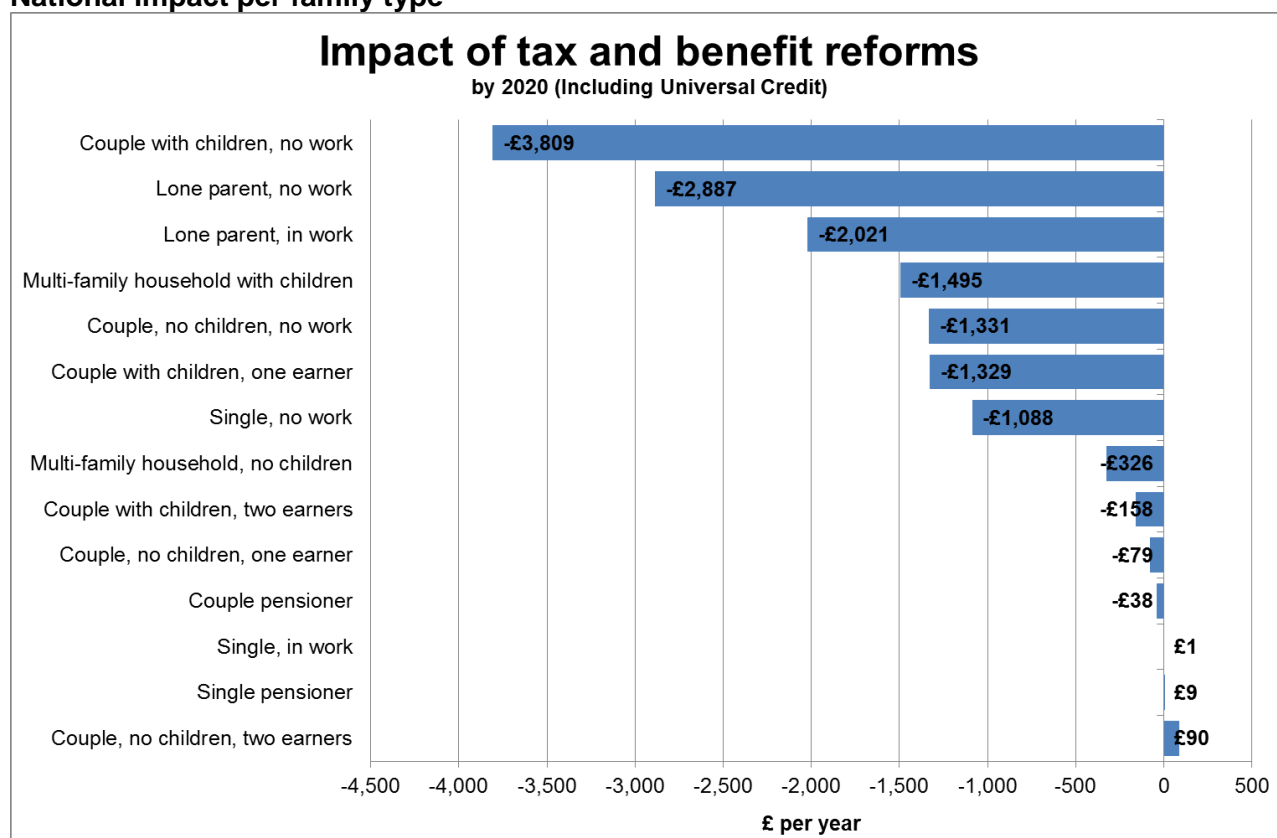
National research demonstrates what the planned tax and benefits changes mean for specific types of families.

The chart below, which was produced by the Institute for Fiscal Studies (IFS), details the average net change in income per family type, as a result of the tax and benefit reforms (nationally). The following are likely to see the biggest losses in annual income nationally:

- Couples with children – no work: average annual loss of £3,809 per family by 2020
- Lone parents no work – annual loss of £2,887
- Lone parent in work – annual loss of £2,021

Lone parents, typically some of the most vulnerable family group in society, are amongst the most heavily impacted, and only 3 family types will see an increase in annual income.

### National impact per family type<sup>13</sup>



<sup>13</sup> Source: Institute for Fiscal Studies, 2015

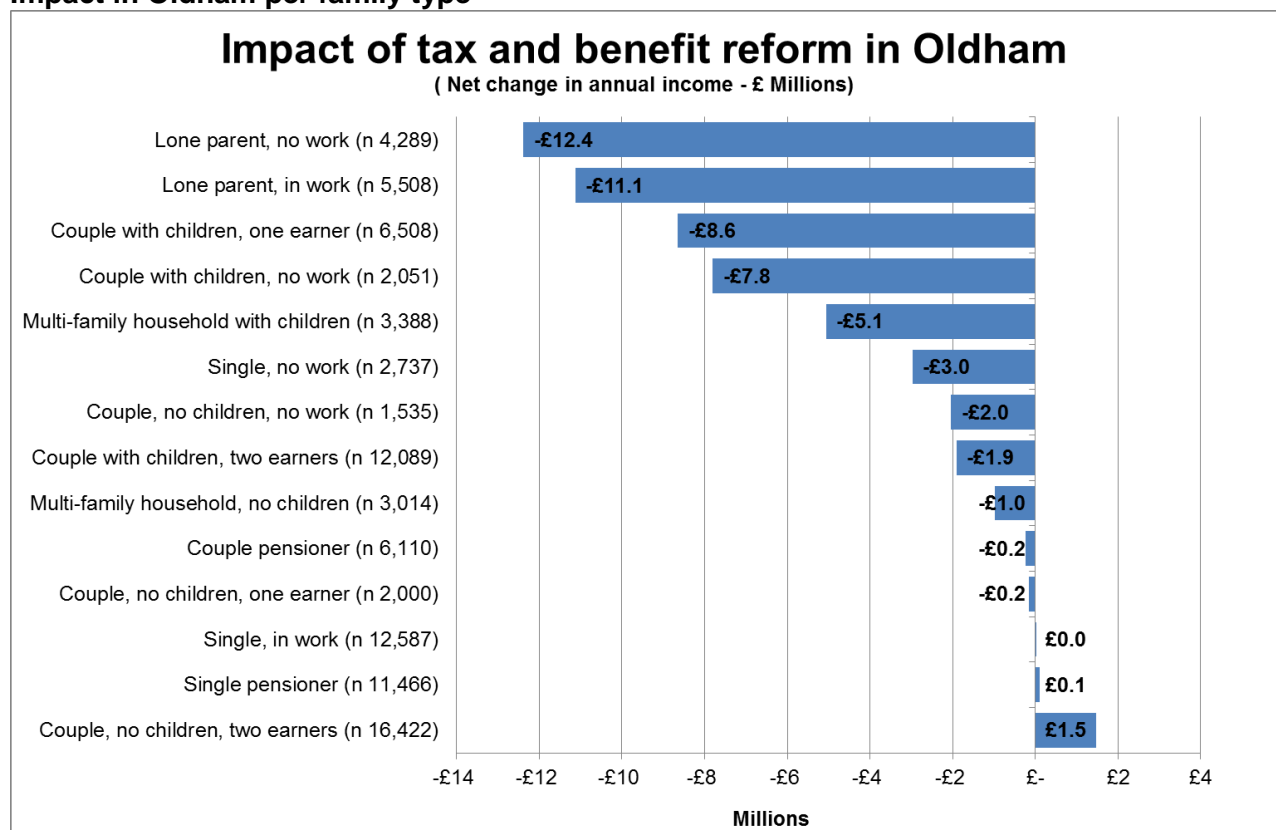
The chart below uses national research to extrapolate the specific impact within Oldham by 2020.

The chart shows that:

- Lone parents (both in and out of work) suffer the biggest cumulative losses.
  - Lone parent families out of work lose £12.4m per year
  - Lone parents in work lose £11.1m
- Couples with children – one earner families lose £8.6m
- Couples with children – no work families lose £7.8m

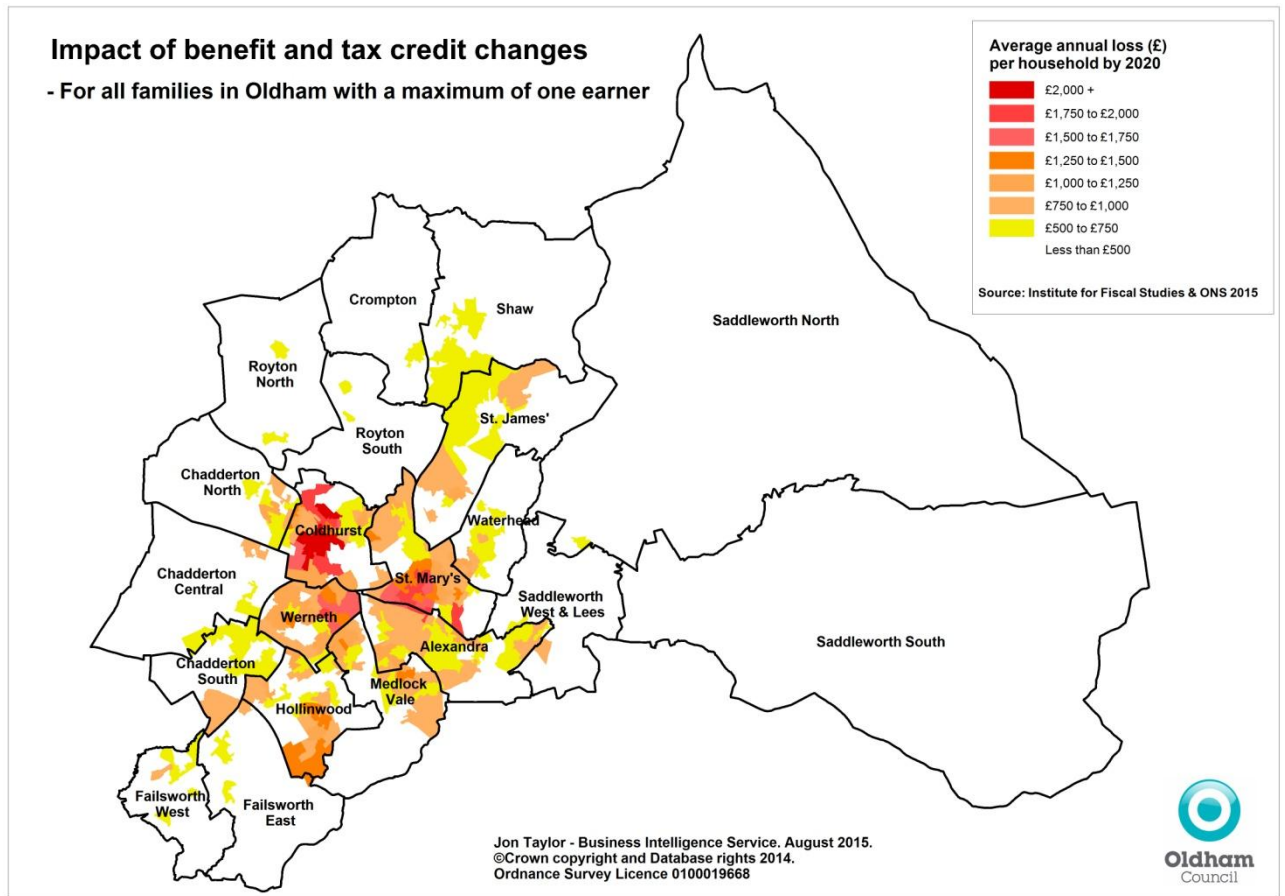
This equates to approximately 45% of the total loss within Oldham affecting lone parent families.

### Impact in Oldham per family type<sup>14</sup>



<sup>14</sup> Source: Institute for Fiscal Studies, 2015 and ONS Census 2011.

The map below shows those areas of Oldham, where those families with a maximum of one earner are likely to feel the biggest adverse financial impact.



## 9. Secondary impacts

At this stage, it is difficult to gauge the primary impacts of the proposals, and virtually impossible to quantify the secondary impacts. The types of impact that may potentially be seen include:

### Poverty & vulnerability

- Greater in-work poverty.
- Increase in families with financial issues.
- Increases in use of high-interest rate providers (payday loans, loan sharks etc...).
- Increases in use of food banks or associated food provision.
- Removal of automatic entitlement to Housing Benefit for 18-21 year olds is likely to affect a vulnerable cohort, such as Looked After Children living independently.

### Council

- Added demand on Council services providing support to people affected by welfare reform, including:
  - The Local Welfare Provision scheme;
  - The Welfare Rights team;
  - Increasing numbers seeking support from The Council Tax Reduction scheme;
  - Increasing demand for government-funded Discretionary Housing Payments.
- Increasing pressures on revenue from Council tax collections.

### Housing

- Some registered social landlord (RSL) stock may become unaffordable, and together with income falls due to the 1% rent reduction, this may cause issues for registered providers.
- Less affordable housing stock in more desirable, higher demand 'right to buy' areas.

### Education & Employment

- Improvements in school readiness for those children attending more hours of 'free' early years provision.
- Higher demand for early years places leading to jobs being created by providers.
- More parents being encouraged to look for employment as additional 'free' provision becomes available to working parents.
- Increasing pressure to move families out of benefits and into work – supported by Get Oldham Working.

### Demographic change

- Migration out of London and the wider South-East, potentially leading to housing pressures elsewhere.

## 10. Recommendations

### Members are asked to:

- Consider the impact on residents and the services provided by the Council to support those affected by welfare reform, for example:
  - The Local Welfare Provision scheme;
  - The work of the Welfare Rights team;
  - The Council Tax Reduction scheme;
  - Government funding for Discretionary Housing Payments;
  - Get Oldham Working.
- Discuss and agree appropriate action.
- Approve the following indicative future timetable for quarterly topical reports on welfare reform:

<b>Welfare reform research timetable</b>	<b>When (to EMT)</b>
Updated 'cost of the cuts' analysis	November 15
Benefit sanctions	February 16
Updated 'cost of the cuts' analysis, incorporating the March 16 budget	May 2016
To be determined	August 16