

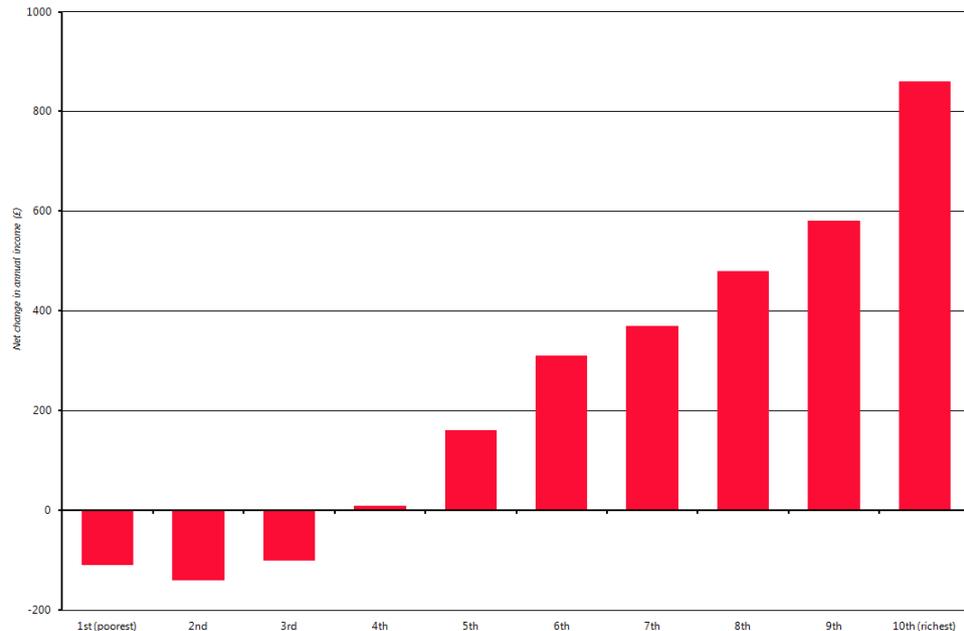
Welfare Reform and Work Bill

TUC submission to the House of Commons Public
Bill Committee

Hitting the weakest, helping the strongest

This document presents the TUC's comments on the Welfare Reform and Work Bill. The combined effect of the changes to Universal Credit work allowances and the benefit freeze is to reduce the incomes of the poorest groups. **Even when the government's planned 'National Living Wage' and increased personal allowance are taken into account, the poorest lose more than they gain and net gains overwhelmingly benefit richer groups more than those in the middle.**

Chart 1: Net impact in 2020 of the changes to benefits, pay



and tax

This chart looks forward to 2020 and shows the distributional impacts by that date of the government's principal reforms to pay, tax and benefits using the Institute for Public Policy Research's tax-benefit model. One of the justifications for the reforms in the Welfare Reform and Work Bill is that the planned increases in income tax personal allowance and the introduction of the "National Living Wage" (NLW) will compensate for them; this document therefore considers the combined impact of the Bill and these other reforms.

The TUC

The TUC is grateful to the Committee for this opportunity to submit comments. The TUC is the voice of Britain at work. We represent 52 unions with 5.8 million members; trades unionists work in every town and region of the country, in every occupation and industry. We have a long-standing interest in social security policy - William Beveridge called us "the godfathers of the Beveridge report". Today, the TUC is an active member of the End Child Poverty coalition of over 100 organisations campaigning to eradicate child poverty in the UK. In addition to this document, the TUC wholeheartedly endorses the points made in ECP's briefing on the Bill.

Summary

This submission shows that:

- Even when the introduction of the NLW and the increased personal allowance in income tax are taken into account, the government's reforms, cuts and freezes are regressive; they will reduce the net disposable incomes of the poorest 30 per cent of the country and provide most benefit to the richest.
- The measures affecting tax credits and benefits hit working people harder than non-workers. While better off workers gain, especially from the tax measures, the whole package significantly reduces the net income of workers in the poorest 40 per cent of the population.
- Most of the measures hit families with children harder than those without children - a family with two children in the poorest 20 per cent of the income distribution will lose £340 a year.
- The clearest losers, even when the NLW and increased personal allowances are taken into account are lone parents. The poorest 60 per cent of lone parents will be worse off and even the richest groups will gain very little. On average, lone parents will be £370 a year worse off.
- Every nation of the UK and every English region except London will see the poorest groups losing from the combined impact of these measures. In every nation and region (including London) the richest will gain most.
- It has not been possible to include the Benefit Cap in this net assessment of the combined impact of these policies. Considered by itself, the Benefit Cap will make the poorest groups in every region worse off.

The benefit freeze and cuts to Universal Credit work allowances

The Bill freezes most working age benefits and the Budget announced changes to the work allowances within Universal Credit. Together, these measures will mean:

- The freezing of most working age benefits until April 2020.
- By 2020, UC work allowances for those without housing costs will be reduced to £5,000 for those with children and those with a limited capability for work, and removed entirely for those without children.
- By 2020, UC work allowances for those with housing costs will be reduced to £2,400 for those with children, removed entirely for those without children, and unaltered for those with a limited capability to work.

We assume UC will have been fully implemented by 2020 and therefore child and working tax credits, housing benefit and income support will no longer exist. It is, however, possible to model the impact by 2020 of the freeze of Child Benefit and Jobseeker's Allowance together with the changes to work allowances:

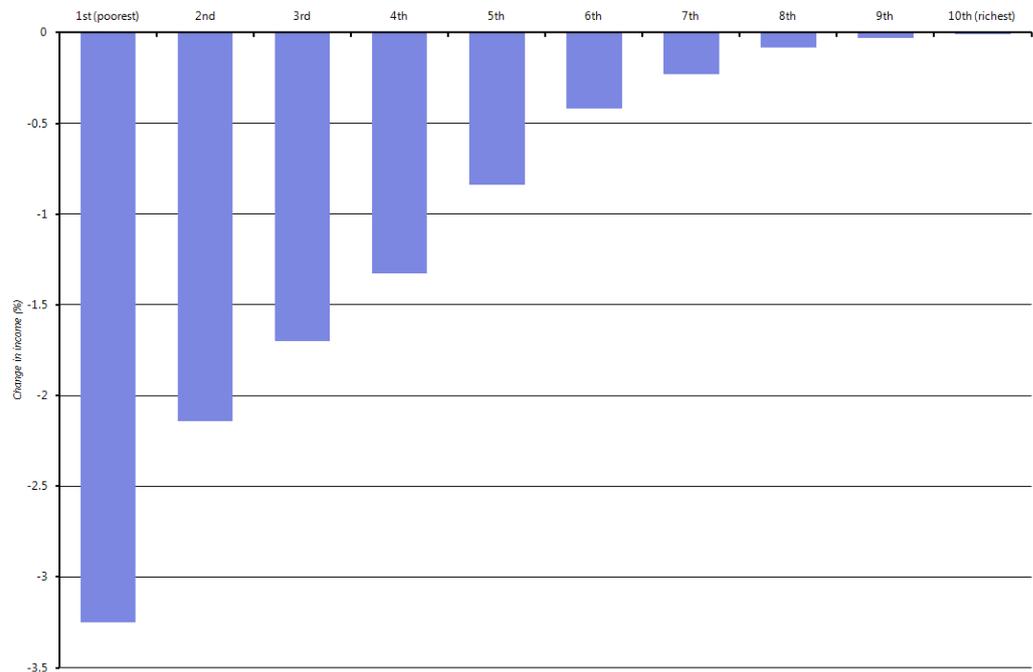
Table 1: Impact of the benefit freeze and cuts to work allowances by income decile

	Change in annual income	Percentage change in income
1st (poorest)	-230	-3.25
2nd	-290	-2.14
3rd	-250	-1.7
4th	-240	-1.33
5th	-180	-0.84
6th	-100	-0.42
7th	-70	-0.23
8th	-30	-0.08
9th	-10	-0.03
10th (richest)	0	-0.01

(An annex looking at the freeze and the work allowance cuts separately is available on request. Unless otherwise stated, tables are for disposable household income in 2015/16 terms, on an after housing costs basis)

The combined impact of these measures is to reduce the annual disposable income of the poorest families by more than £230 a year. If we look at the proportion of income we expect families to lose, the impact of the cuts is clearly regressive:

Chart 2: Working age benefit freeze and cuts to work allowances: percentage change in disposable income by income decile



To look at the impact on different groups of families we need to shift from analysing them by income decile to income quintile (from tenths to fifths) as otherwise the number of people in each cell of our tables will be too small for us to be confident about their accuracy.

First, we look at the impact on working families and non-working families. The government often claims to be on the side of working people and implies that its welfare reforms only affect families not in employment. In fact, these measures have much more effect on working families (who lose, on average, £230 a year) than workless families, whose average loss is £10 a year. The impact is harshest on the poorest working families, the very people who are working hard and playing by the rules, even though they already gain the least from doing so. On average, working families in the poorest quintile lose more than £500 a year while the losses faced by the richest quintile of non-working families are too small to measure:

Table 2a: Change in annual income due to the benefit freeze and cuts to work allowances by income quintile for working and non-working families

	Not working	Working
1st (poorest)	-20	-570
2nd	-10	-480

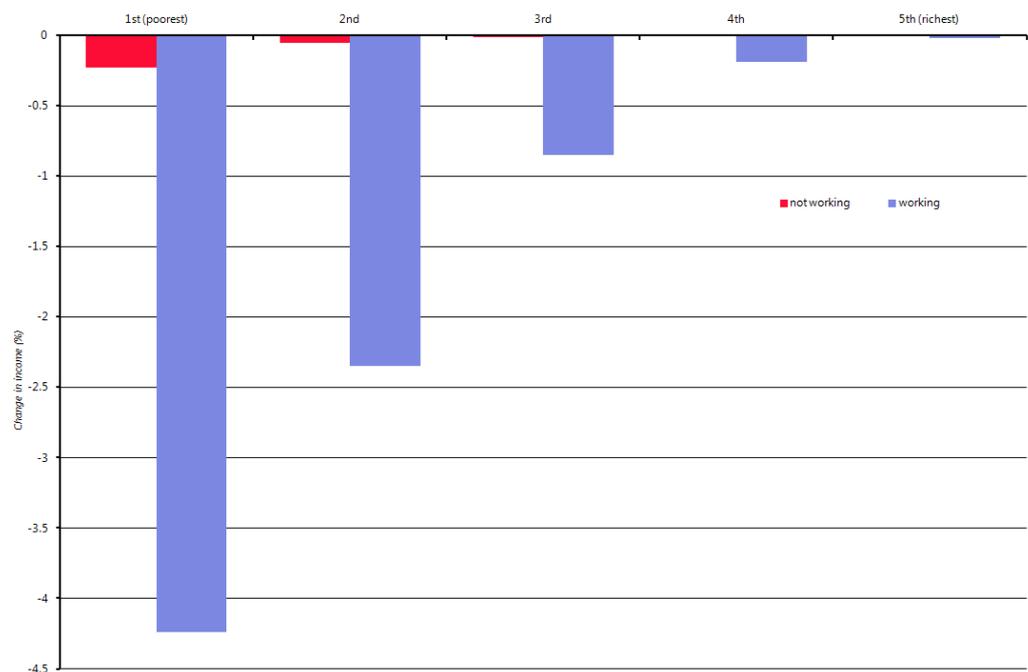
3rd	0	-230
4th	0	-70
5th (richest)	0	-10
TOTAL	-10	-230

Table 2b: Percentage change due to the benefit freeze and cuts to work allowances by income quintile for working and non-working families

	Not working	Working
1st (poorest)	-0.23	-4.24
2nd	-0.05	-2.35
3rd	-0.01	-0.85
4th	0	-0.19
5th (richest)	0	-0.02
TOTAL	-0.05	-0.64

This impact is even clearer when we present the results in a chart:

Chart 3: Hitting the working poor



Next we turn to the impact on families with children. Families with any number of children will lose more than families without children – a family with one child will, on average, lose about £6 a week while a family with no children will lose slightly less than £1 a week on average. Children in larger families will, however, be hit even harder; this is significant because these children are more likely to be poor *before* these measures are introduced. According to the latest *Households Below Average Income* report, 35 per cent of children in families with three or more children are poor, compared to 28 per cent of children generally (table 4.5db).

These measures harm children in large families the most, producing a percentage reduction in disposable income that is more than 70 times as large as that faced by families with no children. A particularly cruel twist is that large families in the poorest 40 per cent lose hundreds of pounds a year whilst families that are equally large but rich lose almost nothing:

Table 3a: Change in annual income due to the benefit freeze and cuts to work allowances by income quintile and number of children

	None	1	2	3	4 or more
1st (poorest)	-120	-430	-470	-410	-410
2nd	-70	-510	-570	-580	-560
3rd	-60	-360	-330	-320	-270
4th	-20	-120	-110	-150	-270
5th (richest)	0	-20	-30	-60	0
TOTAL	-50	-320	-350	-390	-430

Table 3b: Percentage change due to the benefit freeze and cuts to work allowances by income quintile and number of children

	None	1	2	3	4 or more
1st (poorest)	-1.63	-3.52	-3.11	-2.29	-1.99
2nd	-0.57	-2.56	-2.56	-2.34	-2.14
3rd	-0.29	-1.22	-1.04	-0.87	-0.7
4th	-0.08	-0.31	-0.24	-0.28	-0.45
5th (richest)	-0.01	-0.02	-0.04	-0.05	0
TOTAL	-0.2	-0.99	-1	-1.16	-1.44

Lone parents lose out more than other family types, though couples with children are also hit hard:

Table 4a: Change in annual income due to the benefit freeze and cuts to work allowances Imp by income quintile and family type

	single no children	single with children	couple no children	couple with children
1st (poorest)	-120	-240	-210	-460
2nd	-80	-640	-230	-460
3rd	-80	-860	-60	-120
4th	-20	-390	-10	-40
5th (richest)	0	-200	0	-10
TOTAL	-60	-490	-60	-230

Table 4b: Percentage change due to the benefit freeze and

cuts to work allowances by income quintile and family type

	single no children	single with children	couple no children	couple with children
1st (poorest)	-2.53	-2.17	-2.33	-2.82
2nd	-1	-4.09	-1.55	-1.92
3rd	-0.64	-4.51	-0.25	-0.39
4th	-0.1	-1.47	-0.03	-0.1
5th (richest)	-0.01	-0.33	0	-0.02
TOTAL	-0.4	-2.98	-0.17	-0.6

Children in lone parent families are already more likely to be poor than children in couple families: according to the latest Households Below Average Income report, 41 per cent of children in lone parent families are poor, compared to 28 per cent of children generally (table 4.5db).

Significantly, it is lone parents in the middle quintile who are hardest hit. This may well be because the poorer lone parents are less likely to be in employment and so not to benefit from work allowances. Tax credits have been particularly effective in helping lone parents to move into employment. There is undoubtedly some public resentment about those lone parents who are avoiding work (in reality, a very small group) – ironically, these measures are targeted on those who are doing what is expected of them; these cuts will reduce the advantages of being in employment.

Working on a before housing costs basis, we have been able to calculate how many people lose from these measures: **26,500,000 people in 7,900,000 households will be losers as a result of these measures.**

Three million of the losers are in the bottom decile of the income distribution, 200,000 are in the top decile.

The family and child elements

The Bill abolishes the family element for new claims and restricts the child element of Child Tax Credit and Universal Credit to two children per family from 2017/18. The IPPR tax-benefit model does not allow the modelling of flows into and between benefits, but instead shows how new UC claimants will be affected compared with their position if the current arrangements had continued. In other words, we compare a world of UC with restricted family and child

elements to one of UC as it would have been in 2020 before the budget changes.

Unfortunately, this means that it is not possible to include these changes in our overall assessment of the packet of measures. But these changes will mean that families with children will be much worse off under the new system. The reduction in support for large families is one of the largest ever contemplated by Parliament.

Table 5a: Change in annual income due to the benefit freeze and cuts to work allowances by income quintile and number of children

	None	1	2	3	4 or more
1st (poorest)	0	-480	-2830	-4950	-7340
2nd	0	-310	-1860	-3690	-6690
3rd	0	-150	-690	-1030	-2580
4th	0	-40	-170	-400	-2030
5th (richest)	0	0	-60	-120	0
TOTAL	0	-230	-1340	-2980	-6060

Table 5b: Percentage change due to the benefit freeze and cuts to work allowances by income quintile and number of children

	None	1	2	3	4 or more
1st (poorest)	0	-3.91	-18.58	-27.93	-35.29
2nd	0	-1.56	-8.3	-14.96	-25.74
3rd	0	-0.52	-2.16	-2.86	-6.7
4th	0	-0.11	-0.39	-0.77	-3.36
5th (richest)	0	0	-0.06	-0.11	0
TOTAL	0	-0.71	-3.8	-8.81	-20.29

While these measures have little significance for families without children, even for families with one child the cuts are substantial - nearly ten pounds a week for those in the poorest quintile. The reductions in support for the poorest are larger for families with more children than this, and support for those with the officially approved family of two children will be reduced, on average by more than £50 a week. **The cut in support for the largest families in the poorest quintile is the equivalent of more than a third of their incomes.**

In cash terms, these measures reduce support for people in work (on average £430 a year) more than for those in non-working families (£350 a year on average). In every quintile except the richest these cuts are the equivalent of a higher share of income for those in work than for those not in work:

Table 6: Impact of ending family element and limiting the child element by income quintile and work status

	Change in annual income		Percentage change in income		
	Not working	Working	Not working	Working	
1st (poorest)	-870	-1420	1st (poorest)	-10.4	-10.5
2nd	-360	-1020	2nd	-3.04	-4.98
3rd	-70	-230	3rd	-0.41	-0.85
4th	-20	-50	4th	-0.09	-0.14
5th (richest)	0	-10	5th (richest)	-0.01	-0.01
TOTAL	-350	-430	TOTAL	-2.21	-1.21

As with the benefit freeze and cuts to working allowances, the cut in support is more severe for lone parents than for other groups. There is little change for single people and couples without children. On average, support for all family types with children will be cut, but support for the

poorest will be cut more than for the better off and support for lone parents will be cut more than support for couples with children:

Table 7: Impact of ending the family element and limiting the child element by income quintile and household type

	Change in annual income		Percentage change in income	
	Single with children	Couple with children	Single with children	Couple with children
1st (poorest)	-2290	-2850	-20.87	-17.43
2nd	-2640	-1730	-16.89	-7.25
3rd	-1760	-230	-9.17	-0.7
4th	-810	-30	-3.01	-0.08
5th (richest)	-350	-20	-0.58	-0.02
TOTAL	-2150	-1020	-13.05	-2.64

The Benefit Cap

The Bill reduces the Benefit Cap to £23,000 in London and £20,000 outside London. The IPPR tax-benefit model does not currently allow us to model a regional benefit cap, as announced at the budget, alongside other changes. We have therefore included an estimate of the distributional impact of the regional benefit cap in isolation – that is, relative to a baseline of frozen benefits and reduced UC work allowances.

Contrary to some expectations, the reductions in the income of the poorest groups are not confined to London. In every region of the UK the poorest quintiles are worse off as a result of this change and in most the richest are either unaffected or lose so little it does not appear in these statistics.

Table 8a: Change in annual income due to the lower Benefit Cap by region and income quintile

	1st (poorest)	2nd	3rd	4th	5th (richest)
North East	-390	-30	0	0	0
North West & Merseyside	-310	-80	0	0	0
Yorkshire & Humberside	-240	-110	0	0	0
East Midlands	-150	-40	-10	0	0
West Midlands	-180	-140	0	0	0
Eastern	-330	-140	-20	-20	0
London	-260	-130	-10	0	0
South East	-250	-140	-10	-20	-10
South West	-260	-80	-20	0	0
Wales	-230	-150	-10	0	0
Scotland	-180	-60	-20	-10	0

Northern Ireland	-230	-80	0	0	0
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Table 8b: Percentage change due to the lower Benefit Cap by region and income quintile

	1st (poorest)	2nd	3rd	4th	5th (richest)
North East	-3.97	0.19	0	0	0
North West & Merseyside	-2.94	0.51	0.02	0	0
Yorkshire & Humberside	-2.12	0.66	0	0.01	0
East Midlands	-1.47	0.28	0.05	0	0
West Midlands	-1.49	0.85	0	0	0
Eastern	-2.96	0.85	0.07	0.06	0
London	-2.44	0.76	0.03	0	0
South East	-2.38	0.81	0.05	0.05	-0.01
South West	-2.49	0.48	0.08	0	0
Wales	-2.05	0.99	0.03	0	0
Scotland	-1.85	-0.4	0.07	0.02	0
Northern Ireland	-2.12	0.51	0	0	0

(An annex presenting a regional breakdown of all the reforms analysed in this document is available on request.)

Taking the increases in income tax allowances and the minimum wage supplement into account

In the Budget the Chancellor announced the introduction of a new "National Living Wage" (NLW). From April 2016, the NLW will be introduced for workers aged 25 and above, initially set at £7.20 – 50p above the minimum wage rate due from October 2015. The government has asked the Low Pay Commission to recommend future increases, with a target of 60 per cent of median earnings by 2020. While not announced at the budget or included in the Bill, it is the government's stated policy to increase the personal tax allowance to £12,500 over this parliament, and the Higher Rate Threshold to £50,000. In this submission we model the detailed distributional impact of these changes, relative to a baseline where both thresholds rise in line with the Consumer Price Index.

One government response to criticisms of the benefit cuts, freezes and reforms introduced by the Bill and announced in the Budget has been that these two measures will compensate those who lose out, or at least will do so for the working poor. We have therefore modelled the combined effect of the benefit freezes, work allowance cuts, tax cuts and the National Living Wage into a combined scenario.

Unfortunately, it has not been possible to include the effect of the Benefit Cap, of ending the family element and limiting the child element, the restrictions in Housing Benefit for young people re reducing the rate of Employment and Support Allowance (ESA) for the work-related activity group to the same rate as Jobseekers Allowance. The negative impact of the total package of government measures will therefore be somewhat worse than this section indicates.

The combined effect of these measures is that the distributional pattern is still regressive, but now better-off groups are net gainers. People at the lower end of the income distribution are still net losers, but not by as much as some of the previous sections indicated.

Table 9: Net impact of changes to UC work allowances, benefit freeze, NLW, personal allowance and higher rate threshold by income decile

	Change in annual income	Percentage change in income
1st (poorest)	-110	-1.55
2nd	-140	-1.03
3rd	-100	-0.66
4th	10	0.04
5th	160	0.78
6th	310	1.24
7th	370	1.29
8th	480	1.4
9th	580	1.4
10th (richest)	860	1.12

(An annex considering the impact of the NLW and the personal allowance increases separately is available on request.)

These figures are for all types of work status and all types of family, but this overall package concentrates losses on low-paid working families with children. Higher paid working families gain from the tax allowance increases and non-working low income families are not much affected.

If we look at the distributional impact of the total package on workers and non-workers the nature of these

changes becomes clearer. Overall, workers gain more than non-workers (by, on average, £320 a year to £100) but the poorest workers lose heavily and the poorest non-workers gain a little:

Table 10: Net impact of changes to UC work allowances, benefit freeze, NLW, personal allowance and higher rate threshold by income quintile and work status

	Change in annual income		Percentage change in income	
	Not working	Working	Not working	Working
1st (poorest)	20	-310	0.23	-2.3
2nd	30	-120	0.22	-0.58
3rd	110	310	0.7	1.15
4th	180	530	0.84	1.48
5th (richest)	430	790	1.13	1.23
TOTAL	100	320	0.66	0.91

The net impact of these changes is to benefit individuals and couples without children and better off families with children, but poor families with children lose out and the biggest families lose most:

Table 11a: Net impact of changes to UC work allowances, benefit freeze, NLW, personal allowance and higher rate threshold by income quintile and number of children

	None	1	2	3	4 or more
1st (poorest)	0	-300	-340	-130	-260
2nd	70	-170	-260	-340	-350
3rd	250	140	200	250	510
4th	370	560	610	650	560
5th (richest)	670	930	970	960	840
TOTAL	300	150	120	30	-130

Table 11b: Net impact of changes to UC work allowances, benefit freeze, NLW, personal allowance and higher rate threshold by income quintile and number of children

	None	1	2	3	4 or more
1st (poorest)	0.04	-2.42	-2.25	-0.71	-1.26
2nd	0.51	-0.85	-1.17	-1.36	-1.36
3rd	1.32	0.48	0.64	0.7	1.33
4th	1.34	1.39	1.36	1.25	0.93
5th (richest)	1.29	1.13	1.03	0.86	0.65
TOTAL	1.17	0.46	0.33	0.1	-0.44

Finally, the clearest losers from these measures taken together are lone parents:

Table 12a: Net impact by income quintile and family type

	single no children	single with children	couple no children	couple with children
1st (poorest)	-50	-200	-50	-270
2nd	110	-550	120	-70
3rd	210	-690	480	480
4th	230	10	570	690
5th (richest)	510	420	800	970
TOTAL	190	-370	520	330

Table 12b: Net impact by income quintile and family type

	single no children	single with children	couple no children	couple with children
1st (poorest)	-1.12	-1.8	-0.59	-1.66
2nd	1.33	-3.5	0.8	-0.3
3rd	1.7	-3.63	2.19	1.48
4th	1.33	0.04	1.81	1.59
5th (richest)	1.42	0.7	1.35	1.09
TOTAL	1.21	-2.23	1.45	0.85

On average, lone parents will be worse off as a result of these changes, whereas for couples and single people without children, only the poorest groups are losers.