

Impact of UK Welfare Policy on Families with Children

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Contents

1. Introduction
 2. Changes in welfare policy since 2015/16
 - 2.1 Financial impact of post 2015/16 welfare policy changes
 - 2.2 List of key welfare policy changes
 - 2.3 Other changes affecting family incomes
 3. Long-term impact of welfare policy changes
 4. Emerging short-term evidence of the impact of welfare policies
 - 4.1 The impact of the lower Benefit Cap
 - 4.2 The impact of the 2 child limit (Tax Credits and Universal Credit)
 5. Long-term impact on households - illustrative case studies
 - 5.1 Methodology
 - 5.2 Assumptions
 6. Case study 1 – Out-of-work lone parent with 3 children (Ms P)
 - 6.1 The impact of welfare policy on Ms P
 - 6.2 The effect of the Benefit Cap on Ms P
 - 6.3 The effect of moving into work for Ms P
 7. Case study 2 – In-work couple with 2 children (Mr and Mrs G)
 - 7.1 The impact of welfare policy on Mr and Mrs G
 - 7.2 The impact of the Benefit Cap on Mr and Mrs G
 8. Case study 3 – In-work couple with 4 children (Mr and Mrs C)
 - 8.1 The impact of welfare policy on Mr and Mrs C
 - 8.2 The impact of Mr C losing employment – application of the Benefit Cap
- Technical Annex A – Assumptions in the TABOSH model
- Technical Annex B – Poverty Analysis

MINISTERIAL FOREWORD



Since 2010, successive UK Governments have introduced a raft of welfare changes in pursuit of their austerity approach to deficit reduction. As this report shows, these changes have targeted people on low incomes across Scotland, with families with children the hardest hit.

The scale of the cuts is deeply troubling. UK Government changes are expected to reduce welfare spending in Scotland by nearly £4 billion a year by the end of this decade. And almost £1 billion of this will be a direct result of cuts imposed since 2015. Hundreds of thousands of people in communities across Scotland will have lost some financial support. It makes little economic sense to take money and support from struggling households – causing significant individual and family hardship and stacking up more problems that need to be addressed through other services. It means that support has to be provided via another route or we have to invest in emergency and crisis-management, which is so much more costly – in a range of ways - than preventative approaches.

The scale of the cuts is a serious concern and just as troubling is how the cuts have been timed and implemented. The four year freeze to working age benefits, for example, comes at a time when sustained increases in the cost of living are expected. This is on top of the introduction of a cap on the amount of benefits a family can receive, which has now been lowered even for lone parents with very young children – a policy that a recent High Court judgment said was causing “real misery” to lone parents’. And then there’s the two child limit for tax credits penalising larger families, alongside the despicable ‘rape clause’. The cuts make little economic sense and they make no moral sense whatsoever. These are clearly political choices by the UK government in pursuit of a policy of cuts, regardless of the emerging state of the economy or the impact on individuals and communities.

This report shows the stark reality of welfare cuts for different family types across Scotland, looking behind the averages at the specific impact in hypothetical case studies and drawing upon emerging evidence of real examples of families affected by these policies, identified with the help of Child Poverty Action Group. This analysis also highlights that in some cases, even moving into employment might not be enough to compensate for the scale of welfare cuts that are coming down the line. Indeed, the most recent statistics show that 7 in 10 children in poverty are living in working households. Recent analysis by the Institute of Fiscal Studies has shown that these UK government welfare policies will cut, on average, more than 10% from the incomes of poorer families with children.

There is too a growing body of hard evidence that the rollout of full service Universal Credit, in particular the in-built 6 week wait for the first payment, is causing additional and unacceptable levels of anxiety, hardship and rent arrears. We have repeatedly called on the UK Government to halt the rollout until these problems are resolved but so far they are simply not listening. With Scotland’s local authorities, the recent damning reports from Citizen’s Advice Scotland and others, we will continue to press

the UK government to take the sensible step of pausing their roll-out and fixing the well evidenced problems, rather than carrying on regardless and imposing a broken system on more and more people with all the damage that is causing.

In the years 2013/14 to 2016/17, we have invested over £350 million to support low income families and mitigate against the worst of the damage done by UK Government reforms. This includes fully mitigating the Bedroom Tax - ensuring more than 70,000 households save around £650 per year on average and are able to stay in their own home - and helping 254,000 individual households, a third of which include children, through the Scottish Welfare Fund.

But mitigation on its own, though it provides vital relief to those worst affected, is simply a sticking plaster on the chasm of damage being done to our fellow citizens by the UK government. And every penny we spend on mitigation is money we can't then use to invest in tackling poverty and other services.

In Scotland, we are taking a very different approach from that of the UK government. Our new social security system will be rights based and at its core, the firm belief that it represents an investment made in ourselves and in each other with the founding principles of dignity and respect to guide us. To help parents with financial and practical support in the early years of their children's lives, we are increasing free childcare, introducing a new Best Start Grant, universal free school meals for P1-3, and delivery of the Baby Box of essential items is already underway. And, while the UK Government has scrapped its targets to reduce child poverty, we have responded by making those targets stronger and reintroducing them to the Scottish Parliament, determined as we are to eradicate child poverty once and for all.

The UK Government must end its ideologically-driven assault on those least able to cope. Our collective ambition must surely be for families to bring up their children successfully so they can thrive – because it's in the best interests of our economy, our society and our country that they can do so. We must do all we can to help – and, in Scotland, we will.



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Impact of UK Welfare Policy on Families with Children

1. Introduction

The Scottish Government published its annual report on the impacts of welfare reform in Scotland in June 2017¹. The report analysed the financial impact of the UK Government's welfare policies introduced since 2010 at a Scotland and Scottish local authority level by 2020/21. It also brought together evidence on the impact of welfare reform on income inequality, poverty and child poverty and the impact on women and people with disabilities.

This report is supplementary to the annual welfare reform report in that it focusses on impacts on families with children. Many of these impacts are still to be fully felt by households, as many of the changes were brought in recently (April 2017). This report therefore draws upon emerging evidence of the immediate early impact of these welfare policy changes through real case studies provided by the Child Poverty Action Group (CPAG). This section gives examples of families affected by the lower Benefit Cap and the two child limit to Tax Credits/UC child element.

The main focus of the report is looking at what the full financial impacts of these welfare policies will be by 2020 through illustrative case studies. In each case study the overall impact of welfare cuts on the household's net income is analysed, which is broken down, where possible, by each welfare policy change. The analysis looks at how welfare cuts compare to other policies, such as the introduction of the National Living Wage. It also considers changes in circumstances for these families, such as gaining or losing employment, and how this will affect net incomes for case study families.

This report focuses on three illustrative case study families:

- **[Case Study 1](#)** – Ms P is a lone parent, bringing up three 3 children and is not working due to childcare responsibilities. By 2020/21 Ms P and her family are **estimated to lose £4,080 per year in benefit entitlement compared to what they could have been entitled to had UK post-2015 welfare policies not been enacted.**
- **[Case Study 2](#)** – Mr and Mrs G are a couple who live with their 2 children and Mrs G works part-time (16 hours per week) at the National Living Wage. By 2020/21 Mr and Mrs G and their family are **estimated to lose £1,540 per year in benefit entitlement compared to what they could have been entitled to had UK welfare policies not been enacted.**
- **[Case Study 3](#)** – Mr and Mrs C are a couple who live with their 4 children. Mr C works around 20 hours per week and Mrs C also works two days per week (12 hours) at the National Living Wage. By 2020/21 Mr and Mrs G and their family are **estimated to lose £1,130 per year in benefit entitlement**

¹ Scottish Government (June 2017) '[Welfare Reform \(Further Provision\) \(Scotland\) Act 2012: Annual Report 2017](#)'.

compared to what they could have been entitled to had UK welfare policies not been enacted.

These case studies are for hypothetical, illustrative households, and are not based on actual cases. This complements previously commissioned longitudinal research into the impacts of welfare reform on real households², whilst on-going work with Scottish Government's experience panels will inform the delivery of new social security powers³.

In addition to this report, the Scottish Government will also publish two further reports on the impact of other welfare policies on disabled people and the impact on housing related policies later this year.

² Graham, H. et al. (June 2016) [‘The Impact of Welfare Reform in Scotland - Tracking Study - Sweep 4 Report’](#).

³ For more information on Experience Panels see the following link:
<http://www.gov.scot/Topics/People/fairerscotland/Social-Security/Experience-Panels>

2. Changes in welfare policy since 2015/16

2.1 Financial impact of post 2015/16 welfare policy changes

During the 2010-15 and 2015-17 parliaments, the UK Government implemented a programme of significant change in the welfare system, which formed a central part of a wider policy objective of austerity and deficit reduction.

This report focusses on policies introduced by the 2015-17 UK parliament which will continue to impact families in Scotland to 2020/21 and beyond. In total, policies passed in the 2015-17 parliament are expected to reduce welfare spending in Scotland by around £0.9 billion by 2020/21 (see table 1).

The policies listed in table 1 are in addition to those passed in the 2010-15 parliament, which are expected to reduce welfare spending by £1.9 billion by 2020/21. Therefore, the overall impact of welfare policies is to reduce annual welfare spending in Scotland by £3.9 billion by 2020/21⁴.

Table 1 – Post-2015 welfare policies – impact at a Scotland level

| <i>All costings in £ millions</i> | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|-----------------------------------|-----------|------------|------------|------------|------------|
| Four year benefit freeze | - | 66 | 194 | 359 | 368 |
| UC work allowance reduction | 10 | 97 | 177 | 227 | 254 |
| CTC and UC 2 child limit | - | 19 | 46 | 71 | 95 |
| Cap social rents to LHA | - | - | 0 | 20 | 68 |
| CTC and UC family element | 8 | 18 | 31 | 42 | 50 |
| Support for Mortgage interest | - 2 | - 3 | 22 | 20 | 20 |
| ESA WRAG reduction | - | 4 | 14 | 21 | 26 |
| Pension credit saving credit | 15 | 15 | 15 | 15 | 14 |
| Benefit Cap | 4 | 9 | 6 | 6 | 6 |
| TC income rise disregard | 8 | 13 | 14 | 8 | 5 |
| HB 18-21 entitlement end | - | 1 | 3 | 4 | 4 |
| UC conditionality | - | - 0 | - | 3 | 3 |
| UC taper | - | - 3 | -14 | - 32 | - 45 |
| Total | 42 | 235 | 507 | 763 | 867 |

2.2 List of key welfare policy changes

In the case studies outlined in this report, the focus is on the impact of policies which have particularly affected families with children, these include:

- 1. The 2 child limit for tax credits and Universal Credit elements:** From April 2017, child tax credit will be restricted to two children for new births after 6 April 2017⁵. This change also applies to child elements in Universal Credit for new claims.

⁴ Note – for more information see section 3 of the Welfare Reform (Further Provision) (Scotland) Act 2012: Annual Report 2017¹.

⁵ A number of exemptions to the 2 child limit exist, for more information see page 60 of the Welfare Reform Report 2017.

2. **The removal of the ‘family element’ for child tax credits and Universal Credit:** the ‘family element’ is paid to all households with children and worth around £545 per year as of 2016/17. New families who make a CTC claim from April 2017 will not be entitled to a family element. An equivalent change was also introduced to new claims under UC, where the first child is not entitled to a higher child element from April 2017.
3. **Lower Benefit Cap:** the Benefit Cap was first introduced in April 2013. This restricted the total benefit income of a family with children to around £26,000 per year. From November 2016 a new lower cap was introduced of £20,000 per year.
4. **The four year freeze to working-age benefits:** the main working-age rates of Income Support, Jobseeker’s Allowance, Employment and Support Allowance⁶, Housing Benefit, Tax Credits (Child and Working) and Universal Credit will be frozen at their 2016/17 level until 2019/20. Previously these rates would have been updated by the Consumer Price Index (CPI) measure of inflation. The impact of this policy is highly dependent on the future path of inflation.
5. **The reduction in the Universal Credit work allowance:** Under Universal Credit, some households can earn up to a given amount each month before their benefit is tapered (i.e. partly or fully withdrawn depending on income). This amount is called the work allowance. From April 2016, lower work allowances were introduced. For example, a lone parent family on UC can earn around £2,300 per year before some of their UC award is withdrawn. Previously, this level was around £3,150 per year.
6. **Change in the Universal Credit taper rate:** The taper rate is the rate at which a UC award is reduced as the claimants net incomes rise. From April 2017, this rate was cut from 65% to 63%, which means in-work families keep more of their UC award as their incomes increase. Unlike the other measures listed, this change makes UC more rather than less generous for some families and is set to increase welfare spending by £45 million per year by 2020/21.

Of the above measures, 1 and 2 will only affect families with children and 3 will affect mostly families with children. Other measures will affect a range of different household types.

2.3 Other changes affecting family incomes

As well as changes in the welfare system, the UK Government also introduced the National Living Wage in 2016⁷ and has committed to increase the personal tax allowance to £12,500 by 2020/21. These major changes are modelled alongside changes to the welfare system to put the overall impact of UK government welfare policies in context, although the change in personal allowance would only have an impact on working households whose (taxable) income is above the threshold.

⁶ Excludes those qualifying for ESA in the ‘Support group’.

⁷ See <https://www.gov.uk/government/publications/national-living-wage-nlw/national-living-wage-nlw>

As part of the UK government's welfare policy changes, a commitment to increase the minimum wage to reach 60 per cent of median earnings in 2020 was made. According to the latest OBR forecast, it is estimated that the National Living Wage (NLW) will be £8.75 per hour in 2020/21, as opposed to £7.75 had the minimum wage been updated by average hourly earnings⁸.

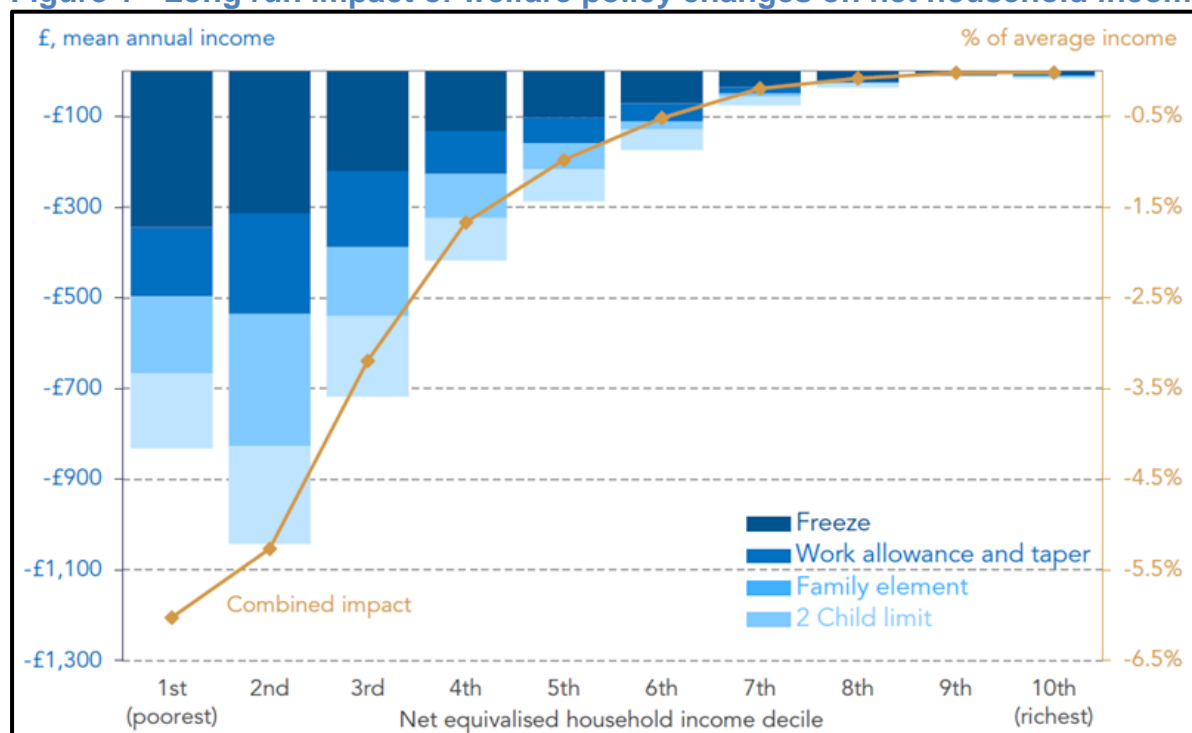
3. Long-term impact of welfare policy change

This section highlights recent analysis by the Institute of Fiscal Studies and the Resolution Foundation, who modelled the impact of changes to the tax and welfare system at a GB level.

Both analyses look at the impacts on income in the long-run, when all cuts are fully in place. For example, they assume that the 2 child limit applies to all families with more than 2 children, rather than affecting new births and new claims only, as they do at the moment.

Analysis by the Resolution Foundation is presented in figure 1⁹. This shows that change in average annual income (in £ per year and % of average income) across all income deciles due to all key welfare policies listed in section 2.2 apart from the Benefit Cap.

Figure 1 - Long run impact of welfare policy changes on net household income



(Source: Resolution Foundation)

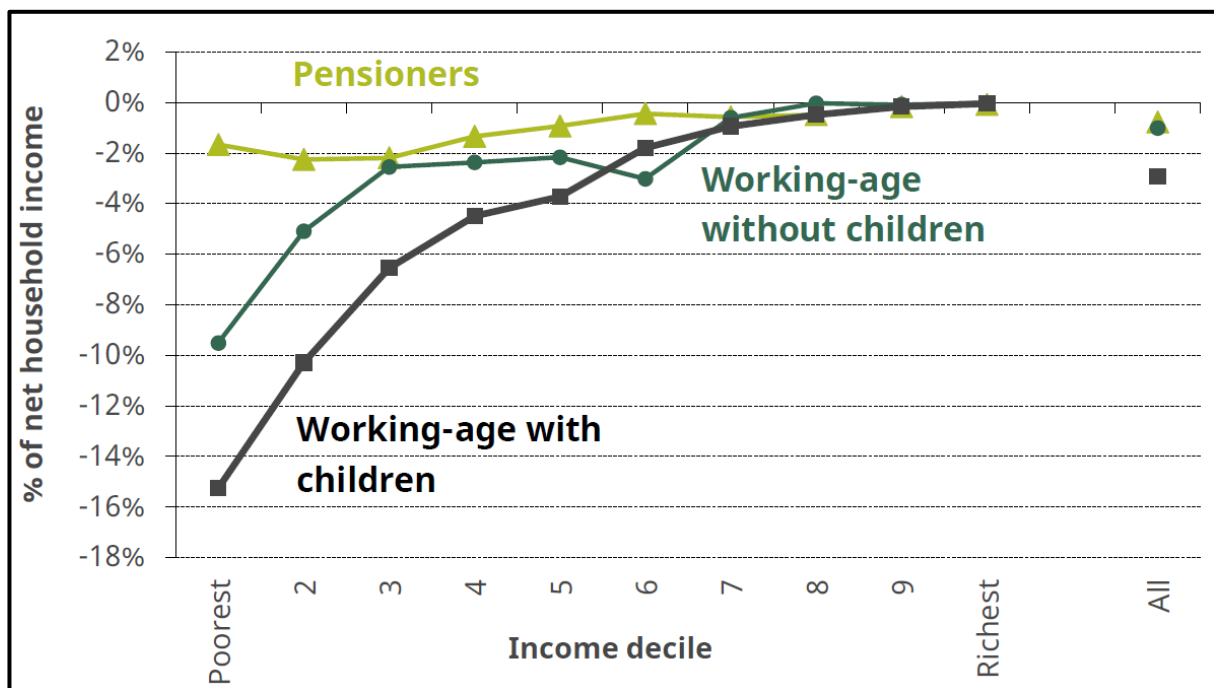
⁸ Office for Budget Responsibility (March 2017) '[Economic and Fiscal Outlook](#)' (see supplementary economic table 1.19)

⁹ Resolution Foundation (May 2017) 'Still just about managing? Pre-election briefing on the main political parties' welfare policies'. Available here: <http://www.resolutionfoundation.org/app/uploads/2017/05/Still-just-about-managing.pdf>

The analysis shows that households in the bottom 2 deciles are expected to be £800 and £1,000 per year (real terms¹⁰) worse off financially in the long-run compared to a scenario where these welfare policy changes had not taken place. This is the equivalent of between 5% to 6.5% of average household income.

Similar analysis by Institute of Fiscal Studies (at a GB level) highlights the particular impact on households with children¹¹. Figure 2¹² shows the impact of 2015-17 tax and welfare policies, and splits households within each income decile into working-age families with children, working-age families without children and pensioner households.

Figure 2 - Long-run impact of planned tax and welfare policies by income decile and household type



(Source: Institute of Fiscal Studies)

The modelled impact on the net incomes of working-age families with children is large, **with average losses of more than 10% of net income for families in the bottom two income deciles expected.** This is equivalent to a cut in net incomes of over £1,000 per year (in 2017-18 prices) for these families.

The impact is expected to be worse for families with children and no one in paid work, with the average loss expected to be around £3,000 per year. Those working with low earnings and entitled to tax credits (or Universal Credit) are expected to be worse off by £2,500 per year. In contrast households with children who are in-work and not claiming benefits are expected to be a marginal £100 worse off per year,

¹⁰ Figures calculated in £ per year in 2017–18 prices.

¹¹ This analysis includes a larger range of welfare and tax changes. For a full list of modelled policies refer to Appendix A in the link below.

¹² Hood, A. & Waters, T. (April 2017) 'The impact of tax and benefit reforms on household incomes', IFS. Available at: <https://www.ifs.org.uk/publications/9164>

It is important to note that many of the welfare policies changes will not create immediate losses of benefit income because of protections for existing claimants.

4. Emerging short-term evidence of the impact of welfare policies

The main analysis of this paper is based on hypothetical case studies, which is the only way to show the full impact of welfare policies by 2020/21. This is because of the gradual nature of the rollout of these policies, some of which have only been in force since April 2017 (such as the 2 Child Limit) or only affect new claimants. As such the impact of these policies on real case studies is somewhat limited.

As part of preparation for this report, the Scottish Government approached the Child Poverty Action Group (CPAG) to gain insight into the impacts of policies on real families in Scotland being affected by some of the reforms outlined in section 2.2. CPAG provided the following examples, taken from case studies submitted to CPAG in Scotland's Early Warning System¹³ by frontline workers who have direct contact with families affected by welfare reform.

4.1 The impact of the lower Benefit Cap

The lower Benefit Cap was introduced from November 2016, and as of February 2017 there were 3,705 households affected by the benefit cap losing an average of £57 per week¹⁴. The following cases indicate the real impact that the Benefit Cap is having on the quality of life for children in these families.

- **Case A – A lone parent with four children**

A lone parent with four children under the age of 10 has had her housing benefit reduced from £96.88 to 50p per week following the implementation of the lower Benefit Cap. She has been awarded a Discretionary Housing Payment but only until the end of the financial year after which she does not know if she will need to make a new application. Client already struggles to buy fresh and healthy food for her children and has had to cancel her internet subscription which has limited the children's access to information for school projects.

- **Case B – A couple with three children**

A family containing two adults and three children are affected by the Benefit Cap. They live in a rural area and struggle with a higher cost of living, as the cost of basics are already more expensive including heating and food. The family run a car to allow the family to get about. The family are quite isolated in the area and the house is very poor. The children attend clubs to give them a social life and make friends. The Benefit Cap means that the children either need to stop attending the clubs or the rent will not get paid.

¹³ The Early Warning System monitors the impact of changes to the social security system on children, their families and the communities that support them.

¹⁴ Source - DWP Stat-Xplore

4.2 The impact of the 2 child limit (Tax Credits and Universal Credit)

The 2 child limit in Tax Credits and Universal Credit has been in place since April 2017. Whilst very few families are currently affected¹⁵, as the policy applies to new births and new UC claims, CPAG are already receiving some cases where the limit has been applied.

- **Case C – A couple living with 2 children and expecting a third child**

A client has two children and is pregnant with her third child. She wanted to start a family with her new partner and believed that she would be exempt from the two child limit because her first child was born when she was 15 and would therefore be classed as statutory rape. However the exemption for children conceived without consent does not apply to the child that is about to be born and therefore the family will be subject to the two child limit.

- **Case D – A kinship carer with 2 children and looking after a further 2 children**

A kinship carer with two children of her own provides kinship care for one child and has recently taken on kinship care of another child, who was born after 6 April 2017. This situation is not covered by the two child limit exemption and therefore child tax credit is not payable for the fourth child on the household.

¹⁵ HMRC have not published any statistics showing the number of families affected. Once fully rolled out the policy could affect up to 50,000 households.

5. Long-term impact on households - illustrative case studies

5.1 Methodology

Each illustrative case study has been chosen to highlight the different impacts of welfare policies on various family types. In each case study the net income (from benefit entitlement and earned income) of each family in 2020/21 is estimated. This is done by using the Tax and Benefits of Scottish Households (TABOSH) model, which is capable of calculating the income of households taking into account income tax, national insurance contributions and benefit entitlement under both legacy and UC systems.

Two scenarios are modelled in each case study. The first scenario assumes that all welfare policy changes, income tax threshold changes and minimum wage policy changes passed in the 2015-17 parliament are applied. The second 'counterfactual scenario' assumes the welfare system, income tax thresholds and minimum wage uprating policy remains unchanged, with none of the 2015-17 parliament policies being applied¹⁶.

The net income for a given case study is then calculated under both scenarios. The difference between both income figures represents the reduction in the amount each family could have been entitled to in 2020/21 had UK welfare policies not been enacted.

5.2 Assumptions

For reasons of simplicity in presenting this analysis and because the report focuses on changes in net income by 2020/21, it is assumed that, in all cases, families are receiving Universal Credit and not legacy benefits or tax credits that UC is replacing. Full Service rollout of UC is expected to be complete by September 2018, which means that all Jobcentre Plus offices are expected to offer UC to all new claims by that date. Managed migration of existing legacy benefit claimants will start once Full Service rollout is complete, with all cases expected to be migrated to UC by March 2022.

The analysis disregards the Council Tax Reduction scheme. This is not a social security benefit, but is likely to be received in full by all case study families, mitigating their council tax liability.

The analysis assumes that housing costs of each family are below the Local Housing Allowance rate their Broad Rental Market Area¹⁷. This means that these households will be largely unaffected the housing related welfare changes passed since 2015/16. These welfare changes will be the subject of a future report on the impact of welfare policies related to housing. In each case study it is also assumed that each case study family are renters rather than owner-occupiers.

¹⁶ To note - the decision of the Scottish Government to freeze the higher threshold is applied in both scenarios, but does not affect the overall financial position of case study families.

¹⁷ This is based on an average LHA rate across all Broad Rental Market Areas. Therefore, in some areas the assumed rate may be slightly above the relevant LHA rate.

The analysis does not take into account any Transitional Protection payments . Transitional Protection (TP) is an extra 'transitional' amount which tops up a household's Universal Credit award so that the household is not worse off immediately when migrated to Universal Credit compared to their entitlement under legacy benefits. These payments are only for cases which are 'managed migrated', a process which will not commence until June 2019. Households such as those in the case studies outlined in this report may be entitled to a TP payment¹⁸.

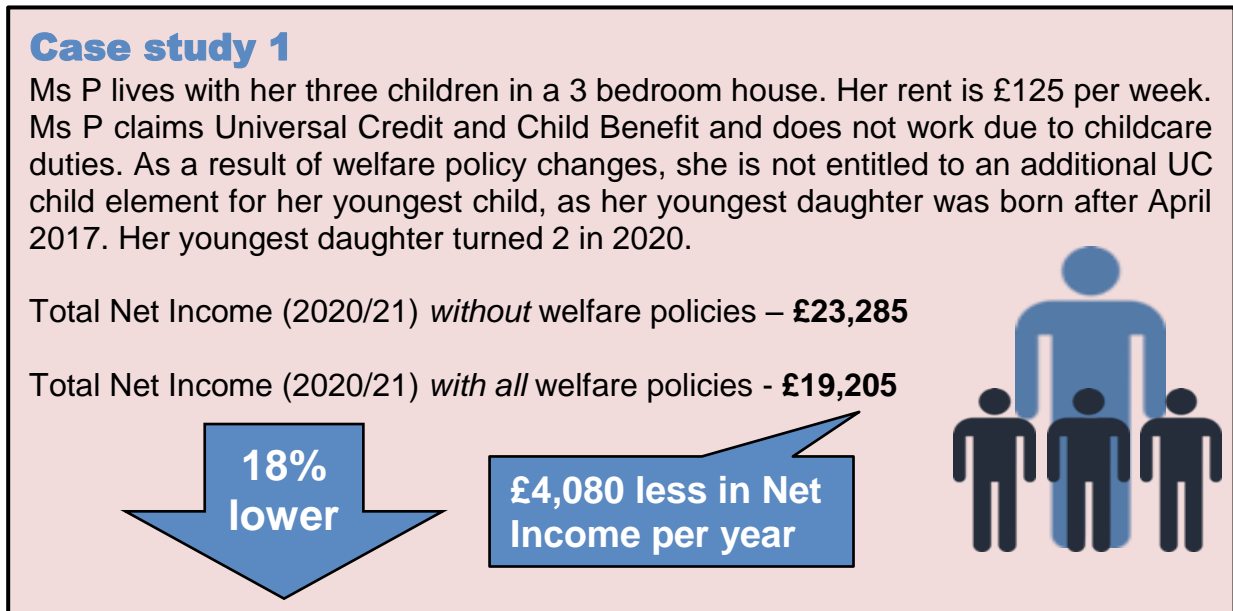
The analysis also disregards entitlements to childcare elements of UC. Under Universal Credit families with children may claim 85% of their childcare costs up to a maximum of £646 per month for one child and £1,108 per month for 2 or more children. This policy was part of UC package, brought in before 2015. Childcare cost arrangements are more generous than those under the legacy system, however, since this analysis does not compare families situations between UC and legacy benefits it is less relevant to include in the analysis.

Further to the above simplifications, to carry out this analysis a number of assumptions are made about the future economic variables such as the CPI inflation rate used to uprate benefits and the level of the National Living Wage by 2020/21. A full list of economic assumptions is provided in Annex A, which are in line with the latest OBR projections.

Technical details of how the Poverty Thresholds were calculated for each of the case studies are provided in Annex B.

¹⁸ Note – for more information on Transitional Protection Payments see the following link (<http://revenuebenefits.org.uk/universal-credit/guidance/entitlement-to-uc/transitional-protection/>)

6. Case study 1 – Out of work lone parent with 3 children (Ms P)



6.1 The impact of welfare policy on Ms P

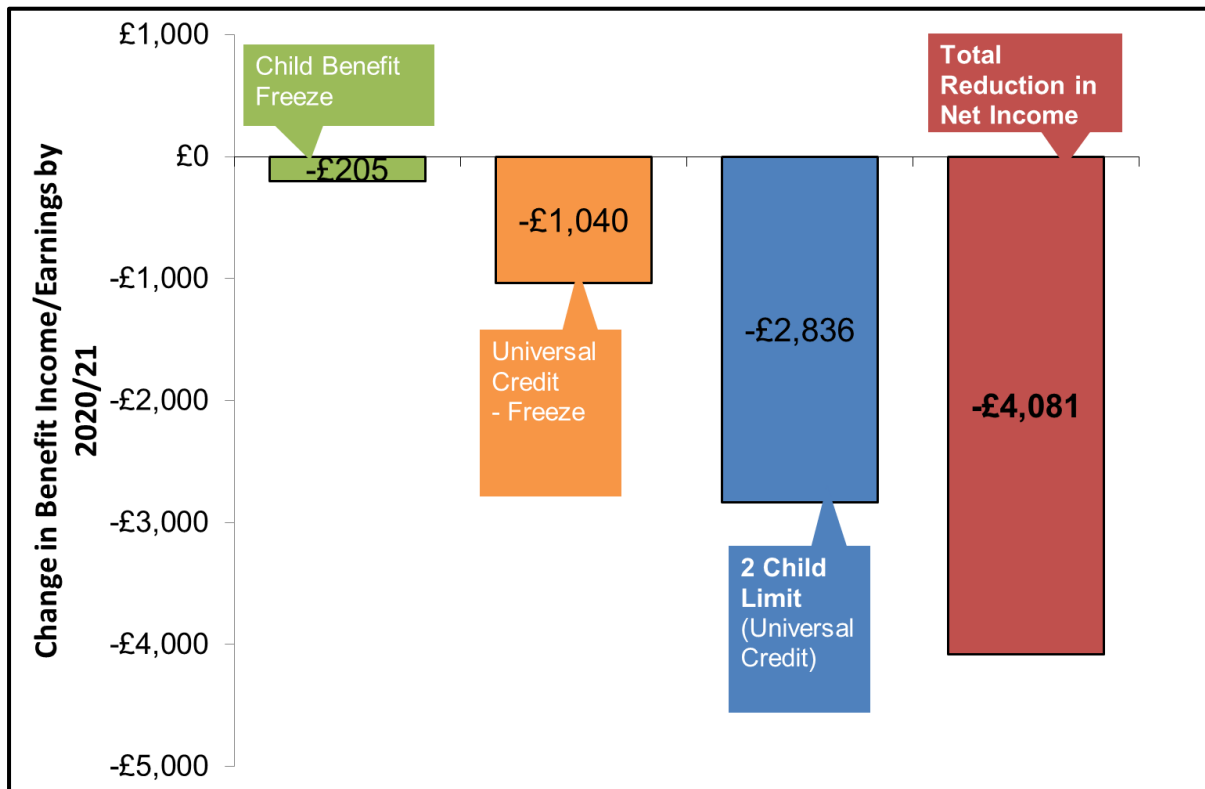
Around 4,900 out-of-work lone parents claimed Income Support or Universal Credit (as at February 2017)¹⁹.

As a result of welfare policy changes introduced since 2015/16, Ms P and her family would be **worse off by around £78 per week or around £4,080 per year by 2020/21 compared to what her income would have been without the changes in policy**. This represents an almost **18% reduction in what Ms P and her family could have been entitled to in 2020/21** had UK these policies not been enacted.

The most significant impact comes from the removal of the UC child element for Ms P's youngest child, which equates to a loss of £2,836 per year, around 70% of the total reduction (see figure 3). The family would also be expected to lose around £1,245 per year due to the four year freeze of Universal Credit elements (£1,040 per year) and Child Benefit (£205 per year) based on latest forecasts of future inflation. Because Ms P is unable to work due to childcare duties, she has no earnings, so her total net income is only affected by welfare policies and not by changes to the National Living Wage. In addition, it is assumed that Ms P has not made a new claim to Universal Credit, but was migrated over from legacy benefits, and is therefore still entitled to the family element (or eldest child element in UC) worth £556 per year.

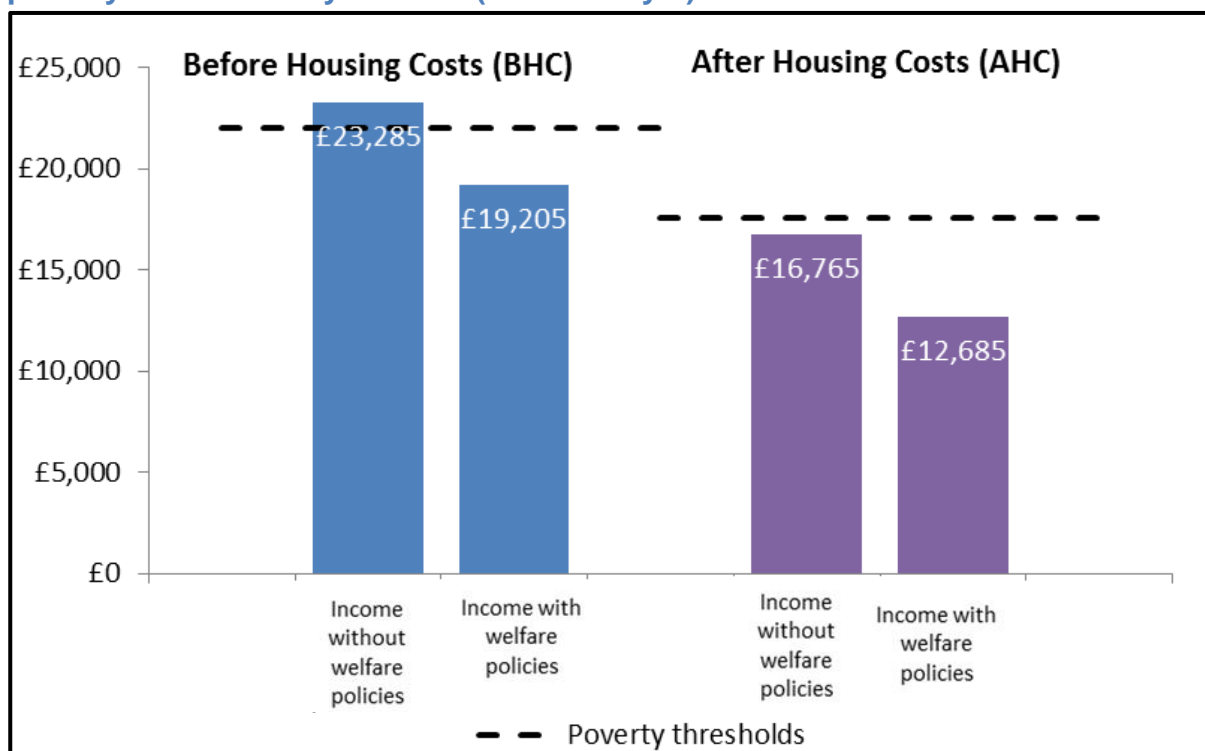
¹⁹This is the latest data available for Income Support (Source DWP Stat-Xplore). Around 1,200 lone parents households claimed UC in February 2017 in Scotland. DWP data on the number of children in these families is not published, although the number with 3 children is likely to be small. In August 2014 (before UC rollout), around 20% of households claiming Income Support (5,200 in total) had three or more children.

Figure 3 – Change in annual benefit entitlement due to welfare policy changes by 2020/21 (Case Study 1)



Analysis of future poverty thresholds (see figure 4) suggests that the poverty threshold (before housing costs) for this household in 2020/21 would be around £22,000 per year. This means that, on a before housing cost basis, welfare policies will cause Ms P and her family to have an income below the poverty line by 2020/21.

Figure 4 – Net incomes (with and without welfare policies) against relevant poverty thresholds by 2020/21 (Case Study 1)



Alternatively, on an after housing cost basis, Ms P's net income places her below the poverty line in both scenarios. However, the impact is still significant in terms of distance from the poverty threshold on both measures. Without welfare policy changes Ms P's income is just 5% lower than the relevant poverty threshold, whereas with welfare policy changes Ms P's income is 28% lower.

6.2 The effect of the Benefit Cap on Ms P

Although lone parent families with three children make up 30% of those currently affected by the Benefit Cap²⁰, increasingly by 2020-21 three child families (such as Ms P) will **not** be affected by the Benefit Cap. This is because the removal of the child element for the 3rd child means Ms P is only entitled to £19,205 per year, which is less than the new Benefit Cap level of £20,000 per year.

If Ms P was not affected by the 2 child limit, she would be affected by the Benefit Cap instead. In this scenario, Ms P would still be around £3,230 per year worse off²¹ compared to a scenario with no welfare policies. This shows that whilst the Benefit Cap currently disproportionality affects lone parent households, **when the full effects of the 2 child element and removal of the family element are in place, this will no longer be the case.** Instead the Benefit Cap is more likely to affect households with high housing costs – this shall be explored more in a future paper on the effect of post 2015 welfare policy changes related to housing.

6.3 The effect of moving into work for Ms P

The analysis above assumed that Ms P would not change her behaviour and so continue to claim Universal Credit and Child Benefit for her three children and not move into employment.

Due to childcare duties, it is unlikely that Ms P could fit work around looking after her three children. For example, DWP current guidance²² on conditionality states that those with a child under 3 years of age are not expected to be in work immediately. Although it should be noted that families are lone parents are still affected by the Benefit Cap with the implementation of the Benefit Cap to those with children under 3 being the subject of an on-going High Court case²³.

However, suppose that Ms P was able to work flexibly for around 10 hours per week. Assuming that she receives the National Living Wage, the increase in earnings is not sufficient to compensate for the impact of reductions in benefit generosity introduced since 2015.

When Ms P moves into part-time work, her net earnings are £4,563 per year if she is paid the National Living Wage (assumed to be £8.75 in 2020/21) and her benefit entitlement (Universal Credit and Child Benefit) falls to £17,785 per year due to the

²⁰ If Ms P was in receipt of legacy benefits currently, her benefit income would be subject to the cap.

²¹ £23,286 – £20,055 = £3,230

²² DWP (July 2015) '[Welfare Reform and Work Bill: Impact Assessment of the change in conditionality for responsible carers on Universal Credit](#)'

²³ On 22 June a High Court judge ruled that the Benefit Cap on lone parents of children under two was unlawful and discriminatory. DWP have indicated they will seek to appeal the decision.

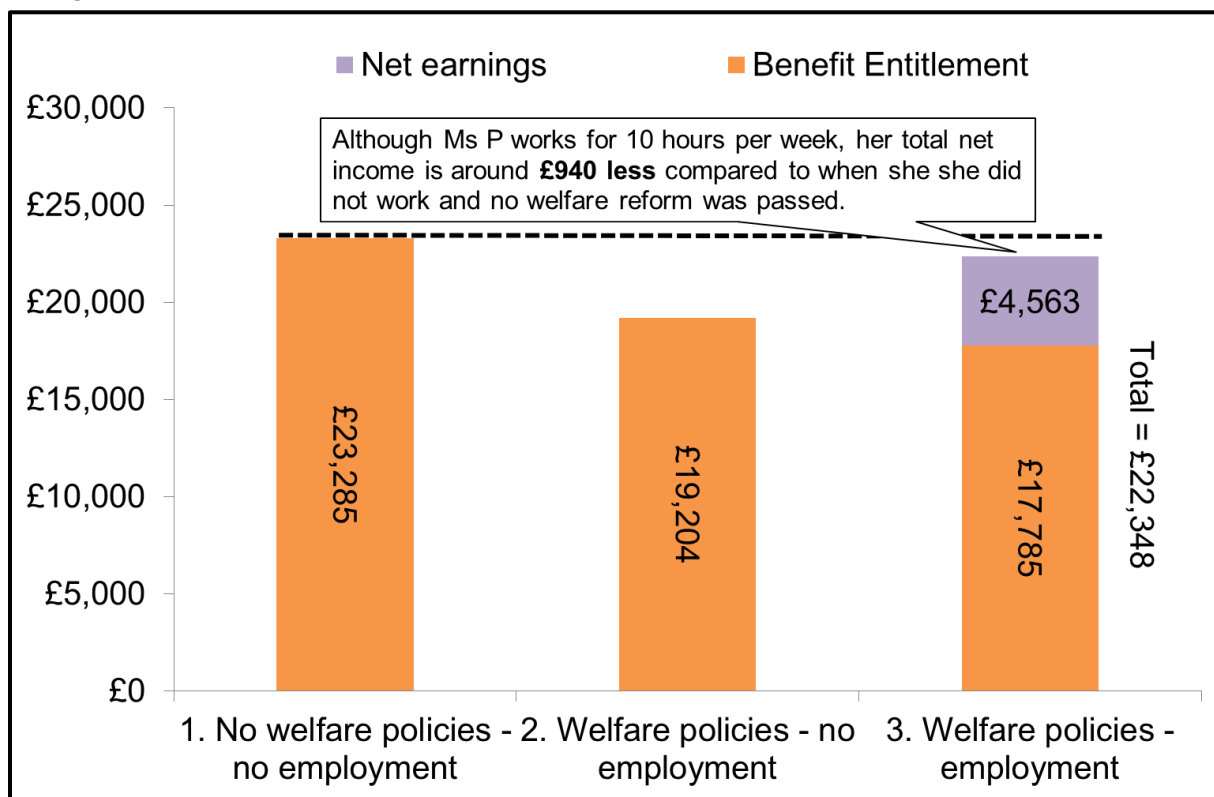
tapering of the UC award. Although she is significantly better off in work, compared to her net income had no welfare policies been passed, she is still **£940 per year worse off**.

This means that despite Mrs P working 10 hours per week, she is not able to make up the loss from the benefit freeze and the 2 child limit. This is before the additional cost of childcare, travel expenses and other work related expenses are considered for this family.

Figure 5 shows the total net income of Ms P in three scenarios:

1. *None* of the 2015/16 welfare policies or changes to income tax thresholds or the National Living wage are implemented and MS P does *not work* any hours. In this case, by 2020/21 Ms P's net income is around £23,290.
2. *All* 2015/16 welfare policies and other changes are implemented and Ms P *does not work*. In this case, by 2020/21 her income is around £19,200
3. *All* 2015/16 welfare policies and other changes are implemented and Ms P *does work* around 10 hours per week. In this case, by 2020/21 her income is around £22,350.

Figure 5 – The impact on net income of Ms P moving into employment compared to alternative scenarios



7. Case study 2 – In work couple with 2 children (Mr and Mrs G)

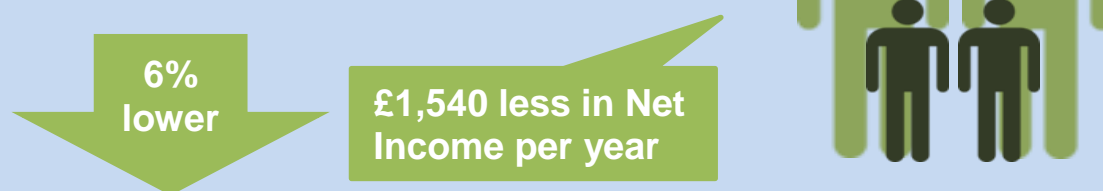
Case study 2

Mr and Mrs G live with their 2 children (a boy aged 12 and a girl aged 9) in a 3 bedroom house. Their rent is £125 per week.

Mr and Mrs G have started a new claim to Universal Credit in 2020, after Mr G became unemployed. Mrs G continues to work part-time (16 hours) and receives Child Benefit for her two children. As a result of welfare policies, the family is not entitled to the higher child element for the first child (the equivalent of the family element).

Total Net Income (2020/21) *without* policy changes – **£25,830**

Total Net Income (2020/21) *with all* policy changes – **£24,300**



7.1 The Impact of Welfare policy on Mr and Mrs G

There were 87,000 in work couple families with children in Scotland who claimed Tax Credits in 2015/16, with approximately 36,000²⁴ of these families having two children. As Universal Credit rolls out, these families will transition on to the new benefit.

As a result of welfare policy changes introduced since 2015/16, **Mr and Mrs G and their family would be worse off by around £30 per week or around £1,540 per year by 2020/21**. This represents almost a 6% reduction in what Mr and Mrs G and their family could have been entitled to in 2020/21 had these policies not been enacted.

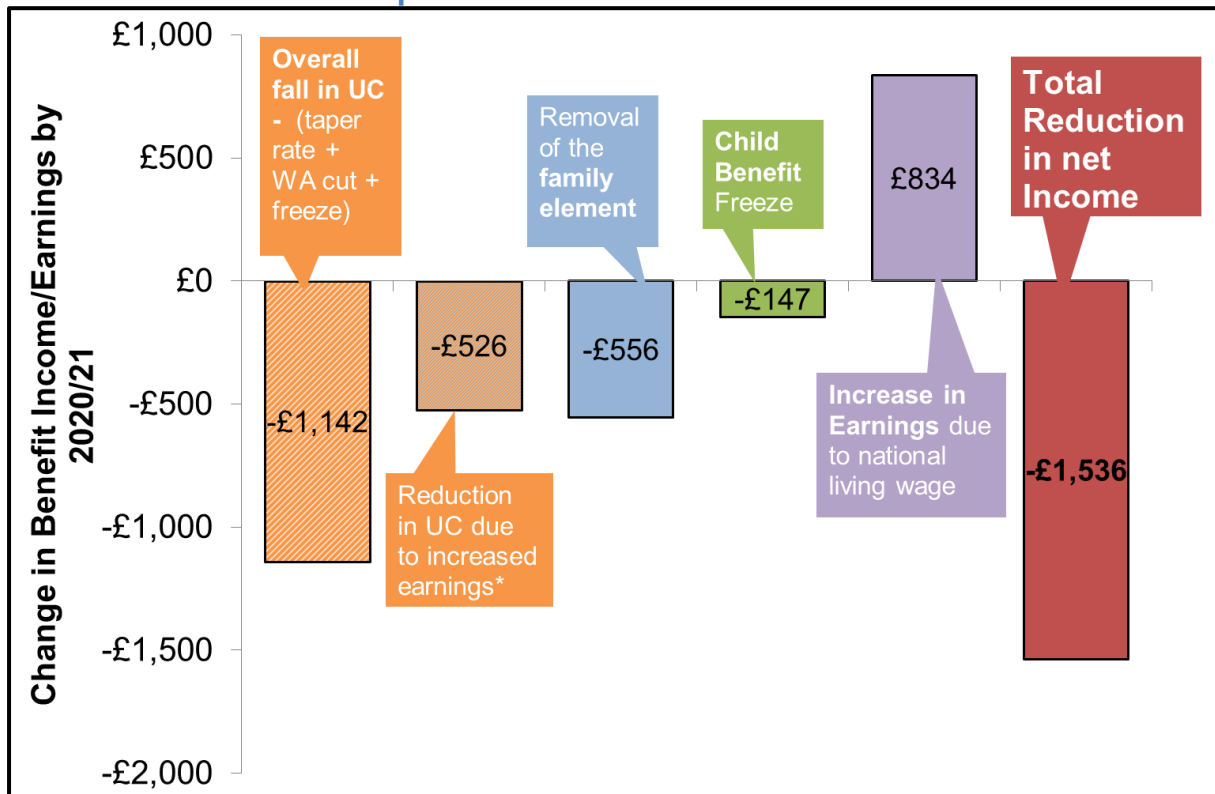
Unlike in case study 1, the fact that Mrs G is in-work means that analysis of how worse off the family are due to welfare policies has to take account of the impact on earnings as well as benefits (see section 2).

Figure 6 shows that, due to the more generous level of the National Living Wage, Mrs G could earn around £830 more in 2020/21. However, this increase in outweighed by the fall in benefit entitlement.

²⁴ Note – HMRC statistics do not show family types (couple/lone parent) by the number of children at a Scotland level. At a GB level 41% of in-work couples with children claiming Tax Credits have two children.

Taking into account the increase in the taper rate (which would have marginally increased the UC award) the cut to UC work allowances and the freeze of UC standard and child elements means that it is estimated that the family's UC entitlement will fall by over £1,140 per year. UC entitlement falls a further £526 due to the fact that Mrs G's earnings increase over both scenarios, which reduces the amount of UC award²⁵. Further losses of benefit come from the removal of the family element (£556 per year) and the freeze to Child Benefit (£150 per year).

Figure 6 - The change in benefit entitlement, earnings and net income for Mr and Mrs G due to welfare policies.

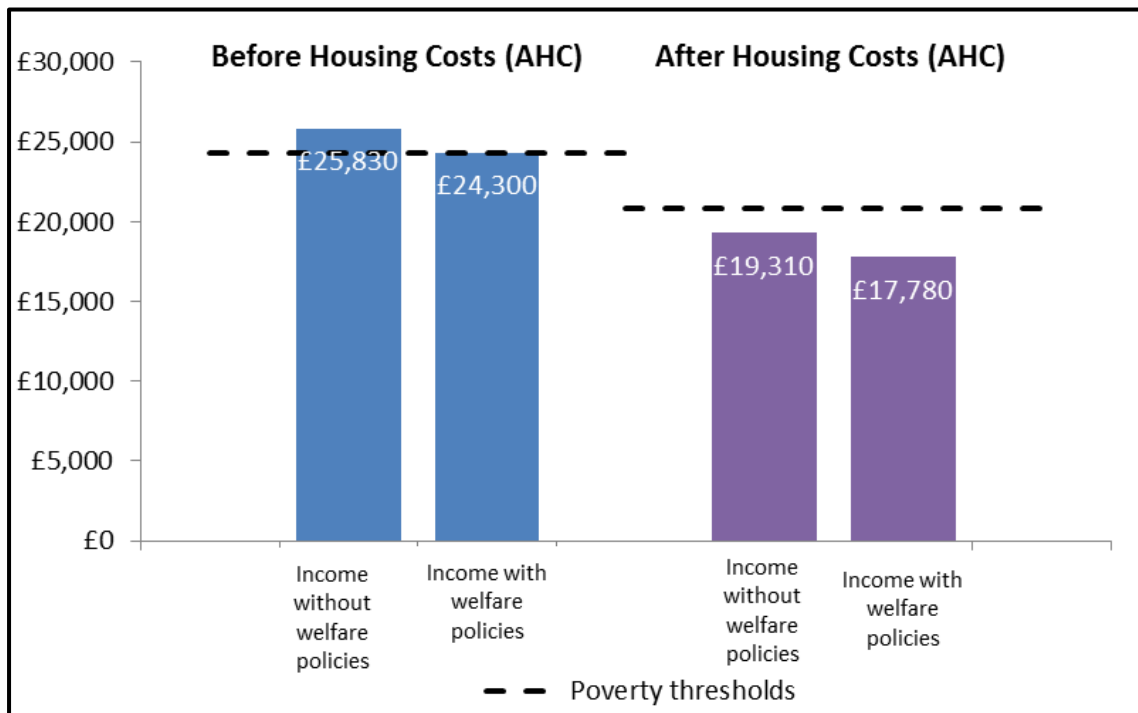


Analysis of future poverty thresholds (see figure 7) suggests that the poverty threshold (before housing costs) for this household in 2020/21 would be around £24,300 per year. This means that, on a before housing cost basis, the implementation of welfare policies mean that Mr and Mrs G's income will just sit at the poverty line by 2020/21, compared to being £1,540 above the poverty line in the no welfare policy scenario.

Alternatively, on an after housing cost basis, Mr and Mrs G's net income places their family below the poverty line in both scenarios. However, the impact is still significant in terms of distance from the poverty threshold in both scenarios. Without welfare policy changes Mr and Mrs G's income is just 7% lower than the relevant poverty threshold, whereas with welfare policy changes Ms P's income is 15% lower.

²⁵ £526 is 63% of the £834 increase in household earnings.

Figure 7 – Net incomes (with and without welfare policies) against relevant poverty thresholds by 2020/21 (Case Study 2)



7.2 The Impact of the Benefit Cap on Mr and Mrs G

The Benefit Cap is not applied when the households earns no less than a given income threshold. Under Universal Credit this earnings threshold is calculated as 16 hours at the National Living Wage. Therefore, by 2020/21, it is estimated that the Benefit Cap earnings threshold will be £144.80 per week or £7,550 per year. In section 7.1, Mrs G earned exactly this amount and was therefore exempt from the Benefit Cap.

The Benefit Cap tends to disproportionately affect families with a lot of children and high housing costs. Since Mr and Mrs G only have two children and their housing costs are modest (below the LHA rates for their property type in their area), then even if Mrs G earned below the earnings threshold, this particularly family will not be affected significantly by the Benefit Cap.

Figure 8 - The impact on net income of Mrs G losing employment and the Benefit Cap applying to the household

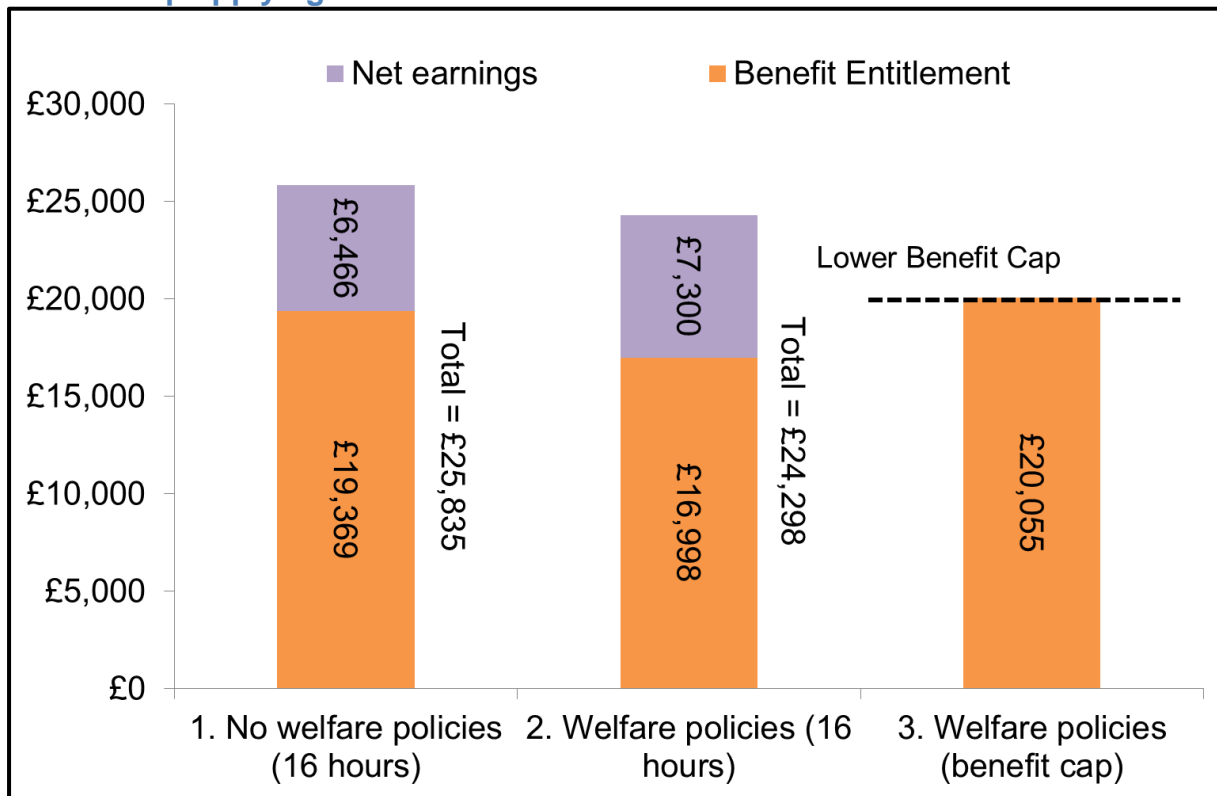


Figure 8 shows the impact of the Benefit Cap on the net income of the family when Mr G does not work:

1. *None* of the 2015/16 welfare policies or changes to income tax thresholds or the National Living wage are implemented and Mrs G *works* 16 hours. In this case, by 2020/21 Ms P's net income is around £25,385.
2. *All* 2015/16 welfare policies and other changes are implemented and Mrs G *works* 16 hours. In this case, by 2020/21 her income is around £24,298
3. *All* 2015/16 welfare policies and other changes are implemented and Mrs G *does not work*. In this case, by 2020/21 her income is around £20,055. The household loses around £100 per year due to the Benefit Cap.

8. Case study 3 – In work couple with 4 children (Mr and Mrs C)

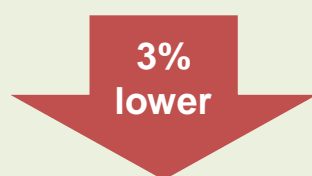
Case study 3

Mr and Mrs C live with their four children (aged 16, 15, 13 and 10) in a 4 bedroom house. The family currently rent a 4 bedroom property for £175 per week. Mr C has a zero-hours contract, but on average works around 20 hours per week. Mrs C also works two days per week (12 hours). Both earn at the National Living Wage.

The family have always claimed a combination of Tax Credits and benefits. They currently claim Universal Credit and Child Benefit. Because all of their children were born before April 2017 they are entitled to four child elements under Universal Credit.

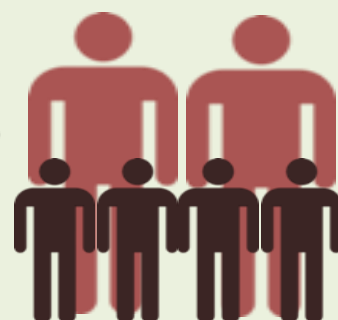
Total Net Income (2020/21) *without* policy change – **£38,410**

Total Net Income (2020/21) *with all* policy changes - **£37,280**



**3%
lower**

**£1,130 less in Net
Income per year**



7.1 The impact of welfare policy on Mr and Mrs C

In 2015/16 there were around 8,000 in work households in Scotland with 4 or more children claiming Working Tax Credits and Child Tax Credits. In GB as a whole, around 80% of families are couples, rather than lone parents²⁶.

As a result of welfare policy changes introduced since 2015/16, Mr and Mrs C and their family would be **worse off by around £22 per week or around £1,130 per year by 2020/21**. This represents almost a 3% reduction in what the family could have been entitled to in 2020/21 had UK welfare policies not been enacted.

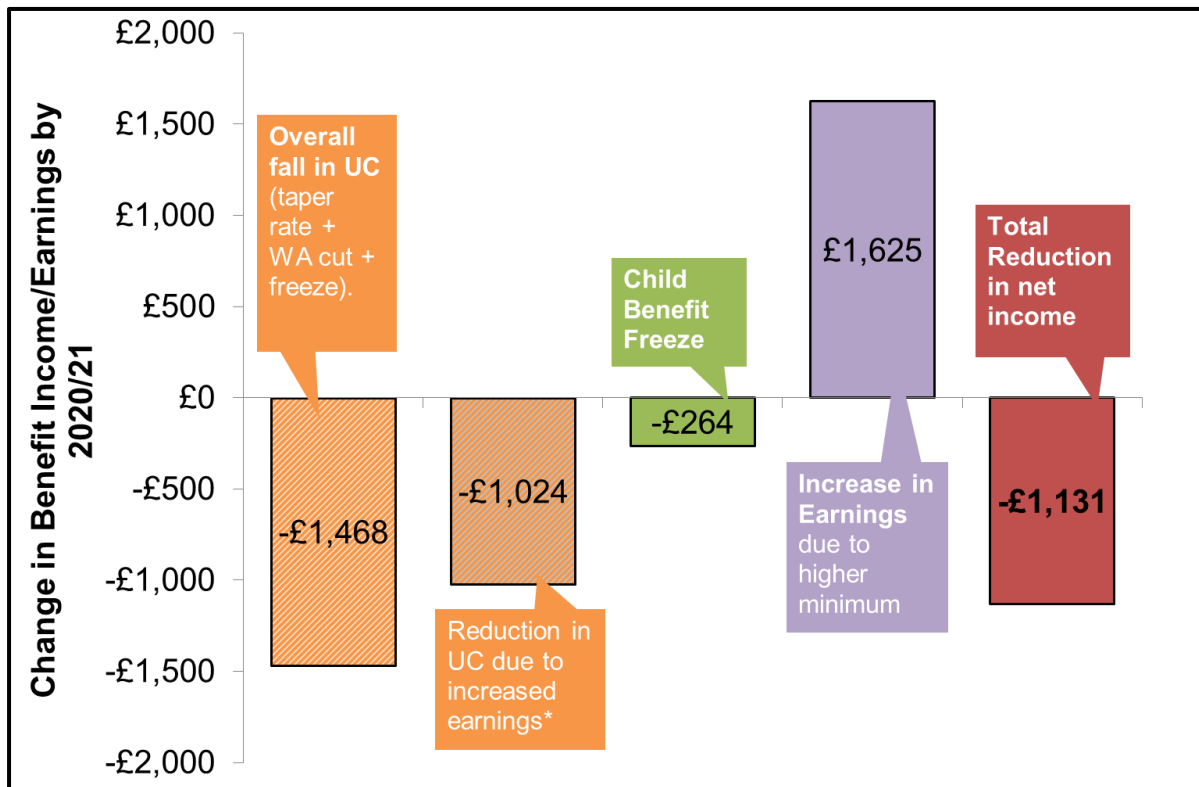
Although Mr and Mrs C have 4 children, they are not affected by the removal of the family element or the 2 child limit because all of their children were born before April 2017 and they did not make a new claim to Universal Credit but wee migrated over from legacy benefits.

Due to the freeze to Universal Credit elements, the reduction in the UC work allowance and the change in the taper rate, the family is around £1,468 per year worse off compared to a scenario where no welfare policies are applied. The family loses an additional £264 per year due to the freeze in Child Benefit. Due to the rise in the National Living Wage, the family does earn around £1,625 more per year,

²⁶ HMRC statistics do not show family types (couple/lone parent) by the number of children for Scotland. GB level statistics show that 83% of in-work households with 4 or more children claiming Tax Credits are couples, rather than lone parents.

however £1,024 per year (63%) of this is lost due to the corresponding reduction of the UC award²⁷. Overall, the family loses around £1,130 per year by 2020/21.

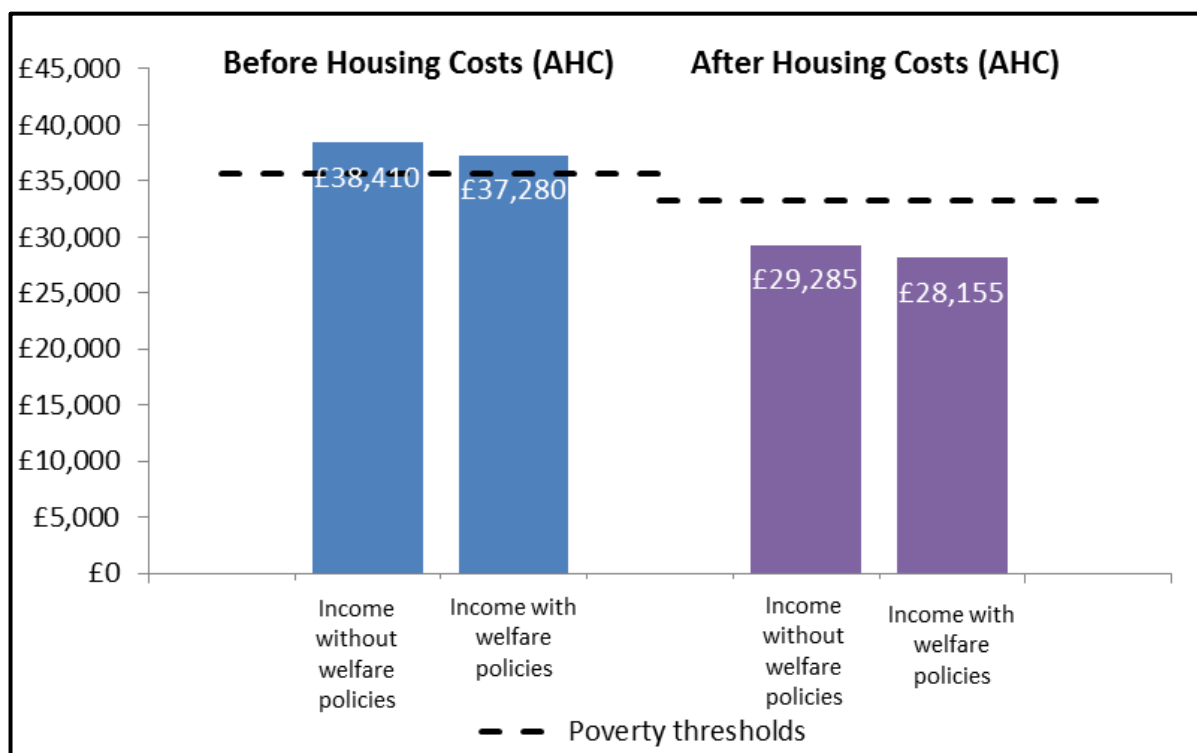
Figure 9 – Change in benefit income and net earnings due to welfare policies by 2020/21 (Case Study 3)



Analysis of future poverty thresholds (see figure 10) suggests that the poverty threshold (before housing costs) for this household in 2020/21 would be around £35,700 per year. This means that, on a before housing cost basis, in both scenarios Mr and Mrs C’s net income is above the poverty threshold.

²⁷ Due to the uprating of the Personal Allowance to £12,500 by 2020/21 (compared to assumed £11,000 in the no change scenario), part of the increase in net earnings is due to a lower amount of Income Tax paid by the household.

Figure 10 - Net incomes (with and without welfare policies) against relevant poverty thresholds by 2020/21 (Case Study 3)



Alternatively, on an after housing cost basis, Mr and Mrs C's net income places their family below the poverty line in both scenarios. However, the impact is still significant in terms of distance from the poverty threshold in both scenarios. Without welfare policy changes Mr and Mrs C's income is just 12% lower than the relevant poverty threshold, whereas with welfare policy changes Mr and Mrs C's income is 15% lower.

8.2 The impact of Mr C losing employment – application of the Benefit Cap

Mr and Mrs C are exempt from the Benefit Cap because they earn £1,258 per month, which is above the Benefit Cap minimum income threshold of £630 per month²⁸. The cap is set at £20,000 per year, which means if, for example, Mr C lost his job and the family relied solely on Mrs C 12 hours of work per week (£5475 per year), the family would lose a considerable amount of benefit income²⁹.

Due to Mr C losing his job, and the fact that he was not able to find a replacement within the 39 weeks grace period, the family's net income falls by around £11,745 per year or around £225 per week (compare 2 and 4 in figure 11)³⁰. However, this is the combined effect of a drop in earnings due to Mrs C's loss of employment and the impact of the cap itself. The full impact of welfare policies only is shown in comparing 3 and 4 in figure 11.

²⁸ Upated to take account of the higher National Living Wage of £8.75 which is assumed in 2020/21.

²⁹ It should be noted that Mr C would have up to 39 weeks to find alternative employment before being subject to the Benefit Cap.

³⁰ £37,275 - £25,530 = £11,745

If Mrs C continues to only work 12 hours per week, then her family's total net income is £25,530 per year. This is compared to £30,921 had no welfare policies been passed since 2015/16. **In total this represents a reduction of £5,390 per year (a 21% reduction in net income).**

Figure 11 - The impact on net income of Mr C losing employment and the Benefit Cap applying to the household

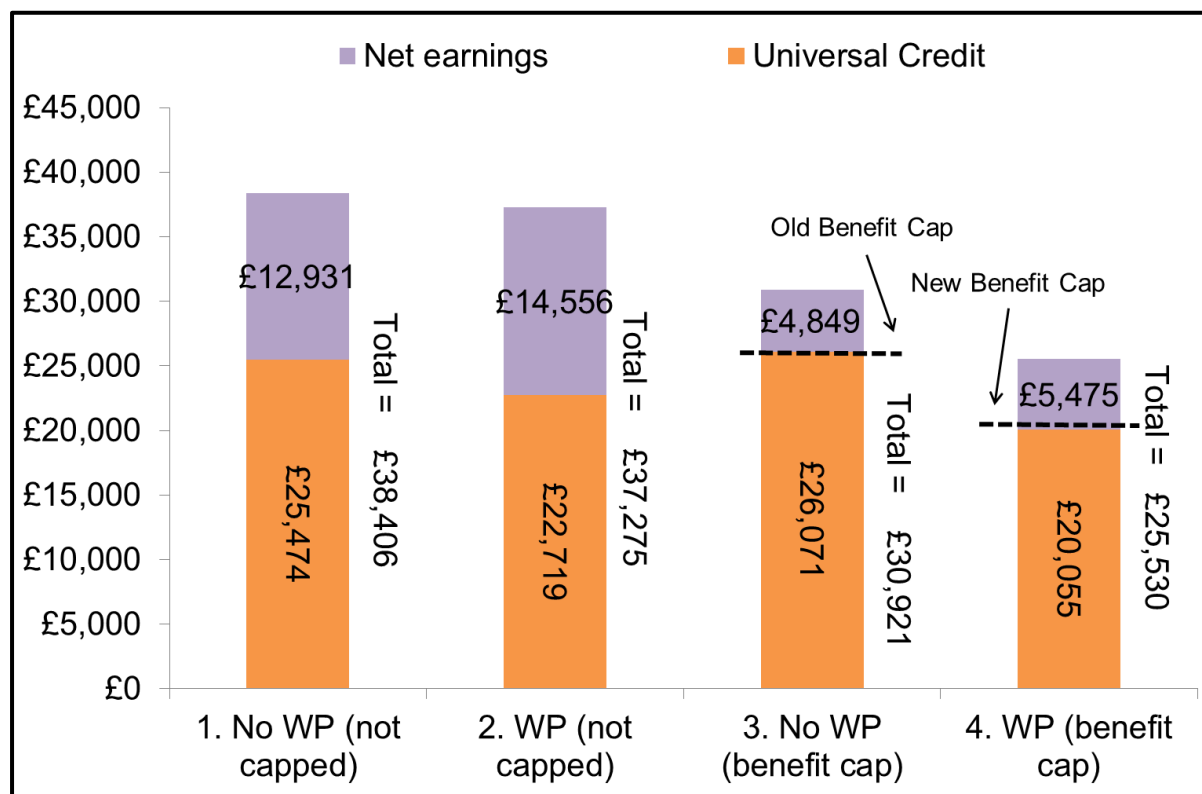


Figure 11 shows the impact of the Benefit Cap on the net income of the family when Mr C loses his employment. Four scenarios are presented:

1. None of the 2015/16 welfare policies or changes to income tax thresholds or the National Living wage are implemented, Mr C and Mrs C work a combined 32 hours per week and are not subject to the Benefit Cap. By 2020/21 the family's income is Ms P's net income is around £38,406 per year.
2. All 2015/16 welfare policies and other changes are implemented, Mr and Mrs C work a combined 32 hours per week and are not subject to the cap. By 2020/21 her income is around £36,719 per year.
3. No 2015/16 welfare policies or other changes are implemented, but Mr C does not work and only Mrs C only works 12 hours. They are subject to the old Benefit Cap (£26,000 per year), with household income being topped up by earnings to £30,921 per year.
4. All 2015/16 welfare policies and other changes are implemented, but Mr C does not work and only Mrs C only works 12 hours. They are subject to the new lower Benefit Cap and the household income is £25,530 per year.

Technical Annex A – Assumptions in the TABOSH model and CPI assumptions

Table A1 – Assumptions for main parameters in TABOSH model

| Main Parameters | | Counterfactual | Scenario |
|--|--|----------------|----------|
| | Minimum Wage/National Living Wage (per hour) | £7.75 | £8.75 |
| | Personal Allowance in 2020/21 (annual) | £11,000 | £12,500 |
| | Weekly Benefit Cap (Single, no children) | £350 | £258 |
| | Weekly Benefit Cap (Couples, with children) | £500 | £385 |
| | UC Taper rate | 65% | 63% |
| Work Allowance for Universal Credit (per month) | | | |
| With Housing Costs | Single person, no children | £111 | £0 |
| | Couple, no children | £111 | £0 |
| | Couple, with children | £222 | £192 |
| | Lone parent | £263 | £192 |
| Without Housing Costs | Single person, no children | £111 | £0 |
| | Couple, no children | £111 | £0 |
| | Couple, with children | £536 | £397 |
| | Lone parent | £734 | £397 |

Table A2 – Consumer Price Index Assumptions

| Year | Rate |
|---------|-------|
| 2015/16 | -0.1% |
| 2016/17 | 1.0% |
| 2017/18 | 2.6% |
| 2018/19 | 2.2% |
| 2019/20 | 2.0% |
| 2020/21 | 2.0% |

(Source: Office for Budget Responsibility)

Technical Annex B – Poverty Analysis

Poverty and income statistics are regularly published by the Scottish Government³¹ and the methodology underpinning these is used to calculate the net income poverty thresholds for each case study.

Poverty is measured at the household level. If household income is below the poverty threshold, all people within the household are in poverty. This is based on the assumption that income is shared equally across all members of the household, and they have the same standard of living.

The poverty threshold is usually presented as an equivalised income figure. Equivalisation adjusts income for household size and composition by means of equivalence scales, to reflect the extent to which households of different size and composition require a different level of income to achieve the same standard of living. This adjusted income is referred to as equivalised income. In this analysis, the poverty threshold has been unequivalised so that the appropriate threshold for that household type is used. This is done in order to determine whether a case study household would be in or out of poverty, which is presented in figures 4,7 and 10.

In terms of the specific analysis for this report, a number of simplifications and caveats apply to the figures in table B1, The projections of poverty thresholds to 2020/21 are based on Institute of Fiscal studies projections³² of real terms median incomes before and after housing costs, which are then converted into nominal prices using CPI so that they are broadly comparable with net incomes in 2020/21. There is also some difference in what elements of income are included in the case studies and those used by the IFS (for example, the case studies exclude council tax reduction and the calculation of housing costs is based solely on rent and excludes some other elements).

Table B1: Poverty thresholds for each case study household (before and after housing costs), 2020/21

| | Before Welfare Reform changes (£) | After Welfare Reform changes (£) | Poverty threshold (£) | Poverty status |
|---|-----------------------------------|----------------------------------|-----------------------|-------------------|
| Before Housing Costs | | | | |
| Lone parent, 3 young children | 23,285 | 19,205 | 22,000 | Move into poverty |
| Couple, 2 young children | 25,830 | 24,300 | 24,300 | Never in poverty |
| Couple, 4 children, 2 young and 2 older | 38,410 | 37,280 | 35,700 | Never in poverty |
| After Housing Costs | | | | |
| Lone parent, 3 young children | 16,765 | 12,685 | 17,600 | Always in poverty |
| Couple, 2 young children | 19,310 | 17,780 | 20,800 | Always in poverty |
| Couple, 4 children, 2 young and 2 older | 29,285 | 28,155 | 33,300 | Always in poverty |

³¹ Scottish Government (March 2017) 'Poverty and Income Inequality in Scotland: 2015/16'. Available at: <http://www.gov.scot/Publications/2017/03/2213/0>

³² Institute of Fiscal Studies (March 2017) 'Living standards, poverty and inequality in the UK: 2016–17 to 2021–22'. Available at: <https://www.ifs.org.uk/publications/8957>



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