



## Key benefit changes

### Summary Paper for Scottish Water Customer Forum April 2013

A total £22 billion of cuts to the annual value of UK benefits and tax credit support is being made by 2014/15. It is estimated that between £1.6bn (around £480 for every adult of working age)<sup>1</sup> and £2bn<sup>2</sup> will be cut from Scottish household incomes. This paper briefly sets out the key changes that have already been made, the changes still to come and provides a short analysis of the forecast impact on household incomes and poverty levels.

#### 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. IFS describe this as “most important” of recent “poverty-increasing” tax and benefit changes<sup>3</sup>. **From April 2013** uprating is subject to **1% uprating cap**, which is below projected inflation, amounting to a 4% cut in real terms. This cap will include 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
- Child benefit rates frozen for three years 2011/12- 2013/14. 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 621 000 families in Scotland lose average £360 pa<sup>4</sup>.
- Lone parents moved onto jobseeker’s allowance after youngest child’s 5<sup>th</sup> birthday - face sanctions if do not comply with jobseeking conditions.
- 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  - withdrawn from ‘middle income’ families.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, unless can increase to at least 24 hours a week between them (losing up to £3870 a year)
- Childcare costs covered by working tax credit cut from 80 per cent to 70 per cent (working parents losing up to £1560 a year)
- Estimated 372 000 families affected by tax credit reforms with average annual loss of £810<sup>5</sup>.

### Housing

- Maximum housing benefit in private tenancies cut (from median to 30<sup>th</sup> percentile of rents). Estimated to affect almost 45,000 households in Scotland with an average loss of £7 per week.<sup>6</sup>
- 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 per cent to 3.63 per cent

### Disabled people

- 1.5 million incapacity 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 £3480 by 2015/16<sup>7</sup>

### Other changes

- 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.
- Length and level of sanctions increased for claimants who fail to comply with requirements on preparing or looking for work.

### From April 2013

- **‘Personal Independence Payment’** 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. Estimated 55 000 individuals affected in Scotland with total loss of £165m by 2017/18 with average loss per affected individual £3000 a year<sup>8</sup>.
- **Housing Benefit** for working age tenants of social landlords cut if they have a spare bedroom (**‘bedroom tax’**). Estimated loss average £11 a week for 70,000 claimants in Scotland.<sup>9</sup>
- **Community care grants and crisis loans:** abolished from April 2013 and replaced by Scottish Welfare Fund.

- **Benefit cap:** limit of £26,000 a year (£500 a week) for couple/lone parent; (will not apply to people on DLA, working tax credit and war pensions). This hits larger families, affecting 3,000 families in Scotland, with three or more children, losing an average of £83 a week.<sup>10</sup>
- **Council tax benefit devolved from April 2013** – 10% cut in budget to initially be met by Scottish Government and COSLA.<sup>11</sup>
- **Job Grant, return to work credit, in-work credit phased out** – no longer possible to qualify for these work incentive payments aimed at lone parents and disabled people

### **From October 2013**

**Universal credit** starts to replace working age means-tested benefits and tax credits from October 2013 payable in or out of work. “Not expected to result in net reduction in benefit entitlement”<sup>12</sup> although winners and losers at individual household level. Full impact unlikely before 2018.

- single withdrawal rate of 65 per cent
- 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)<sup>13</sup>.
- 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 UK by 800 000 by 2020<sup>14</sup>, wiping out progress made since 1998/99. Scottish Government analysis suggests at least 50 000 children will be pushed into poverty in Scotland alone<sup>15</sup>.
- UK government has forecast that the additional impact of the subsequent 1% benefit uprating cap will be to increase child poverty by 200 000 in the years 2013-14 to 2015-16<sup>16</sup>, with Scottish Government analysis suggesting 15 000 of these will be living in Scotland.<sup>17</sup>
- Recent analysis by Landman Economics for the TUC<sup>18</sup> 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%, see a loss of less than 2% of net income.<sup>19</sup>
- Further detail of household types affected by specific benefit changes and the indicative loss incurred is attached in *Appendix: Cuts to social security and tax credits from 2010 to 2014*.

**John Dickie**  
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**April 2013**

**Further information**, training and advice on welfare reform available at [www.cpag.org.uk/scotland](http://www.cpag.org.uk/scotland)

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<sup>1</sup> Report by Sheffield Hallam University for Scottish Parliament Welfare Reform Committee April 2013 see <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/62069.aspx> excludes impact of switch from RPI to CPI for benefits up-rating.

<sup>2</sup> Scottish Government Analysis March 2013 see <http://www.scotland.gov.uk/Topics/People/welfarereform/analysis/welfareexpenditurecutsn> includes impact of switch from RPI to CPI for benefits up-rating.

<sup>3</sup> [www.ifs.org.uk/comms/comm121.pdf](http://www.ifs.org.uk/comms/comm121.pdf)

<sup>4</sup> 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>

<sup>5</sup> 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>

<sup>6</sup> 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/>.

<sup>7</sup> 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>

<sup>8</sup> 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>

<sup>9</sup> DWP Impact Assessment Social sector housing under-occupation, February 2011

<sup>10</sup> DWP Impact Assessment, Household benefit cap January 2012

<sup>11</sup> Scottish Government press release, 19 April 2012

<sup>12</sup> Report by Sheffield Hallam University for Scottish Parliament Welfare Reform Committee April 2013 see p6 <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/62069.aspx>

<sup>13</sup> IFS, June 2012 see p66 <http://www.ifs.org.uk/comms/comm124.pdf>

<sup>14</sup> <http://www.ifs.org.uk/comms/comm121.pdf>

<sup>15</sup>

<http://www.scottish.parliament.uk/parliamentarybusiness/28877.aspx?SearchType=Advance&ReferenceNumbers=S4W-13033&ResultsPerPage=10>

<sup>16</sup> See Hansard 15 January 2013 Col 715

<http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130115/text/130115w0003.htm>

<sup>17</sup>

<http://www.scottish.parliament.uk/parliamentarybusiness/28877.aspx?SearchType=Advance&ReferenceNumbers=S4W-12335&DateTo=4/15/2013>

<sup>18</sup> <http://www.tuc.org.uk/tucfiles/549/BleakFutureForFamilies.pdf>

<sup>19</sup> See Slide 14 <http://www.ifs.org.uk/publications/6653>