Welfare ‘Reform’: the impact on families in Scotland

Since June 2010 the UK Government has announced a number of reductions to the welfare budget amounting to nearly £74 billion by 2015/16. The Scottish Government estimates that the cumulative impact of welfare reforms would result in the Scottish welfare bill being reduced by around £6 billion from 2010/11 to 2015/16. In addition, of these changes it is estimated that over £1 billion relates directly to children in Scotland.

What has happened already?

- **The basis for uprating benefits** in 2011/12 and 2012/13 (except state pension) was switched from using Retail Prices Index (RPI) to Consumer Prices Index (CPI) inflation, a generally lower measure. The Institute for Fiscal Studies describe this as the ‘most important’ of recent ‘poverty-increasing’ tax and benefit changes. From April 2013 uprating of working-age benefits is limited to 1%, which is below projected inflation, amounting to a 4% cut in real terms. This 1% increase covers basic amounts for adults and children, but does not apply to specific disability and carer benefits and additions. It is also locked in by legislation for 2014/15 and 2015/16.

Children and families

- Health in Pregnancy Grant (£190) scrapped
- Sure Start Maternity Grant (£500) limited to first child only
- Statutory maternity pay (SMP) being uprated by 1% means a mother will be approximately £330 worse off than if SMP had been uprated by RPI inflation

- **Child benefit** rates frozen for three years 2011/12-2013/14, then uprated by 1% in 2014/15. Estimated that between 2011/12 and 2015/16 a family with two children will receive £1,100 less than they would have done had child benefit been uprated by RPI inflation.

- From January 2013, child benefit recovered on a sliding scale via income tax from people earning between £50,000 and £60,000 (and in full if earning over £60,000). Estimated families affected will lose around £1,400 a year.

- **Tax credits** withdrawn from ‘middle income’ families. A family with one child may lose tax credits on an income of around £26,000, but there is no
income limit and tax credits are still payable at higher incomes if there are additional children, disabilities or childcare costs.

- Baby element (extra £545 in first year) removed from child tax credit
- Working tax credit stopped for most couples with children who were working at least 16 hours a week, and now need to work at least 24 hours a week between them (losing up to £3,870 a year)
- Childcare costs covered by working tax credit cut from 80% to 70% (working parents losing up to £1,560 a year)
- Estimated families affected approximately £700 a year worse off, with some losing all their tax credit entitlement
- Basic and 30-hour elements of working tax credit frozen for three years, extra amount for people aged over 50 scrapped.
- Backdating of tax credits cut from 3 months to 1 month. New parents will miss out on payments if do not claim within 31 days of birth.
- Tax credits not increased if income drops by less than £2,500, while more people see tax credits reduce if income rises.

- **Lone parents** moved onto jobseeker’s allowance after youngest child’s 5th birthday and face sanctions if do not comply with job seeking conditions.
- From April 2014 lone parents claiming income support or employment and support allowance to attend work focused interviews if child is aged one or over, or take part in work-related activity if child is aged three or over.

**Housing**

- Maximum **housing benefit** in private tenancies cut (from median to 30th percentile of rents). Estimated to affect almost 45,000 households in Scotland with an average loss of £7 per week.
- Contribution expected from other adults in property increased by 27%
- Single people under 35 (previously 25) only eligible for the amount of a room in shared accommodation
- Support for mortgage interest cut from 6.08% to 3.63%
- Housing benefit for working-age tenants of social landlords cut if they have a spare bedroom (‘**bedroom tax**’). At February 2014 average loss £11 a week for 70,000 claimants in Scotland.
- **Benefit cap**: limit of £26,000 a year (£500 a week) for couple/lone parent; (does not apply to people on disability benefits, working tax credit and war pensions). This hits larger families with three or more children, affecting 1,928 families in Scotland between its introduction in April 2013 and May 2014 at an average loss of £65.82 a week.
- **Council tax benefit devolved from April 2013** – 10% cut in budget to initially be met by Scottish Government and COSLA.

**Disabled people**
1.5 million incapacity benefit claimants reassessed under new, tougher test for employment and support allowance (ESA) and contributory ESA withdrawn for most claimants after one year. 144,000 individuals affected in Scotland with average annual loss per affected individual £3,480 by 2015/16.12

**Personal independence payment (PIP)** starts to replace disability living allowance (DLA) from April 2013 with new assessment for all working-age claimants, aimed at reducing number of claimants across UK by half a million. Of the 190,000 existing DLA claimants in Scotland who will be reassessed for PIP, it is expected that around 105,000 working-age claimants will lose some or all their disability benefits by 2018, with a loss of £1,120 a year.13 Many unpaid carers of working-age disabled people who lose eligibility for DLA/PIP will no longer qualify for carer’s allowance.

**Universal credit** is to replace working-age means-tested benefits and tax credits. It was introduced for new single jobseekers in Inverness in November 2013 and rolled out to job seeking couples making a new claim for benefit in June 2014. Further roll out for single jobseekers across Scotland is expected in February 2015. ‘Not expected to result in net reduction in benefit entitlement’ although winners and losers at individual household level.

- payable in or out of work
- single withdrawal rate of 65%
- childcare support available for any hours worked
- lower amounts for most disabled adults and children
- claim and administration online; ‘digital by default’
- increased conditionality and sanctions
- one monthly payment to claimant’s account, including amounts for rent
- additional amount payable so ‘no-one will be worse off’ when moving from old benefits to universal credit

**Impact on household incomes and poverty levels**

- ‘Welfare cuts tend to affect the lowest-income households with children the most as a proportion of income, and it is child poverty that is forecast to rise most quickly’ (IFS, June 2012).15

- Modelling by the Institute for Fiscal Studies suggests that the overall effect of tax and benefit changes as of October 2011 will be to increase child poverty across the UK by 1.4 million by 2020, wiping out progress made since 1998/99. Up to 100,000 children will be pushed into poverty in Scotland alone.17

- Analysis by Landman Economics for the TUC suggests that by 2015 UK government welfare and tax changes, together with lower than forecast wage growth, will leave the majority of children living in families with incomes below the Minimum Income Standard – that is below the income the general public believe is needed for a minimum socially acceptable standard of living.
• The overall impact of UK tax and benefit changes between January 2010 and April 2015 will be to cut the bottom half of the population’s net household income by over 2% with the bottom 20% seeing a loss of between 4 and 5%. The top half of the income distribution, other than the richest 10%, sees a loss of less than 2% of net income.\(^{19}\)

• CPAG’s ‘Cost of a Child in 2014’ shows that families working full time at the national minimum wage and receiving all entitled in-work benefit and tax credit support are 18% short of the basic amount needed to provide themselves a minimum standard of living. The shortfall for out-of-work families is even more stark, standing at 43%\(^{20}\).

October 2014
Further information, training and advice on welfare reform available at
www.cpag.org.uk/scotland

---


7 Housing Benefit changes: Scottish Impact Assessment, January 2011 (Scottish Government) see http://www.scotland.gov.uk/Topics/Built-Environment/Housing/supply-demand/chma/marketcontextmaterials/hbchangesscottishimpact/


11 Scottish Government press release, 19 April 2012

12 Report by Sheffield Hallam University for Scottish Parliament Welfare Reform Committee April 2013 see Table 1 http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/62069.aspx

13 Financial impacts of welfare reform on disabled people in Scotland http://www.scotland.gov.uk/Topics/People/welfarereform/disabledpeople


16 http://www.ifs.org.uk/bsn/bsn144.pdf


18 See Slide 14 http://www.ifs.org.uk/publications/6653