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2019 ANNUAL REPORT ON WELFARE REFORM

September 2019

Contents

EXECUTIVE SUMMARY

This report is the seventh in a series of Scottish Government reports which examine the effects of UK Government social security reforms introduced since the Welfare Reform Act of 2012. In this year's publication, we focus on key recent changes to the welfare system, and particularly on new evidence relating to the benefit freeze, Universal Credit (UC) work allowances and the two-child limit. Our modelling estimates that these changes, alongside removal of the first child premium, could reduce benefit spending in Scotland by around £500 million per year once UC is fully rolled out.

The benefit freeze

The freeze on key working-age benefits has continued into 2019/20, which is expected to be its fourth and final year of operation, reducing the real-terms value of most working-age benefit rates by a further 2.4%. Scottish Government modelling estimates that the full effects of the benefit freeze could reduce benefit spending in Scotland by around £300 million per year. The Joseph Rowntree Foundation[1] estimate that by 2020, the benefit freeze will have brought 400,000 people across the UK into poverty.

Universal Credit work allowances

Following a policy announcement in the UK 2018 Autumn Budget, the 2019/20 financial year has seen a £1,000 increase in annual UC work allowances, worth up to £630 per year to employed UC claimants. However, for most households, this increase does not fully compensate for the UC work allowance cuts which were introduced in 2016/17. At this stage of UC rollout, 86% of the households claiming UC in May 2019 have a lower UC work allowance in 2019/20 than they would if work allowance rates had been retained at their original level and uprated in line with inflation since 2013/14. Our modelling, which assumes full UC rollout, estimates that UC work allowance and taper rate changes since 2016/17 could ultimately reduce annual social security spending in Scotland by around £100 million per year.

The two-child limit

In January 2019 it was confirmed[2] that the two-child limit would no longer apply to any children born before 6 April 2017. We estimate that this will exempt around 900 Scottish households from the effect of the limit. Regardless of this change however, our modelling suggests around 40,000 Scottish households could eventually be affected by the limit at full rollout. The Department for Work and Pension's (DWP's) most recent two-child limit statistics show that as of April 2019, 8,540 families across Scotland have been denied entitlement for a third or subsequent child. We have modelled the effects of the UK Government's two-child limit and first child premium removal and estimate that by full UC rollout, these changes could reduce benefit spending in Scotland by around £100 million per year.

1 Joseph Rowntree Foundation (2019), End the benefit freeze to stop people being swept into poverty

2 DWP (2019), Amber Rudd sets out fresh approach to Universal Credit

Other reserved social security policy updates

A number of smaller UC reforms were announced in the 2018 Autumn Budget,[3] including run-on payments for claimants with a pre-existing legacy benefit claim and an easing of rules around UC debt recovery policy. The full package of these smaller reforms are estimated to cost approximately £20 million per year in Scotland between 2020/21 and 2023/24, and could improve claimants' experience of UC. The scheduled date of UC full rollout has also been pushed back to December 2023 to allow time for a one year pilot of UC managed migration to take place in Harrogate.

DWP have confirmed[4] that from 15 May 2019, couples with one partner over pension-age and one working-age partner (referred to by DWP as mixed age couples) will no longer be able to make new claims to Pension Credit (or pension-age Housing Benefit) and must claim UC instead. This could reduce the income of these households by up to £7,000 per year. We estimate that by 2023/24 around 5,600 households across Scotland could be affected by this change.

A total of 3,320 Scottish households were benefit capped as of May 2019. Recent evidence shows that 82% of households affected by the benefit cap experience barriers to work that prevent them from finding employment,[5] and therefore lack a practical way to avoid the cap's effects. The most recent data shows that 91% of the 2,730 Scottish households with capped Housing Benefit contained children. The average loss for a family with capped Housing Benefit in Scotland is £64 per week, equivalent to around £3,320 per year.[6]

3 HM Treasury (2018), Budget 2018: documents

4 DWP (2019), Changes to benefits for mixed age couples

5 House of Commons Work and Pensions Committee (2019), The benefit cap

6 DWP (2019), Stat-Xplore

1. PURPOSE

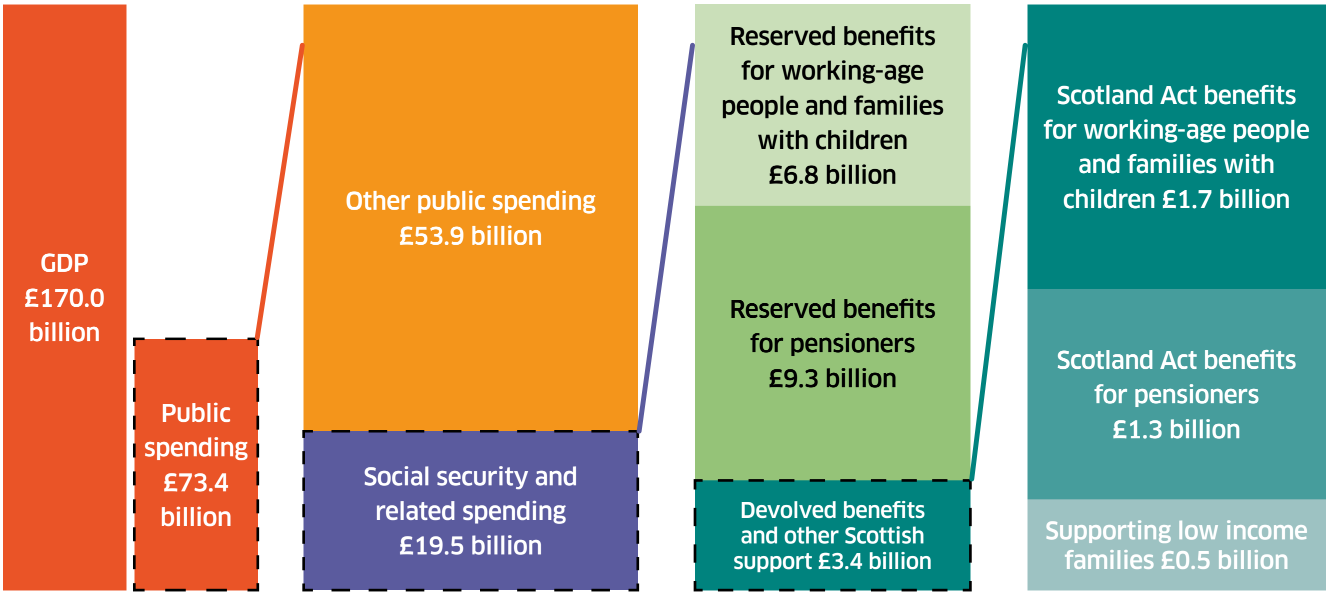
Since the publication of the 2018 Annual Report on Welfare Reform,[7] the UK Government have announced a number of changes to social security policies which affect Scottish households. This paper summarises the announced changes, and, where available, presents evidence on their expected impacts. It also provides updated evidence on the effects of previous major welfare policy changes.

7 The Scottish Government (2018), Annual Report on Welfare Reform

2. WELFARE SPENDING IN CONTEXT

Using 2017/18 expenditure data[8] produced by the UK Government it is possible to estimate total Scottish social security expenditure. Figure 1 shows how benefit spending fitted into overall Scottish public spending in 2017/18.

Figure 1 – Scottish public spending in 2017/18



Source: 2017/18 DWP Benefit and Expenditure tables, Government Expenditure and Revenue Scotland 2017/18[9]

Of the £73.4 billion of public spending in Scotland in 2017/18, around 26.5%, or £19.5 billion, was attributed to social security. Of this £19.5 billion, almost half, or £9.3 billion, was spent on pensions and pension-related benefits which remain reserved to the UK Government. A further £6.8 billion of reserved spend was attributed to social security for children and working-age people.

The remaining £3.4 billion was spent on benefits which were devolved under the Scotland Act 2016 and other Scottish Government support for people with low incomes. The Scottish Government currently delivers Carer's Allowance Supplement, Best Start Grant and Best Start Foods. Over the coming years other non-means-tested benefits, including disability and carer's benefits, will come under Scottish Government control. In total, devolved benefits accounted for around 15% of social security and related spending, including pensions, in 2017/18.[10] In addition to these devolved benefits, the Scottish Government spent around an additional £450 million on policies which support people in low income families, including Discretionary Housing Payments, Fairer Scotland, Council Tax Reduction and the Scottish Welfare Fund.

8 These were the most up-to-date data available at the time of report preparation. The figures presented here differ slightly from those presented in Government Expenditure and Revenue Scotland 2017/18, which used the most up-to-date expenditure data available at the time of its publication in August 2018. Figures are rounded to the nearest £100 million, which means that totals may not correspond to the sum of their individual components.

9 In Figure 1, "Supporting low income families" represents Scottish Government spending on Discretionary Housing Payments, the Scottish Welfare Fund, Fairer Scotland and Council Tax Reduction.

10 More information on which benefits have been devolved to Scottish Government control is available from Scottish Government (2017), Responsibility for benefits.

The 2018 Welfare Reform report estimated that social security changes introduced by the UK Government since 2010 could lead to an annual £3.7 billion reduction in welfare spending in Scotland by 2020/21. Of the more recent welfare reforms which were implemented post-2015, the largest spending reductions resulted from the working-age benefit freeze and changes to UC (including reductions to work allowances, the introduction of the two-child limit and the removal of the family element, otherwise known as the first child premium). The effects of these policies are summarised in sections 2.1–2.3, while the Scottish Government's modelling of these policies impacts is discussed in section 4. The underlying assumptions and methodology are discussed in Annex A.

2.1 Working-age benefit freeze

Whilst near-zero inflation in September 2015 limited the impact of the benefit freeze in the first year of its implementation, the second year of the benefit freeze[11] meant that many working-age benefit claimants did not see their benefit entitlements rise in line with CPI[12] in April 2017 to keep up with increasing costs of living. The value of benefits has eroded significantly over the past two years as CPI inflation exceeded the Bank of England's 2% target throughout 2017/18, hitting 3% in September 2017[13] and therefore reducing 2018/19 benefit entitlements further than expected. Our modelling indicates that the benefit freeze could reduce annual benefit spending in Scotland by around £300 million. The Resolution Foundation[14] estimated that by 2019/20, the benefit freeze could have reduced welfare spending in the UK by around £4.4 billion per year, while the Joseph Rowntree Foundation estimate[15] that by 2020, the benefit freeze will have brought 400,000 people across the UK into poverty.

The impact of the benefit freeze is reflected in the contraction of the average income of the poorest fifth of the population in 2017/18 when ranked by equivalised[16] household disposable income.[17] The Office for National Statistics suggest[18] that a reduction of 1.6% came after a continuous increase in the average income of the poorest fifth and was mainly driven by a fall in the average value of cash benefits received. The average income of the richest fifth of the population increased by 4.7% over the same time period.

11 The benefit freeze was announced in the Summer 2015 UK Budget, to be implemented for four years between 2016/17 and 2019/20.

12 CPI refers to the Consumer Price Index, which is a measurement of inflation used to assess changes in price levels over time of the goods most commonly purchased by households.

13 Office for National Statistics (2019), Inflation and Prices Indices

14 Resolution Foundation (2019), The Living Standards Outlook 2019

15 Joseph Rowntree Foundation (2019), End the benefit freeze to stop people being swept into poverty

16 Household income is adjusted to take into account the size and composition of the household.

17 The poorest households are particularly exposed to cuts to social security spending. This is because benefit income, and particularly means-tested benefit income, represent a larger proportion of their total household income. Therefore when social security spending falls, it has a larger impact on poorer households than others.

18 Office for National Statistics (2019), Average household income, UK: Financial year ending 2018

2.2 Universal Credit work allowances and taper rates

The cuts to UC work allowances which began in 2016/17 have been partially mitigated by the reduction in UC taper rate which was implemented in 2017/18, and further mitigated by the increases in UC work allowances which took effect from April 2019. However, these more recent changes have not been sufficient to counteract the effect of the much larger work allowance reduction introduced in 2016/17. Our modelling estimates that the combined effect of these changes since 2016/17 could reduce annual welfare spending in Scotland by around £100 million once UC is fully rolled out. Section 3.1 provides more information on how these work allowance and taper rate changes have led to a less generous UC award for many claimants.

2.3 The family element and the two-child limit

Children born on or after 6 April 2017 will no longer entitle their parents to the family element of Tax Credits or first child premium of UC, and can be excluded from a Child Tax Credits or UC award altogether if they are the third or subsequent child in the family. Until recently, families with children born before the 6 April 2017 could also be affected when they made new UC claims, however the UK Government recently announced that all children born before that date will be exempt from the limit.

We estimate that once UC is fully rolled out, the removal of the family element and introduction of the two-child limit could reduce annual benefit spending in Scotland by around £100 million. The two-child limit and the exemption for children born before 6 April 2017 are discussed in more detail in section 5.

3. UNIVERSAL CREDIT SINCE THE 2018 AUTUMN BUDGET

3.1 Universal Credit work allowances

During 2018 and 2019, a range of changes to UC have been announced. The most significant change, announced in the 2018 Autumn Budget,[19] was the increase of UC work allowances for claimants with responsibility for a child or limited capability for work, by an additional £1,000 per year.

Work allowances represent the net amount a household can earn each month before their UC award begins to reduce. A household's UC entitlement reduces by 63 pence for every additional £1 of net earnings over the work allowance.[20] As an example, if a UC claimant in employment receives a £1,000 increase in their annual UC work allowance, their UC award would increase by £630 per year (as long as their net earnings exceed the work allowance by at least £1,000). Any increase in work allowance increases the generosity of UC for working households and can also improve the incentives for people on low incomes to earn more.

In 2015, the UK Government reduced work allowances for claimants with children or limited capability for work. Lone parents not receiving housing support saw their work allowance decrease by as much as £4,000 per year. Work allowances were withdrawn completely for households without children who do not qualify as having limited capability for work. According to the Office for Budget Responsibility,[21] the 2018 increase only restores around half of the 2015 cuts.

In the 2016 Autumn budget[22] the UC taper rate was reduced from 65 pence per additional £1 of net earnings, to 63 pence per additional £1. In isolation, this change in taper rate would increase the returns to work for UC claimants by letting them keep more of what they earn.

The combination of work allowance and taper rate changes have created a complex array of winners and losers, with the amount gained or lost dependent on whether claimants rent their housing, are single or have a partner, have limited capability for work or have responsibility for a child. We have looked into the combined effect of these changes, to show how much people in different types of households have gained or lost (or will gain or lose) from the combination of 2015 work allowance reductions, 2016 taper rate reductions and 2018 work allowance increases. Table 1 compares the maximum additional amount of UC payment claimants could receive under current work allowance rules in 2019/20 cash terms with an alternative scenario, where the changes had not taken place. For the alternative scenario the 65% UC taper rate is applied and the 2013/14 work allowances are uprated by CPI inflation to 2019/20 levels. Table 1 shows the maximum direct gain or loss to each household type resulting from the changes.

19 HM Treasury, (2018), Budget 2018: Documents

20 The amount of UC entitlement lost for each £1 of additional net earnings is known as the taper rate.

21 OBR (2018), Economic and Fiscal Outlook, p. 243

22 HM Treasury (2016), Autumn Statement 2016: Documents

Table 1 – Actual and baseline UC work allowances in 2019/20, by household group

Household characteristics	Households in this group as % of all Scottish households claiming UC in May 2019	Maximum additional amount of UC payment due to work allowance, expressed in 2019/20 cash terms	Baseline – Maximum additional amount of UC payment due to 2013/14 work allowance, uprated by CPI to 2019/20 values	2019/20 gain or loss from policy changes
Work allowance for households not claiming the housing element				
Single or joint claimant with no dependent children	25%	£0	£959	- £959
Single claimant with one child or more	6%	£3,803	£6,339	- £2,536
Joint claimants with one child or more	2%	£3,803	£4,629	- £826
Single or joint claimant with limited capability for work	3%	£3,803	£5,587	- £1,785
Work allowance for households claiming the housing element				
Single or joint claimant with no dependent children	30%	£0	£959	- £959
Single claimant with child or more	21%	£2,170	£2,271	- £102
Joint claimants with child or more	7%	£2,170	£1,917	£253
Single or joint claimant with limited capability for work	7%	£2,170	£1,658	£512

Source: Scottish Government analysis based on House of Commons Library[23] and Stat-Xplore. Where a household has both limited capability for work element and dependent children, this has been categorised as the appropriate-sized household with children. Percentages total more than 100% due to rounding.

Around 14% of the Scottish households claiming UC in May 2019 (those claiming housing costs while entitled to the child element or the limited capability for work element of UC) will gain from UC work allowance and taper rate changes since 2015. The remaining 86% stand to lose out on up to £2,536 of UC entitlement in 2019/20. More than half of households claiming UC in May 2019 were not responsible for children, or eligible for the limited capability for work element. Working people in this category will have no work allowance and lose out on up to £959 in UC payments in 2019/20 as a result. It is important to note that a smaller proportion of the current UC caseload is made up of households with children or limited capability for work entitlement than is likely after UC full rollout. Therefore it is likely that the 14% share of the current UC caseload benefitting from the changes could become larger over time.

23 House of Commons Library (2019), Benefits Uprating 2019

3.2 Universal Credit transition related changes

In addition to the change to UC work allowances, the 2018 Autumn Budget[24] also introduced a range of smaller measures. Whilst small-scale in terms of spend, (a Scottish share of the projected costs would be approximately £20 million per year between 2020/21 and 2023/24)[25] these changes could improve claimants experience of UC. They include:

1. **Two week run-on payments.** Claimants moving onto UC from Income Support, income-related Jobseeker's Allowance and Employment and Support Allowance will continue to receive payments from these legacy benefits for the first fortnight of their UC claim. Claimants of Housing Benefit already receive this run-on payment, while claimants of the other legacy benefits will benefit from this change from July 2020. This will ease the five-week wait for UC payments for households with a pre-existing claim to these benefits, however newly entitled households making a fresh claim will not benefit from this policy.
2. **Rate and speed of debt recovery.** Starting in October 2019, the maximum deduction taken from a UC award will be limited to 30% of the standard allowance – reduced from 40%. From October 2021 claimants will have 16 months to repay advances from their UC award, instead of 12.
3. **Self-employed grace period.** All self-employed people moving onto UC are granted a 12 month 'grace period'. After this grace period the Minimum Income Floor will apply. That means UC entitlement will no longer increase for self-employed claimants when they earn less than they would if they worked the number of hours DWP expects of them at the minimum wage.
4. **Surplus Earning disregard.** The disregard for surplus earnings will remain at the higher level of £2,500 for one additional year beyond April 2019.[26] In April 2020, the disregard will be reduced to £300, resulting in many more people seeing their entitlements reduced by the policy.
5. **Capital assessment for Tax Credits claimants.** Claimants moving onto UC from Tax Credits will be able to claim for 12 months, even if they have savings of over £16,000. After this period, the standard rules will apply and they will no longer be eligible to claim UC if their savings are over this level.

3.3 Mixed age couples and Universal Credit

After the 2018 Autumn Budget, the UK Government has confirmed[27] that from 15 May 2019, couples with one partner over pension age and one working-age partner (referred to by DWP as mixed age couples) can no longer make new claims to Pension Credit (or pension-age Housing Benefit) and must claim UC instead. This could reduce the income of these households substantially. Pension Credit Guarantee Credit tops up a couple's income to £12,940 per year. However, under UC the Standard Allowance only entitles couples to just under £5,990 per year, representing a potential loss of up to £7,000 per household.

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24 HM Treasury, (2018), Budget 2018: documents

25 HM Treasury, (2018), Budget 2018: documents estimates that these policies will cost between £170 million and £240 million each year between 2020/21 and 2023/24, across the UK.

26 Surplus Earnings and the Minimum Income Floor are two complex UC rules. The Scottish Government's 2018 Welfare Reform Report provides a simple explanation of how these two rules function.

27 DWP (2019), Changes to benefits for mixed age couples

In February 2019, DWP estimated[28] that 15,000 households across the UK would be affected in 2019/20, reaching 60,000 by 2023/24. Table 2 presents the estimated Scottish share of households affected by this change, and the associated reduction in welfare spending.

Table 2 – Estimates of the number of households affected and spending reduction of the mixed age couple policy in Scotland

	2019/20	2020/21	2021/22	2022/23	2023/24
Households affected across the UK	*15,000*	*30,000*	*40,000*	*50,000*	*60,000*
Households affected in Scotland	**1,400**	**2,800**	**3,800**	**4,700**	**5,600**
Spending reduction at UK level (£million)	*45*	*130*	*220*	*315*	*385*
Spending reduction at Scotland level (£million)	**4**	**12**	**21**	**30**	**36**

Source: UK Parliament (2019) and Stat-Xplore. These calculations assume that the Scottish share of the UK figures match the Scottish share of GB households claiming Pension Credit in the most recently available data (February 2019, 9.5%).

3.4 The migration schedule of Universal Credit

In the 2018 Autumn Budget, the UK Government moved the final rollout date of UC to December 2023 – nine months later than previously planned. This delay is designed to accommodate a one-year UC managed migration pilot, which began in Harrogate in July 2019.[29] The Office for Budget Responsibility (OBR) estimate[30] that recent UK Government's changes to managed migration plans will lower the cost of UC by around £200 million over the next five years.

28 UK Parliament (2019), Pension Credit: Written question

29 Managed migration refers to the movement of existing legacy benefit claimants off of those benefits and on to UC. Natural migration, which refers to people making new means-tested benefits claims being directed to claim UC instead of legacy benefits, is already underway across Scotland.

30 Office for Budget Responsibility (2019), Economic and Fiscal Outlook, p. 102

4. THE EFFECT OF WELFARE REFORMS ON SCOTTISH SOCIAL SECURITY SPENDING

We have modelled the effect of welfare policy reforms on social security spending using Scottish Government's in-house microsimulation model, which is based on Family Resource Survey (FRS) data.

This model allows us to examine the effects of several key welfare reforms on the assumption that the full rollout of UC has taken place. The full effect of all welfare reforms dating back to the introduction of Welfare Reform Act 2012 will be much greater than the impacts set out here. However, due to the current sample restrictions and model limitations around the legacy benefit system, it has not been possible to model those on a comparable basis.

We compared a baseline scenario of the existing, post-welfare reform policy environment to four counterfactual scenarios in which major benefit cuts did not take place. These scenarios covered:

- The absence of the benefit freeze.
- UC taper rates remaining at 65%, while 2015/16 UC work allowances were simply uprated by CPI.
- The absence of changes to the UC first child premium, and non-introduction of the two-child limit.
- And the combination of the scenarios above.

To capture the full effects of UC work allowances and taper rate reforms, our modelling assumes the full rollout of UC has taken place, while children who were born after the start of April 2017 are affected by the two-child limit. By cutting annual social security spending by £300 million in Scotland, the benefit freeze is estimated to have the largest impact of the reforms we examine, making up around two thirds of a combined £500 million annual reduction. The full results of our analysis are presented in table 3.

Table 3 – The Scottish benefit spending reductions due to UK Government welfare reforms since 2015

Welfare reform	Annual welfare spending reduction
Introduction of the benefit freeze	£300 million
UC work allowance and taper rate changes between 2015/16 and 2019/20	£100 million
Removal of the first child premium and introduction of the two-child limit	£100 million
Total	£500 million

Source: Scottish Government modelling. All figures are rounded to the nearest £100 million.

In reducing Scottish welfare spending by an estimated £500 million per year, these post-2015 welfare reforms have greatly reduced the generosity of working-age benefits. However, these represent a relatively small proportion of the larger suite of UK Government cuts which have taken place over the last ten years. Our 2018 report estimated that these cuts amounted to a £3.7 billion reduction in annual spend in 2020/21. We plan to update this analysis in light of subsequent changes to UC policy and rollout in our future publication.

5. THE TWO-CHILD LIMIT

We have also examined the steady-state effects of the two-child limit on poverty rates and welfare spending in Scotland. Our analysis shows that:

- The two-child limit could reduce social security spending by up to £120 million per year in the long-term.
- Up to 20,000 children could be brought into relative poverty after housing costs.
- Around 40,000 households could lose entitlement for third or subsequent children.

The two-child limit only applies to children born on or after 6 April 2017. Currently only a small proportion of children fit this criterion, however with time, a greater proportion will be born after April 2017. The estimates above represent the long-term cost of the policy, once all children who are affected in principle by the policy come into scope.[31] Annex B provides more details on modelling assumptions.

In January, the UK Secretary of State for Work and Pensions confirmed[32] that the two-child limit would no longer apply to any children born before 6 April 2017. DWP estimates indicate that this change "will benefit around 15,000 families". Previous plans were that third or subsequent children born before that date could be affected by the limit when their parents made a new claim to UC.

Based on this figure, we estimate that around 900 Scottish households will benefit from this change.[33] As mentioned above, our analysis suggests around 40,000 households will be affected by the two-child limit in the long-term. Therefore, the number of children exempted due to this change represents around 2% of Scottish households who will be affected by the limit in the long-term.

Two-child limit statistics show that in the period up to April 2019, 8,540 households across Scotland were denied entitlement for a third or subsequent child.[34] A further 480 households would have been denied entitlement, but were allowed to claim because of their particular circumstances, referred to by the DWP as an exception. Table 4 breaks down these excepted households by the reason for their exception.

31 Further information on the full criteria is available at DWP (2019), Families with more than 2 children: claiming benefits.

32 DWP (2019), Amber Rudd sets out fresh approach to Universal Credit

33 This figure assumes that the Scottish share of this 15,000 families matches the Scottish share of UK families claiming Child Tax Credits for three or more children, which is 6%. This data is taken from the most recent geographical statistics published by HMRC on Tax Credits. The data is available from HMRC (2018), Personal tax credits: finalised award statistics – geographical statistics 2016 to 2017.

34 HM Revenue & Customs and Department for Work and Pensions (2019), Child Tax Credit and Universal Credit claimants: statistics related to the policy to provide support for a maximum of 2 children

Table 4 – The number of Scottish households excepted from the two-child limit policy, by reason for exception

Reason for exception	Number of households
Multiple birth	370
Non-parental care[35]	60
Non-consensual conception	50
Total	480

UK-wide statistics (which are not available at Scotland level) show that a total of 161,000 households were affected in principle by the two-child limit as of April 2019. Given that 848,000 UK households with three or more children claimed Child Tax Credit or UC in April 2019, this suggests that the limit has gone from affecting 8% of households claiming benefits for three or more children in April 2018 to 19% one year later. Further detail on the characteristics of the households affected by the limit is also provided at the UK level. These show that among all households who were affected in principle by the policy:

- 40% were headed by a lone parent;
- 59% had at least one partner in work; and
- almost half (58%) had three children, while 27% had four, and 16% had five children or more.

Assuming these shares remain the same in Scotland then by April 2019 the households denied entitlement in Scotland would include around:

- 3,400 lone parent households;
- 5,000 households with at least one parent in work; and
- 4,900 households with three children, 2,300 with four, and 1,300 with five or more children.

35 This refers to a variety of situations where children live long-term with friends or family and would otherwise be at risk of entering the care system. Alternatively, this definition is also used in situations where a child under 16 who lives with their parents has a child of their own. Further information is available at HM Revenue & Customs (2018), Child Tax Credit: support for a maximum of 2 children.

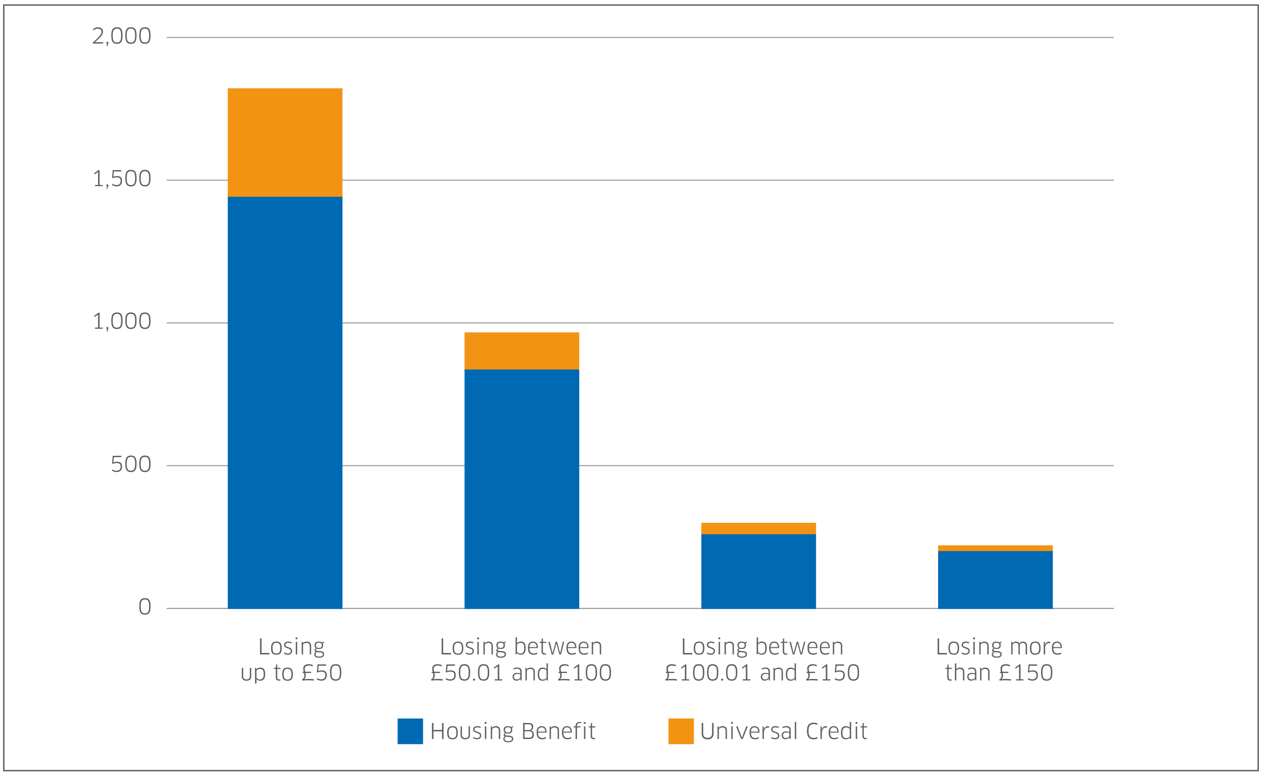
6. THE BENEFIT CAP

The benefit cap, introduced in 2013, is a policy that sets a limit on the total annual payment a household can receive from means-tested benefits. Since 2016, the benefit cap has been set at £20,000 per year for couples and single parents and £13,400 for single adults across the UK, with a higher cap in London. The cap is implemented through a reduction in either Housing Benefit or UC, depending on whether the household remain on legacy benefits or have already moved onto UC. Households that qualify for Working Tax Credits, or are on UC and earn more than £542 per month, are exempt from the cap.

A total of 3,320 Scottish households were benefit capped as of May 2019. The cap disproportionately affects families with children. Based on the most recent data, covering May 2019,[36] of the 2,730 households whose Housing Benefit has been capped, two thirds (1,820) were lone parent households and only 9% (270 households) were not responsible for children. Of the 91% of households which contain children, 87% are large families which care for three or more children.

Among Housing Benefit-capped families, the average amount capped each week was £64, equivalent to around £3,320 per year. Among households with either capped UC or Housing Benefit, most of those who are capped (1,820) lose up to £50 a week, however a substantial number (1,480) lose more than that, as shown in figure 2 below.

Figure 2 – Number of Scottish households benefit capped in May 2019, by weekly amount capped



Source: DWP (2019), Benefit Cap: number of households capped to May 2019

36 DWP (2019), Stat-Xplore

A recent report by the House of Commons Work and Pension Committee[37] highlighted that only 18% of the legacy benefit claimants whose Housing Benefit is capped claim Jobseeker's Allowance. The remaining 82% of affected claimants receive benefits which do not require them to look for work for reasons of ill-health or childcare responsibilities. Policy in Practice estimated[38] that for every 100 households affected by the cap, only around four will move into work because of it. Similarly, in DWP's 2014 study benefit capped households were found to be only around 4.7% more likely to move into work than similar, but uncapped, households.[39]

In 2019/20, the Scottish Government allocated £8.1 million to local authorities to provide support to benefit capped families through the Discretionary Housing Payment system.[40]

37 House of Commons Work and Pensions Committee (2019), The benefit cap

38 Policy in Practice (2018), Benefit Cap: Policy in Practice's evidence to the Work and Pensions Select Committee

39 House of Commons Work and Pensions Committee (2019), The benefit cap

40 Further information on Discretionary Housing Payments are available from Discretionary Housing Payments in Scotland (2018) and Social Security: Housing cost support (2018).

7. ANNEX A – THE METHODOLOGY USED IN OUR SPENDING REDUCTION MODELLING

Our modelling examines the effect of a variety of social security policy changes on welfare spending using the Scottish Government's in-house microsimulation model, based on Family Resource Survey (FRS) data. A baseline scenario of the existing, post-welfare reform policy environment was compared to four counterfactual scenarios in which major benefit cuts did not take place. These scenarios covered:

- the absence of the benefit freeze;
- UC taper rates remaining at 65%, while 2015/16 UC work allowances were simply uprated by CPI;
- an absence of changes to the UC first child premium, and non-introduction of the two-child limit; and
- the combination of each of the above scenarios.

The modelling uses the following assumptions:

- The analysis is based on data from the 2016/17 FRS.
- The spending reductions estimated are presented in 2019/20 terms.
- UC has been fully rolled out. In reality this is expected to be completed during the 2023/24 financial year.
- UC and Child Benefit (CB) are fully taken up by all people entitled to them. In reality not everyone who could potentially be affected by the cuts will claim the benefit, meaning our estimates will be towards the higher end of the potential impacts.
- Tax and benefit rates are set to 2019/20 levels.
- The two-child limit and removal of first child premium are applied to children who will be under seven in 2023/24 (when the migration to UC is scheduled to be completed).
- The spending reductions reported are limited to those occurring through either UC or CB. This means that some other sources of spending reduction, such as freezing of contribution-based benefits or local housing allowances for pensioners, are not included.

8. ANNEX B – THE METHODOLOGY USED IN OUR TWO-CHILD LIMIT ESTIMATES

The estimates provided in our analysis represent the long-term effects of the two-child limit policy, i.e. once the policy affects all UC claimant households with third and subsequent children who do not meet the exemption criteria. At this point, the policy could reduce welfare spending by up to £120 million, and affect up to 40,000 households.

The modelling uses the following assumptions:

- Analysis is based on data from the 2016/17 Family Resource Survey.
- The costs and impacts modelled refer to the steady-state, i.e. once the two-child limit applies to all households. Given that only children born on or after 6 April 2017 will be affected by the policy, the policy's full effect will not be felt until the 2030s.
- It is assumed that UC is fully rolled out and all households who can claim benefits will do so. In reality, however, some households will not claim these benefits. Therefore, the savings and poverty increase resulting from the policy could be lower than estimated.
- Benefit entitlement calculations are based on 2019/20 criteria, and therefore include recent changes to UC work allowances. Any changes in entitlements in later years would affect costs.
- Behavioural responses (e.g. people who choose to have more/less children, or people who choose to change their hours of work due to changes in benefit policy) are not taken into consideration.
- The poverty threshold is not affected by the full rollout, or full absence of the limit. In reality, the existence of the limit may reduce the median income across the UK, and therefore also reduce the poverty threshold. However, because this analysis was conducted at Scotland level, we were unable to model to effects on UK median income, which is used as the basis for poverty rates.

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