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Financial Impacts of Welfare Reform – Illustrative Working Age Case Studies

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FINANCIAL IMPACTS OF WELFARE REFORM – ILLUSTRATIVE WORKING AGE CASE STUDIES

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1 INTRODUCTION

1.1 This paper outlines some of the changes from the UK government's welfare reforms, and sets out their financial impacts through case studies of hypothetical working age households. It seeks to inform Scottish Government work on welfare reform mitigation by illustrating the kinds of specific impacts the various reforms are having, and identifying potential 'winners and losers' of the reforms.

1.2 The remainder of section 1 provides a brief overview of the welfare changes and the economic context in which they have been implemented. Section 2 presents a detailed discussion and case studies for selected benefit changes. Section 3 discusses Universal Credit and provides case studies identifying winners and losers of the new system.

1.3 The UK is currently undergoing the most profound and far reaching changes to welfare benefits in the post WW2 period, involving changes to entitlements, their value and how they are to be paid. Most of these reforms have been initiated through the Welfare Reform Act 2012 by the current UK government, partly in response to the global post-2008 financial crisis. This follows changes to illness and disability benefits introduced by the previous UK Labour government, which have only recently come into force.

1.4 The current UK government's rationale for its welfare reform agenda is that the changes will: create stronger financial incentives for individuals to move from benefits to employment, or to increase the number of hours they work, thereby compensating for any loss of income experienced; simplify the system; and control public expenditure.

Key welfare changes

1.5 There have been a large number of changes to welfare, affecting almost all parts of the benefit system. Overall, eligibility criteria have been tightened and additional conditions for claiming have been introduced.

1.6 In relation to welfare support for households with children, the following changes have been made:

- **Working Tax Credit (WTC)** This is a benefit paid to working people on low incomes. The number of hours parents in a couple are required to work to be eligible has been increased. Eligibility criteria for lone parents remain unchanged.
- **Childcare element of WTC** This provides support with childcare costs for working parents on low incomes. The proportion of childcare costs has been reduced from 80% to 70% of actual childcare costs and the maximum amount claimable has also been reduced.
- **Child Tax Credit (CTC)** This is available to all parents on low incomes, both in and out of work. Households now lose their entitlement to this benefit at lower income levels.

- **Child Benefit** Rates have been frozen and support begins to be withdrawn for households where one or more adults in the household earns over £50,000.

1.7 In the area of housing, there have been five key changes:

- **Changes to Housing Benefit in the social rented sector relating to under-occupancy (the so-called 'Bedroom Tax')** The rate of Housing Benefit paid to tenants in the social rented sector who are under pension credit age is reduced for households living in properties that are deemed larger than required for their household/family size.
- **Local Housing Allowance (LHA)** Low income tenants in the private rented sector are eligible for Housing Benefit for their rent up to a certain rate as determined by LHA rates, which take into account the local rental market and property size deemed to be required. Rates are now set at a lower level relative to average local rents, and are subject to an absolute cap. Rates for large properties have been removed, so support is available only up to the cap for four bedroom properties.
- **Shared Accommodation Rate (SAR)** Most younger single people without dependants in the private rented sector are only eligible to claim Housing Benefit based on the cost of living in shared accommodation, rather than for their own property. SAR has been extended from applying to those aged under 25 to those aged under 35.
- **Council Tax Reduction** This replaces Council Tax Benefit. Budgets have been cut by 10% and devolved to Local Authorities in England and devolved administrations in Scotland and Wales. The Scottish Government has chosen not to pass this cut on to LAs and claimants.
- **Non-dependant deductions** This is a set amount deducted from Housing Benefit, Council Tax Reduction and other income-based benefits to reflect the contribution that non-dependant household members are expected to make towards the household's housing. The amount deducted has been increased.

1.8 There have also been changes to benefits paid to claimants with a disability or serious illness:

- **Employment and Support Allowance (ESA)** This benefit replaces Incapacity Benefit (IB). Claimants are now required to undergo regular medical assessments and eligibility is removed for those deemed to be able to work. Claimants are placed either in the Support Group, where they are not expected to work, or in the Work Related Activity Group (WRAG), where they receive support to help prepare them for work and are expected to engage in 'work related activity'.
- **Personal Independence Payment** This non-means tested payment is for covering additional costs arising from a disability, specifically support with daily living and mobility. It replaces Disability Living Allowance for adults aged 16 to 65, but aims for a 20% reduction of current DLA expenditure. Eligibility has been tightened to exclude those with lower needs, and most claimants are required to undergo regular medical assessments.

1.9 In addition to the changes to specific benefits, there have also been a number of reforms that affect all or most benefits:

- **Benefit Cap** The overall amount of benefits a household can claim is capped at the level of average household earnings across the population. Until the introduction of Universal Credit (see below), the cap will be administered via a reduction in Housing Benefit.
- **Uprating of Benefits** All benefits are now permanently uprated by the Consumer Price Index (CPI), a measure of inflation that is historically less generous than the previously used Retail Price Index (RPI). In addition to this permanent change, the uprating of most working age benefits has been fixed at 1% for two to three years from April 2013. This translates as a real terms cut as inflation has been consistently higher.
- **Sanctions to encourage employment** Alongside the introduction of additional conditions for claiming out of work benefits, such as attending adviser interviews and applying for a certain number of jobs, the reforms have introduced more stringent sanctions for individuals failing to meet these conditions. Sanctions involve the suspension of benefits payments. There are three levels of sanctions and the period of sanction increases for repeated failures.

1.10 In addition to the welfare reforms already implemented, the Welfare Reform Act 2012 also provides for the introduction of Universal Credit (UC). This is a new benefit scheduled to replace almost all existing means-tested benefits paid to working age people in and out of work by the end of 2017. It is intended to be simpler and more cost effective than the current benefits system. It is best understood as a repackaging of existing benefits, with the rules for eligibility broadly carried over from the existing benefits it replaces, and is not expected to result in a net reduction in benefit entitlement.

1.11 There are a number of features of UC that involve a departure from previous rules:

- UC intends to increase incentives to move from benefits to work and to increase hours worked by reducing the current benefit withdrawal rate and adjusting the marginal tax rates faced by people moving from benefits to work, which increases the real gains of work.
- The housing costs element of UC, which replaces Housing Benefit, is now paid to tenants in the social rented sector rather than directly to landlords, with some exceptions. This is intended to give claimants experience of budgeting in the same way that non-claimants do, thereby building financial skills and easing the transition from benefits to work.
- Payments are made monthly rather than fortnightly as is currently the case with most existing benefits. Again, this is intended to encourage longer-term budgeting skills.
- UC extends the principle of conditionality currently in place for Jobseekers Allowance to all claimants, including those in work who are expected to increase their hours worked.

- Some additional payments and supplements that are attached to other benefits and tax credits (such as the Severe Disability Premium which is linked to Disability Living Allowance) will be abolished. The eligibility criteria for other passported benefits linked to benefits being superseded by UC are also being revised.
- Applications are expected to be made online as part of the 'digital by default' agenda, with limited telephone and minimal face-to-face support.

Case study approach

1.12 The remainder of the paper presents case studies of the financial impacts of selected key welfare reforms. Case studies are for hypothetical, illustrative households, and are not based on actual cases. This complements externally commissioned longitudinal research into the impacts of welfare reforms on real households (see section 4.10 for details).

1.13 The case studies have been developed with the Tax and Benefits of Scottish Households (TABOSH) model, which calculates the income of a household after taxes, benefits and tax credits based on the household's characteristics. Technical details of the TABOSH model are provided in Annex A. The model does not currently include disability related benefits and these are therefore not covered in this paper. Work is currently ongoing to incorporate the main disability benefits into the model, and it is expected that case studies illustrating reform related to disability will be published in summer 2014 (see section 4.2 for details).

1.14 The case studies in section 2 compare the situation in the year prior to the introduction of the relevant reform(s) to the year after full introduction. Those in section 3 compare the current (2013/14) situation for those not Universal Credit with that of people on Universal Credit, and therefore include all current reforms in the pre-Universal Credit scenarios. Details of which years are used are given in Annex B.

1.15 Case studies give hourly wages, as well as gross weekly and annual earnings. For reference, the current National Minimum Wage for those aged 21 or over is £6.31 and while the Living Wage calculated on the basis of what households need in order to have a minimum acceptable standard of living is £7.65. Housing costs given in case studies are set at slightly below the maximum claimable under LHA rates for the relevant rental area and property size.

1.16 Figures for weekly earnings and benefit payments in case studies are rounded to the nearest pound at the point when they are reported. Any difference between total benefit income and the sum of individual elements is due to rounding. Income thresholds are rounded to the nearest £100.

2 CASE STUDIES FOR SELECTED BENEFIT CHANGES

Working Tax Credit

2.1 Working Tax Credit (WTC) is a benefit paid to individuals who are in low income employment. The key change to WTC affects couples with children, who from 2012/13 are required to work at least 24 hours a week between them, with one parent working at least 16 hours to be eligible. Previously just one person was required to work at least 16 hours. The eligibility criteria for lone parents, childless couples and single people without children have not changed.

2.2 Another change to WTC in general is that the taper rate at which tax credits are withdrawn as claimants' income goes up was increased from 39 to 41 per cent in 2011/12. This means that for every additional pound earned, 41 pence of benefit is withdrawn.

Case Study 2.1 – Entitlement to WTC

Mr M is unemployed and Mrs M works 18 hours per week at a wage of £6.80/hour earning £122 before tax, an annual salary of £6,344. Mr M does not qualify for income-based JSA or Income Support as Mrs M's earnings are just above benefit levels. They live in a three bedroom housing association flat in Dundee with a weekly rent of £130 with their two children, for whom they receive Child Benefit of £34 and Child Tax Credit of £108.

Due to the reforms they lose their entitlement to Working Tax Credit because their hours worked per week are now too low. Mrs M is unable to get more hours at her current job but is looking for alternative work. The couple lose their full entitlement to Working Tax Credit of £74 per week.

However, because of the reduction in income due to the loss of Working Tax Credit, they are entitled to £19 more Housing Benefit and £6 more Council Tax Benefit. While their Child Tax Credit entitlement is unchanged, increases in the rate mean they receive an additional £5. Child Benefit remains unchanged.

Overall, Mr and Mrs M lose £43 a week or £2236 a year.

Data is not available to estimate the number of couples with children in Scotland who are affected by this change in WTC eligibility criteria.

2.3 There is also a childcare element of WTC, which provides support with childcare costs for working parents on low incomes. Lone parents working 16 hours or more a week and couples both working at least 16 hours or more a week are eligible.

2.4 From 2011/12, the proportion of childcare costs that can be claimed was reduced from 80% to 70% of actual childcare costs, and the maximum amount claimable was reduced from £140 to £122.50 per week for one child and £240 to £210 per week for two or more children

Case Study 2.2 – Childcare element of WTC

Ms K works 25 hours per week at a wage of 6.50/per hour and earns £163 before tax a week, an annual salary of £8,476 per year. She is a single parent and lives in a two bedroom private rented property in Midlothian with a weekly rent of £130 with her two children aged one and two. The cost of childcare for her two children is £250 per week.

She receives the childcare element of Working Tax Credit towards child care costs. Prior to the reforms 80% of the costs were covered and Ms K would have received £200 per week to help with childcare costs. Following the reduction in the proportion of the costs covered to 70%, she is eligible for £175 per week, a loss of £25.

However, some of this loss is made up by small increases in of £10 Housing Benefit, and £3 in Council Tax Reduction, to take into account the reduction in Ms K's income. The change to the childcare element rules also coincided with an increase in the Child Tax Credit rate from £99 to £108. Ms K's entitlements to Working Tax Credits (non-childcare) and Child Benefit remain unchanged.

Overall, Ms K loses £3 a week or £156 a year in benefits income. However, due to changes in personal allowance coinciding with the reforms, her post-tax income increases by £7 a week, giving her an overall increase of £4 per week or £208 per year.

In 2011/12, there were around 430,000 people, including 200,000 children, living in households in Scotland that claimed WTC and had formal childcare costs.[1]

Child Tax Credit

2.5 Child Tax Credit (CTC) is a benefit payable to all parents on low incomes, both in and out of work. There are two parts, a family element (a basic payment) and then an additional payment for each child. At low earnings levels, the household will receive the maximum amount of Child Tax Credit for which they are eligible. Once their annual earnings cross the 'first income threshold', their CTC is reduced, a process known as 'tapering'[2].

2.6 Prior to the reforms to Child Tax Credit in 2011 and 2012, there were separate earnings thresholds for the child element and the family element of CTC. The child element was tapered as soon as the initial earnings threshold was crossed, while the family element was only tapered after a second, much higher, income threshold was reached.

[1] Source: Family Resources Survey
[2] This first income threshold is £15,920 if not claiming WTC, and £6,420 for those claiming WTC in 2013/14. It should be noted that CTC only tapers after WTC has fully tapered away, so in practice the income levels at which CTC starts being removed are broadly similar.

2.7 In addition, the child element was tapered at a rate of 39 pence in the pound, while the family element was tapered at a much lower rate of 6.67 pence in the pound. Therefore, in 2010/11, families that were eligible for CTC would not lose all of their payment until their household income was around £58,200 annually[3].

2.8 Since the reforms to Child Tax Credit were fully implemented in April 2012, there has been no separate income threshold for the taper of the family element – all elements of CTC reduce simultaneously after the first income threshold. In addition, all elements are now tapered at the higher rate of 41 pence in the pound. Finally, the 'baby addition' which doubled the family element of CTC for families with a child under one, was abolished in 2011, reducing the total amount of CTC that eligible families could claim.

2.9 One consequence of these reforms is that a family with one child would generally not receive any CTC once their income is above around £26,000, and a family with two children once their income is above around £32,000.

Case study 2.3 - Child Tax Credit

Mrs R and Mr R have one child under one. Mr R works 37 hours a week at a wage of £11/hour while Mrs R works 10 hours a week at a rate of £7.50/hour, and they earn £481 weekly before tax, a combined annual income of £25,200. They receive Child Benefit and Child Tax Credit for their children. Because of their relatively high earnings they are not entitled to any other benefits.

With these circumstances prior to the reforms, the child element was tapered away but they were still in receipt of the full family element, as well as the baby addition to the child element because their household income was under £50,000. Given the same circumstances after the reforms, the baby addition has been removed, and the family element is also partially tapered away as all elements are tapered together. Child Benefit payments remain unchanged.

Overall, their Child Tax Credit Entitlement falls from £21 a week to £4 a week. This is a loss of £17 a week, or £884 a year. This welfare change is partially offset by an increase of £8 per week due to changes to the personal allowance, giving Mr and Mrs R an overall loss of £9 per week or £468 per year.

In 2010/11, before the reforms came into power, there were around 590,000 people in Scotland, including 270,000 children living in families receiving Child Tax Credit with a before tax household income over £26,000[4].

[3] £58,200 is the lowest possible point at which CTC is completely tapered away in 2010/11. As the family element tapers after the child element has been completely removed, families with large numbers of children may still be receiving child element at incomes over £50,000.
[4] Source: Family Resources Survey

Changes to Housing Benefit in the social rented sector relating to under-occupancy (the so-called ‘Bedroom Tax’)

2.10 Housing Benefit paid to tenants who are under pension credit age and who are living in the social rented sector from 2013/14 has been subject to deductions for households that are deemed to be living in properties that are deemed larger than required (widely known as ‘bedroom tax’). The new rules replicate size criteria applying to Housing Benefit (Local Housing Allowance – see below) claimants in the private rented sector. Adult couples, 2 children under 16 of the same sex and 2 children under 10 of either sex are expected to share a bedroom.

2.11 Claimants deemed to be under-occupying are expected to move to a smaller property or have their Housing Benefit reduced by 14% of their eligible rent for those under-occupying by one bedroom or 25% for those under-occupying by two or more bedrooms. This has raised concern as in a very large number of cases smaller properties are not available. In particular, there is a shortage of one bedroom properties. Bedroom tax also does not take into account individual circumstances, such as the need to store medical equipment, adaptations to homes, or regularly visiting children (e.g. for separated parents), with very few exceptions.

Case Study 2.4 - Removal of the Spare Room Subsidy

Ms P, a lone parent, has a daughter aged 5 and a son aged 9 and lives in a three bedroom housing association flat in Glasgow with a rent of £110 per week. As two children under the age of 10 of either sex are expected to share a room, she is deemed to be under-occupying the property by one bedroom.

There are no two bedroom flats available for Ms P’s family to move into. In addition, once her son turns 10 she will no longer be considered to be under-occupying, as children of opposite sex are only required to share a room up to the age of 10. If she were to move to a smaller property, she would need to move again after 12 months, as a two bedroom property would then be too small.

While she is considered to have a spare bedroom, Ms P’s housing benefit will be cut by 14% of her contractual rent. She will lose £15 per week or £780 per year.

In November 2013, around 71,700 households in Scotland were affected by the reduction in Housing Benefit due to over-occupancy[5].

Local Housing Allowance

2.12 Low income tenants in the private rented sector are eligible for Housing Benefit for their rent up to a certain rate as determined by Local Housing Allowance (LHA) rates, which take into account number of bedrooms and

[5] Source: DWP, https://www.gov.uk/government/publications/number-of-housing-benefit-claimants-and-average-weekly-spare-room-subsidy-amount-withdrawal

rental costs in the local area defined as Broad Rental Market Areas (BRMAs). Since 2011/12 LHA rates are set at the 30th percentile of rental rates in the BRMA, rather than the 50th percentile[6]. In addition the top rate for properties with 5 or more bedrooms has also been removed, and so tenants in such properties can only get support up to the 4 bedroom rate.

Case study 2.5 - Local Housing Allowance – rate changes

Ms F and Mr S are a couple and live in a one bedroom flat in Renfrewshire which they rent from a private landlord at a cost of £85 per week. Prior to the reforms, they were eligible to claim the entire cost of their rent via Housing Benefit, as the maximum rate claimable, set on the basis of the 50th percentile of local rents was £87. After the reforms, the maximum claimable is £81, set at the 30th percentile.

Ms F and Mr S lose £4 a week or £208 a year as long as they remain in the same property.

In 2011/12, there were around 160,000 people, including 60,000 children, living in households in Scotland receiving Housing Benefit for a private rented property[7].

2.13 Younger single people without dependants are only eligible for Housing Benefit in the private rented sector based on the cost of living in shared accommodation, rather than in a self-contained property. This ‘Shared Accommodation Rate’ (SAR) is set at the 30th percentile of local rates for single rooms. From 2012/13 it has been extended from applying to those ages under 25 to those aged under 35, with some exceptions.

Case study 2.6 - Local Housing Allowance – Shared Accommodation rate

Mr D is 33 years old and lives in a one bedroom private rented flat in Aberdeen costing £115 a week. After the Shared Accommodation Rate (SAR) was extended to individuals up to age 35, he is no longer able to claim Housing Benefit at the full rate of his rent, but only up to the SAR of £69.

While he remains in this property, and until he turns 35, Mr D loses £46 a week or £2380 a year.

Data is not available to estimate the number of single people aged 25 to 34 in Scotland who are affected by the extension of SAR.

[6] All rent charged for each property size in the area are recorded and listed in order of the amount charged. Prior to the reforms, the LHA rate was set at the level of the rent for that came halfway up the list. This is known as the 50th percentile. Following the change the LHA rate is set at the level of rent charged for the property 30% up the list from the lowest rent, or the 30th percentile. This will mean that only the lowest 30% of rents will be affordable on Housing Benefit alone.
[7] Source: Family Resources Survey

Benefit Cap

2.14 From 2013/14, total household benefit payments for working-age claimants are capped to the level of the average weekly wage, after tax and National Insurance, set at £350 for single households without dependent children and £500 for all other household types.

2.15 Benefits entitlements counted towards the cap include most working-age benefits, but not pension credit or retirement pensions. Exclusion from the cap applies for households including claimants of

- Working Tax Credit;
- Disability related payments (Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Industrial Injuries benefit, Employment and Support Allowance support component);
- Some benefits relating to the armed forces.

2.16 Households where a person has worked for 50 out of the previous 52 weeks and not been entitled during that time to income support, JSA or ESA, are exempt from the benefit cap for a period of 39 weeks.

2.17 Some households in temporary accommodation may be affected by the benefit cap. This will primarily be caused by the high rents reflecting the costs of providing temporary accommodation. Rents are higher reflecting possibly high turnover of accommodation, management costs and additional support costs for some residents. Unless this is 'exempt accommodation', they will be subject to the benefit cap, with the possibility of claiming a discretionary housing payment to make up any shortfall in the short run.

2.18 Until the introduction of Universal Credit (see below), the cap is administered via a reduction in Housing Benefit.

Case Study 2.7 – Benefit Cap

Mr A and Ms B are unemployed and live together with their four children aged 3, 5, 12 and 13 in a four bedroom private property in Edinburgh and pay rent of £250 per week. As their two older children are of different sex, they are eligible for the four bedroom Local Housing Allowance rate which covers their £250 a week rent.

They are in receipt of income-based JSA at a rate of £113 per week. They also receive Child Tax Credit for their four children at a rate of £219 per week and Child Benefit at £61 a week. They also receive Council Tax Reduction of £20 per week, but this does not count towards the income against which the cap is assessed.

Their combined income from the benefits counting towards the cap is £642, while the maximum non-single households are entitled to is £500. The cap therefore results in their weekly income being reduced by £142 via a reduction in their Housing Benefit - an annual loss of £7384.

Between April 2103 and January 2014, just under 1500 households in Scotland were affected by the benefit cap[8].

[8] Source: DWP, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/286771/benefit-cap-january-2014.pdf

3 UNIVERSAL CREDIT

3.1 Universal Credit is scheduled to replace all existing means-tested benefits paid to working age people in and out of work, with the exception of Council Tax Reduction. Specifically, the benefits being abolished and replaced by Universal Credit are:

- Income Support
- Income-based Jobseeker's Allowance
- Income related Employment and Support Allowance
- Housing Benefit
- Child Tax Credit
- Working Tax Credit (including childcare element)

3.2 The maximum Universal Credit claimable is made up of a total of:

- A standard allowance
- A child element for each child
- A childcare costs element
- A housing costs element
- An amount for each disabled child
- An amount for an ill or disabled adult

3.3 For each claimant, the maximum amount claimable is worked out on the basis of which elements the claimant qualifies for. This maximum amount is then reduced depending on the claimant's income. The taper rate for Universal credit is 65%, meaning that for every additional pound earned over the 'work allowance' (the amount of earnings disregarded), 65 pence of benefit is removed. This is the same as the current taper rate for Housing Benefit, and higher than the taper rates for Tax Credits and Council Tax Reduction. This increase is partially offset by there only being a single taper rather than several tapers operating simultaneously.

3.4 As noted above, Universal Credit is best understood as a repackaging of existing benefits and is not expected to result in an aggregate reduction in benefit entitlement or expenditure. However, there are likely to be 'winners and losers'. The Department for Work and Pensions estimates that once the system is fully introduced, 2.8 million households will have a higher benefit entitlement than under the current system, 2 million will have a lower entitlement and 2.7 will experience no change in entitlement. The hypothetical case studies below illustrate some scenarios that are expected to result in increased or reduced welfare payments.

3.5 However, it should be noted that the expected impacts of Universal Credit considered to be most problematic relate not to amounts claimable but to other changes around delivery. For example, there are concerns that housing payments going to tenants rather than to landlords and the monthly payments may cause problem for individuals in terms of budgeting, particularly those with mental health problems or learning disabilities. Concerns have also been raised about the online application process and limited telephone and minimal face to face support for individuals who do not have internet access or the skills necessary to navigate the online form.

3.6 Universal Credit also extends the principle of conditionality currently in place for Job Seekers Allowance to most claimants. In order to claim Universal Credit, individuals must accept a ‘claimant commitment’ which sets out conditions that must be met to continue to claim UC. For those considered to be fit for work or work related activity, the claimant commitment will include ‘work related requirements’ such as a attending a set number of interviews a week or attending work preparation meetings. Those found in breach of their claimant commitment are sanctioned by having the UC payments reduced or suspended, with increased lengths of sanctions for repeated failures. Concerns have been raised about the appropriateness of certain work related requirements, the extent to which staff ensure that individuals understand their claimant commitments, lack of consistency in the application of guidance between Job Centres and the impact of sanctions on claimants who could be left destitute.

Case study 3.1. Winners – not currently eligible for WTC

Mr and Mrs K live in a 2 bedroom private rented flat in Falkirk with a weekly rent of £100 with their two daughters aged 4 and 7. Mrs K works 15 hours and Mr K works 12 hours both at a rate of £7.00/hour, earning a combined income of £89 a week, or £9,828 a year before tax. They have childcare costs of £100 a week.

Under the current system, they are not eligible for Working Tax Credit, or the childcare element of Working Tax Credit, as neither are working the required 16 hours a week. They are claiming Child Tax Credit of £115, Housing Benefit of £79, Council Tax Reduction of £12 and Child Benefit of £34 a week, giving them a combined weekly benefit income of £239.

Under Universal Credit, there is no threshold for working hours, and they will therefore be eligible for the standard allowance of £113 and the childcare element of £70. They will also get the Housing Element and the Child Element giving them £308 Universal Credit. They can also continue to claim Child Benefit. They will no longer qualify for Council Tax Reduction as their income is now too high.

Overall they will receive a weekly benefit income of £342, making them £103 a week or £5356 a year better off under Universal Credit.

In 2011/12 there were around 10,000 people in Scotland living in families where at least one parent was working but no one was working more than 16 hours a week, and where household incomes were in the range of where WTC would have been received.[9]

[9] Set at £15,700. At this point WTC (if it had been received) would be fully tapered away. Source: Family Resources Survey

Case study 3.2. Winners – claiming Housing Benefit and WTC

Ms L is a single mother living with her 3 year old son in a housing association flat in Glasgow costing £100 a week. She works 25 hours a week at a wage of £7.50/hour, earning £188 a week before tax, an annual income of £9,776. Her mother looks after her son and she therefore has no childcare costs.

Under the current system, Ms L receives £48 in Working Tax Credit, £63 in Child Tax Credit and £38 in Housing Benefit a week, a combined total of £149. She also receives £20 Child Benefit. Under the new system, Child Benefit will remain unchanged and the combined total for the three elements she will receive of Universal Credit (standard allowance, child element and housing element) is £156.

This is because under the current system Tax Credits and Housing Benefits are calculated separately and simultaneously so that Ms L's income is taken into account when tapering her Tax Credits, and then again when tapering her Housing Benefit. In contrast, under Universal Credit, the maximum entitlements for each element are added together before a single taper to account for income is applied.

Overall, Ms L will gain £7 a week or £382 a year when she moves onto Universal Credit.

In 2011/12 there were around 70,000 people in Scotland, including 40,000 children, living in households claiming both Housing Benefit and WTC[10].

Case Study 3.3. Neutral – single unemployed adult

Mr R is 36 years old lives by himself in a one bedroom private rented flat in Fife for which he pays £75 a week in rent. He is unemployed and unable to find work and has no income.

Under the current system, Mr R can claim his weekly housing costs of £75 and Council Tax of £11 in full, and receives £72 a week in income-related Job Seekers Allowance.

Under Universal Credit, the housing element continues to cover the full housing costs, while the standard allowance for a single person is also £72. He also continues to receive Council Tax Reduction of £11.

Mr R will receive the same amount in benefits both under the current system and Universal Credit.

In 2011/12 there were around 70,000 childless single adults claiming Jobseekers Allowance in Scotland[11]. This figure includes both contributory and income based JSA.

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[10] Source: Family Resources Survey
[11] Source: Family Resources Survey

Case Study 3.4. Losers – claiming Working Tax Credits and working over 30 hours

Ms F is a single parent living with her two children in a 2 bedroom housing association property in Aberdeen with a rent of £150. She works 30 hours a week at a wage of £7.00/hour earning £210 before tax, an annual salary of £10,920, and has childcare costs of £250.

Under the current system, she receives £34 Child Benefit, £115 Child Tax Credit, £229 Working Tax Credit (including the childcare element), £131 Housing Benefit and £8 Council Tax Reduction, giving her a combined benefit income of £517.

Under Universal Credit she will receive the same amount of Child Benefit and £423 Universal Credit (made up of standard allowance, child element, childcare element and housing element). She will no longer receive any Council Tax Reduction. Overall, she will have a benefit income of £457.

Ms F's loss in benefits is due to changes in Council Tax Reduction after the introduction of Universal Credit[12] and because under current rules, a higher rate of Working Tax Credit applies for individuals working 30 or more hours, for which there is no equivalent in Universal Credit.

Overall, Ms F will lose £60 a week or £3120 a year.

In 2011/12 there were around 290,000 people in Scotland, including 120,000 children living in families claiming WTC where at least one person worked at least 30 hours a week[13].

Case study 3.5. Losers – High Earners on Tax Credits

Mr and Mrs P live in the Highlands with their three school age children. They own their property outright and therefore have no housing costs. Mr P works full time at 37 hours at a wage of £10.00/hour, while Mrs P works 25 hours a week at a wage of £7.00/hour. They have combined earnings of £545 a week before tax, an annual household income of £28,300 before tax.

Under the current system, they are eligible for £84 of Child Tax Credit and £47 of Child Benefit a week, a combined total of £131. Due to their comparatively high income and owner occupier status they are not eligible for any other benefits. After the reform is fully implemented, they will get £50 Universal Credit. The reduction compared to Child Tax Credits is due to a higher withdrawal rate under the new system. They will continue to be eligible for £47 a week of Child Benefit, a combined total of £97.

Overall, they lose £34 a week, or £1768 a year.

In 2011/12 there were around 660,000 people in Scotland, including 330,000 children living in families claiming CTC but no other means tested benefits (WTC, HB, JSA, CTB)[14].

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[12] As set out in the Council Tax Reduction (Scotland) Regulations 2012 http://www.legislation.gov.uk/ssi/2012/303/contents/made

[13] Source: Family Resources Survey

4 CONCLUSION

Key points

4.1 This paper has provided a number of case studies illustrating the potential impacts of the various welfare reforms including the forthcoming introduction of Universal Credit on a range of hypothetical households in Scotland.

4.2 In general, the reforms prior to Universal Credit have negative financial impacts on claimants' incomes, with the scale of cuts to household budgets depending on the benefit. The most substantial reductions in income are faced by couple households losing their eligibility to Working Tax Credit due to the increase in hours they are required to work; those in the social rented sector deemed to be under-occupying; and single people under 35 renting in the private sector, who can now only claim Housing Benefit for a room in a shared property.

4.3 The introduction of Universal Credit will have more mixed financial impacts. Winners include individuals with children working less than 16 hours who are not currently eligible for Working Tax Credits, and who will be able to claim for the costs of childcare under Universal Credit. Households currently claiming Tax Credits and other benefits such as Housing Benefit will also increase their incomes as maximum entitlements will be combined before a taper is applied. They will no longer be facing separate and simultaneous calculations in which their income is taken into account twice.

4.4 Many welfare recipients will see no change as a result of moving onto Universal Credit. This includes unemployed single adults, where the Universal Credit standard allowance is set at the same rate as income-based Job Seekers' Allowance.

4.5 Losers include individuals working more than 30 hours a week, who can currently claim a higher rate of Working Tax Credit, for which there is no equivalent under Universal Credit. Relatively high income households claiming Tax Credits will also lose some income, as the withdrawal rate of Universal Credit is higher than that currently applying to Child Tax Credit.

Future Analysis

4.6 The TABOSH model on the basis of which these case studies have been developed is currently being extended to include disability benefits, meaning that the impacts of reforms on disabled individuals and their households can be investigated.

4.7 The following means tested benefits are expected to be added:

[14] Source: Family Resources Survey

- Working Tax Credit – disabled worker element and severe disability element
- Child Tax Credit – disabled child element and severely disabled child element
- Income Support / income based JSA – disability premiums
- Housing Benefit –disability premiums
- Income-related Employment Support Allowance
- Limited capability for work elements / disabled child additions in Universal Credit

4.8 The model will also include Disability Living Allowance/Personal Independence Payment, but since any change in income from that transition will be due to the difference in medical assessments, rather than the amounts available at each rate, the model cannot be used for DLA/PIP comparisons as such. Instead, any components of these two benefits will be included as inputs to the model.

4.9 Case studies illustrating the impacts of the reforms to disability benefits will be developed over the next few months, with an intention to publish in summer 2014.

4.10 In addition to the TABOSH development work, the Scottish Government has commissioned Napier University to conduct a qualitative longitudinal research study on the impacts of welfare reform on real households. The research looks at the impact of UK welfare changes on households in Scotland and is intended to inform work in mitigating the impacts of the UK Government's welfare reforms. The work is being carried out by Napier University starting in summer 2013 and is initially for one year, with a probable contract extension for up 3 three years in total. The study follows 30 households with a range of characteristics affected by different welfare reforms, who will be interviewed twice a year. Publication of findings from the first two sweeps is expected in autumn 2014.

ANNEX A – BENEFITS INCLUDED IN THE TABOSH MODEL

The TABOSH looks at the income received by a household from earnings taking into account taxes, National insurance contributions, Child Benefit, Tax Credits, Income Support/Jobseekers Allowance, Housing Benefit and Council Tax Benefit.

The following household characteristics can be changed to show how net income and benefit entitlement changes.

- Household composition - couple or single adult
- Number and age of children
- Childcare costs
- Home rented in the social rented or private rented sector
- Housing costs
- Local authority in which the household is resident
- Council tax band
- Wages
- Hours worked
- Whether over-occupying

ANNEX B - COMPARISON YEARS FOR CASE STUDIES

Case study	Pre-reform year	Post reform year
2.1.	2011/12	2012/13
2.2.	2010/11	2011/12
2.3.	2010/11	2012/13
2.4.	2012/13	2013/14
2.5.	January 2011	January 2012
2.6.	January 2011	January 2012
2.7.	/	2013/14
3.1.	2013/14 not on Universal Credit	2013/14 on Universal Credit
3.2.	2013/14 not on Universal Credit	2013/14 on Universal Credit
3.3.	2013/14 not on Universal Credit	2013/14 on Universal Credit
3.4.	2013/14 not on Universal Credit	2013/14 on Universal Credit
3.5.	2013/14 not on Universal Credit	2013/14 on Universal Credit

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