HOUSE OF COMMONS LIBRARY

DEBATE PACK

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Spending of the Department of Work and Pensions

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Summary

On 26 February 2019 there will be an Estimates Day debate on the spending of the Department for Work and Pensions.

The subject for this debate was selected by the Backbench Business Committee. The application to the Committee was a cross-party application made by Ruth George MP and Heidi Allen MP, members of the Work and Pensions Committee.

The Department for Work and Pensions is the biggest spending department of government, accounting for nearly a quarter of all public spending. DWP has a currently approved budget for this year for benefits and pensions spending of £183,307 million, as set out in its 2018-19 Main Estimate. DWP's 2018-19 Supplementary Estimate proposes an increase to this amount of £974 million or 0.5%, to bring it to £184,281 million.

Major changes to the benefits system are currently underway as a result of a series of substantial reforms introduced by the Coalition Government, and further measures initiated by governments since 2015. These include the introduction of Universal Credit – which is replacing working-age means-tested benefits and tax credits and will eventually be received by around 7 million households – and Personal Independence Payment, which is replacing Disability Living Allowance for people of working age.

1. Overview of DWP spending

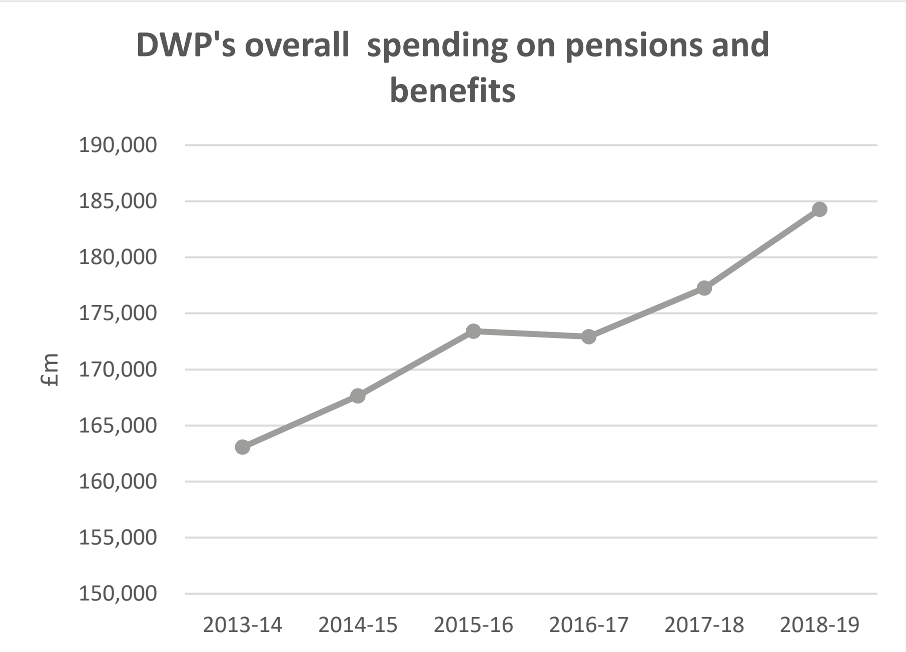
DWP is the biggest spending department of government, accounting for nearly **a quarter of all public spending.**

Most of DWP's spending is on pensions and benefits, although the department also supports employment programmes, provides funding to local authorities to administer some benefits and has responsibility for the Health and Safety Executive.

1.1 Benefits and state pensions

DWP has a currently approved budget for this year for **benefits and pensions spending**[1] of £183,307 million, as set out in its 2018-19 Main Estimate[2]. DWP's 2018-19 Supplementary Estimate proposes an increase to this amount of £974 million or 0.5%, to bring it to **£184,281 million**. This increase covers not only revisions to the forecast, but as is usual in DWP's Supplementary Estimate, the introduction of an additional small forecast margin for error.

DWP's overall spending on benefits and pensions has continued to rise over the last five years, as the graph below shows.



Source: [DWP Supplementary estimate memorandum]

This overall rise has been driven by factors such as increasing life expectancy, the uprating of pensions by the "triple lock"[3] and additional spending by DWP as Universal Credit replaces tax credits- which are paid by HMRC. At the same time, other factors have exerted

[1] Within a total known as Resource Annually Managed Expenditure, which is not subject to strict pre-set limits determined in a Spending Review

[2] Main Estimates set the initial budgets for the year; these are later revised towards year end in Supplementary Estimates

[3] The higher of the retail price index, wage growth or 2.5%

downward pressure on spending, including changes to benefit rules, freezing of rates of many benefits, state pension age equalisation, and reducing unemployment.

In its Supplementary Estimate this year, DWP is seeking revised budgets for:

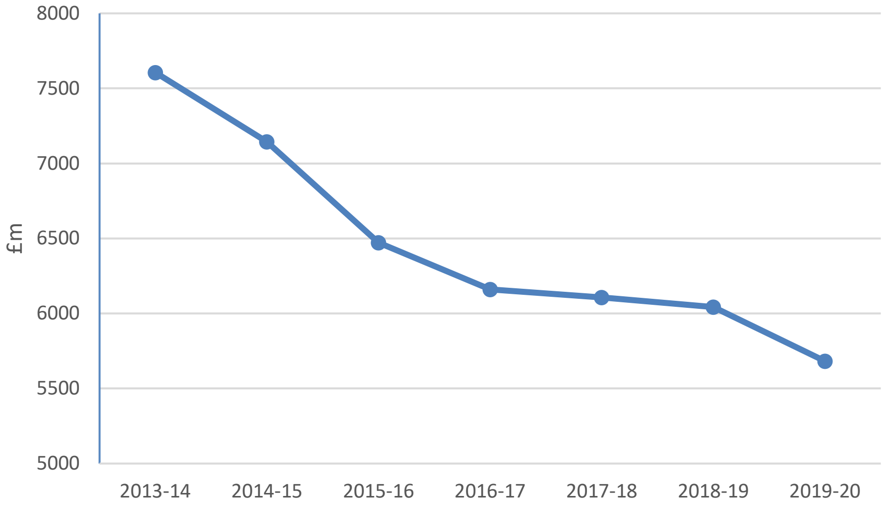
- State Pension, Pension Credit and pensioner benefits of £104,848 million (up from £104, 401 million);
- Disability and carer benefits of £27,653 million (down from £28,090 million);
- Universal Credit and equivalent benefits of £22,187 million (up from £20,917 million)[4];
- Housing Benefit of £20, 560 million (up from £20,454 million); and
- Incapacity benefits of £15,332 million (up from £14,648 million).

1.2 Other day-to-day spending

DWP also has a separate budget[5] covering the costs of its **staff,** other **running costs**, the **Health and Safety Executive**, **employment programmes, support to local authorities** and other activities.

DWP's 2018-19 Supplementary Estimate proposes a reduction of 1.7% to DWP's Resource DEL- covering day to day spending, excluding pensions and benefits- of £105.9 million, bringing its budget to **£6,043 million**. This reduction reflects the combined impact of efficiencies, such as reduced spending on DWP's Estates; offset by some increased spending on staff, compared to the original budget at the start of the year. The graph below shows the downward trend of this spending over recent years.

DWP's day- to- day spending (excluding pensions and benefits)



Source: DWP Supplementary estimate memorandum

[4] Some expenditure included in this total is also included in the other totals ie is double counted here
[5] Known as its Resource Departmental Expenditure Limit, or Resource DEL

In its Supplementary Estimate DWP is seeking revised budgets for:

- Operational delivery of £2,088 million (up from £1,992 million);
- Departmental operating costs of £2,598 million (down from £2,709 million);
- Support for local authorities of £238 million (down from £261 million);
- Employment programmes of £219 million (down from £375 million); and
- Health and Safety Executive of £124 million (£122 million).

1.3 Spending trends

The Office for Budget Responsibility (OBR) regularly forecasts public spending, including spending on welfare. Its forecasts do not distinguish between welfare spending by DWP and that by HMRC and other parts of government.

OBR's latest forecasts (in its Economic and Fiscal outlook of October 2018) expect total welfare spending, including state pensions, to be **£223 billion** in **2018-19** (compared to total public spending forecast of £812.8 billion), rising to **£258.4 billion** by **2023-24** (of total public spending forecast of £955.3 billion).

1.4 The "welfare cap"

The coalition government of 2010-2015 introduced a new fiscal target, with the aim of keeping welfare spending contained. It set what is known as a "welfare cap"- covering many, but not all, welfare spending, including tax credits paid by HMRC, but excluding state pensions paid by DWP.

The cap, which has already been adjusted several times, has on each occasion been based initially on forecasts by the Office for Budget Responsibility (OBR).

The current fiscal target for welfare, set out in the Charter for Budget Responsibility and agreed by Parliament, aims to keep the welfare spending it covers to £131 billion (an actual cap of £127.8 billion plus a margin of £3.2 billion) in 2021-22. The cap is adjusted periodically to take into account inflation, and may be further revised, as it has been in the past, with the approval of Parliament.

The current forecast is for welfare spending inside the cap to be £126 billion in 2021-22, comfortably within the cap.

Further details can be found in the Office for Budget Responsibility's Economic and Fiscal outlook of October 2018 (chapter 5, pp 215-218). An updated forecast will be provided by the OBR alongside the Chancellor's Spring Statement on 13 March 2019.

1.5 Further information

Further information on DWP's Supplementary Estimate, including the drivers of proposed budget changes, is provided by DWP in its Supplementary estimate memorandum and associated tables.

An overview of DWP's spending, and issues facing DWP, has also been produced by the National Audit Office.

1.6 Parliament's role in considering Supplementary Estimates

The House of Commons has already given its approval to DWP's Main Estimate for 2018-19 through Supply resolutions, followed by passage of the Supply and Appropriation Act in July 2018.

Following the debate on 2018-19 DWP's Supplementary Estimate on 26 February 2019, the House will be invited to agree a motion authorising the changes to DWP's budgets included in the DWP Supplementary Estimate. Because only the government may propose spending (under what is known as the Crown Prerogative), while amendments proposing downwards revisions to spending may be proposed, amendments proposing greater spending are not permitted.

Assuming DWP's spending plans are agreed, amended or otherwise, the amounts will be formalised and released later through a Supply and Appropriation (Anticipation and Adjustments) Act[6], expected to gain Royal Assent early in March.

[6] Such bills are passed without further debate, and the House of Lords' role is purely formal.

2. Key policies

2.1 Universal Credit

Universal Credit (UC) is replacing a range of existing means-tested benefits and tax credits for working-age households. The Department for Work and Pensions (DWP) refers to the benefits and tax credits UC is replacing as "**legacy benefits**." The aim of Universal Credit is to simplify and streamline the benefits system for claimants and administrators, improve work incentives, tackle poverty among low income families, and reduce the scope for fraud and error. At November 2018 there were 1.3 million households on UC of whom 40% were households with children and 63% were entitled to support for housing costs.[7] When fully rolled out, around 7 million households will receive Universal Credit and payments will total more than £60 billion a year.[8]

Universal Credit awards comprise a **standard allowance** with **additional amounts** for children, housing and other needs and circumstances such as childcare and caring. The actual amount a household receives will however depend on its income and savings. **Unearned income** – such as income from certain benefits, or an occupational pension – will usually reduce the maximum UC award on a pound for pound basis. **Earned income** – i.e. income from employment or self-employment – will reduce the UC award at a constant rate (the "**single taper"**), although households may be able to keep some of their earned income (the "**work allowance**") before it begins to affect their UC. The taper rate was originally 65 pence for each additional pound of net earnings, but from April 2017 it was reduced to 63 pence for each pound.

Families already get means-tested assistance through tax credits, but while tax credit awards are based on annual income, UC is based on current income. UC awards are calculated on an ongoing basis and increase or decrease each month in response to changes in income and other factors. For employees paid through Pay as You Earn (PAYE), HMRC's **Real Time Information** allows DWP to automatically adjust their UC award if their wages change. Claimants will however have to notify DWP directly of other changes in circumstances affecting their award as they occur.

The financial support provided by Universal Credit is underpinned by a new "**conditionality**" framework setting out the responsibilities claimants may be required to meet. The level of requirements will depend on the claimants' circumstances. The conditionality framework is backed up by a "strong and clear" **sanctions** regime for non-compliance.

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7 DWP, Universal Credit: 29 April 2013 to 10 January 2019, 19 February 2019. Of the 1.3 million households, 14% were not however receiving a payment – for example because they had moved into work and their level of earnings meant they were no longer entitled to payments

8 Office for Budget Responsibility, Welfare trends report, Cm 9562, January 2018, p3

The "**Full Service**" is the final, digital version of Universal Credit. Claimants are normally expected to make a claim for Universal Credit online and to manage their claim, including reporting changes in circumstances, via an **online account**.

UC is **paid monthly** in arrears and, unless exceptional circumstances apply, as a **single payment** covering all the household's needs. Couples can choose which partner receives the payment, or nominate a joint bank account.

UC is wholly administered and delivered by the Department for Work and Pensions in Great Britain, but DWP has been working with local authorities to develop local face-to-face support services to help UC claimants ("**Universal Support**"). However, in October 2018 the DWP said that the current model was "not delivering the support for vulnerable claimants as affectively as it could have been" and announced that funding for local authorities currently providing Universal Support would cease at the end of March 2019.[9] From April 2019, £39 million of funding will instead be made available to Citizens Advice and Citizens Advice Scotland to deliver Universal Support.[10]

Roll-out schedule

The DWP originally envisaged that Universal Credit would be fully introduced by 2017, but the roll-out timetable has been pushed back several times. Following early problems, the entire programme was **"reset"** in early 2013. In 2016, the DWP began **rolling-out the "Full Service"** – the final digital version of UC, available for all claimant groups – using a **"test and learn"** approach. The Full Service was finally rolled-out to every part of the United Kingdom in December 2018.

Introduction of the Full Service means that new claims for "legacy" benefits cannot be made (with limited exceptions). Legacy benefit claimants do not move onto UC straight away, but a change in circumstances may trigger a move to UC. The DWP refers to this as "**natural migration**." When a person moves onto UC, it will not normally be possible to move back to legacy benefits – the "**lobster pot**" rule.

Legacy benefit and tax credit claimants not experiencing a change in circumstances will transfer to UC by a process known as "**managed migration**." Under the latest Government plans, a managed migration pilot involving around 10,000 claimants will begin in July 2019. The DWP will then seek parliamentary approval for the main phase of managed migration, which is expected to get underway in late 2020 and be completed by December 2023. Given repeated delays to the implementation schedule, the Office for Budget Responsibility is

9 Letter from the Director General, Universal Credit, to local authority Chief Executives, 1 October 2018

10 Citizens Advice to provide support to Universal Credit claimants, DWP press release, 1 October 2018

however assuming that full roll-out of Universal Credit will not be achieved until 2024-25.[11]

Around **2 million households** – mainly people receiving income-related Employment and Support Allowance, and families on tax credits – are expected to move onto UC by managed migration. Where claimants moved to UC via managed migration are entitled to less support than they were receiving through legacy benefits and tax credits, they may be entitled to a top-up payment so that they do not lose out in cash terms at the point of transfer. This **"transitional protection"** will continue until the claimant's circumstances change significantly, or increases in UC entitlement fully extinguish the additional transitional element.

Further information on the DWP's plans for rolling out Universal Credit and on how people move into UC via natural migration can be found in Commons Library briefing CBP-8299, Universal Credit roll-out: 2018-19, 14 June 2018.

Changes to the UC work allowances and taper rate

Key parameters of Universal Credit have changed since the original legislation was agreed.[12] The Conservative Government's Summer Budget in July 2015 announced a series of controversial changes to Universal Credit (and, in advance of the full UC roll-out, to tax credits):[13]

- A reduction in the income threshold in tax credits, and an increase in the tax credit withdrawal rate ("taper"), from April 2016
- Reductions in the work allowances for most UC claimants, from April 2016
- Limiting the child element of tax credits and UC to two children for new claims and births after April 2017[14]
- Removing the family element in tax credits (and the corresponding first child premium in UC) for new claims from April 2017
- Freezing most working age benefits – including most tax credit and UC elements – for four years (annual increases having previously been limited to 1% for three years from 2013)

Following a Government defeat in the House of Lords on 26 October 2015[15], in the Autumn Statement 2015 the then Chancellor, George Osborne, reversed the planned changes to the income thresholds and taper rate within tax credits. The other changes have however been implemented. The **reduced work allowances** were particularly controversial. Although the impact varies according to household

11 OBR, Economic and Fiscal Outlook, October 2018, para A.24
12 A full policy timeline for Universal Credit – from initial proposals put forward by the Centre for Social Justice to June 2018 – can be found in section 1.1 of Commons Library briefing CBP-8299, Universal Credit roll-out: 2018-19
13 See Commons Library briefing CBP-7252, Welfare Reform and Work Bill 2015-16, 16 July 2015
14 See Commons Library briefing CBP-7935, The two child limit in tax credits and Universal Credit, 10 April 2017
15 HL Deb 10 April 2015 cc976-1042

circumstances, the changes were criticised by some commentators as reducing the generosity of UC work working claimants and, for some groups, incentives to enter or progress in work.[16]

At Autumn Statement 2016 the Government announced that the Universal Credit **taper rate would be reduced from 65% to 63%** from April 2017, ultimately benefiting around 3 million working households. The taper rate reduction was welcomed, but for most affected by the work allowance cuts the gain would be insufficient to offset the losses as a result of that measure and other changes.[17]

Autumn Budget 2018 announced an **increase in the work allowances of £1,000 a year, for households with children, and for households with a disabled children** (for single people and couples without children, the work allowance remains zero – and so their UC award begins to reduce with the first pound of earnings). The cost of increasing the work allowances is estimated at £545 million in 2019-20, rising to £1,695 million a year in 2023-24. The Government estimates that the increased work allowances will result in 2.4 million households receiving an extra £630 each year.[18]

Analysis of the impact of these changes can be found in these briefings:

- Resolution Foundation, Back in Credit? Universal Credit after Budget 2018, 12 November 2018
- Policy in Practice, Autumn 2018 Budget: What is the impact of the changes to Universal Credit on low-income households?, November 2018

Easing the transition to Universal Credit

In Autumn 2017, following emerging evidence of problems experienced by people moving onto UC[19] the Government slowed significantly the roll-out plans for January-March 2018 while it introduced measures intended to ease the transition to UC. These included abolishing the 7 day "waiting period", increasing the amount of the advance payment people can get at the start of their claim and extending the repayment period for advances, and allowing people moving onto UC to continue to receive Housing Benefit for two weeks.

Further measures were announced in Budget 2018 including:

- an additional two week payment of Income Support, income-based JSA and income-related ESA at the start of a UC claim, effective from July 2020;

[16] More detailed analysis of the impact of the work allowance cuts can be found in Commons Library briefing CBP-7446, Universal Credit changes from April 2016, 16 November 2016.

[17] A Commons Library blog, Universal Credit: jam tomorrow? looks at the combined impact of the work allowance and taper changes on a range of example families.

[18] Autumn Budget Red Book, para 5.33

[19] See Commons Library briefing CBP-8096, Universal Credit roll-out: Autumn/Winter 2017, 15 November 2017

- reducing the maximum rate for debt deductions from a UC award from 40% to 30% of the monthly standard allowance, from October 2019; and
- extending the period over which advance payments are recovered from 12 to 16 months, from October 2021

However, many believe further action is needed to address problems experienced by people moving onto Universal Credit. In an open letter to the Government in February 2019, a coalition of charities warns that urgent steps are needed to protect people and communities in poverty from the potential economic impact of Brexit, including ending the five-week wait at the start of a new claim for UC, which they argue is "simply too long to wait for families who have few or no savings".[20] They are calling on the Government to reduce the wait to two weeks.

Further information on the impact of Universal Credit on rent arrears and food bank usage can be found in Commons Library briefing CDP-2018-0221, Opposition Day Debate: Universal Credit, 16 October 2018.

Pension Credit – mixed age couples

Pension Credit is the main means-tested benefit for pensioners. Guarantee Credit tops up your weekly income if it's below £163 (for single people) or £248.80 (for couples). There are additional amounts which can apply if the claimant or their partner: has a severe disability; looks after a severely disabled person or has certain housing costs.[21]

People are eligible from State Pension age, which is rising from 65 in November 2018 to reach 66 by October 2020.[22] Individuals can check their State Pension age Gov.UK.

Until 15 May 2019, 'mixed age' couples (where one is over and one under qualifying age) have a choice as to whether to claim Pension Credit or Universal Credit. This is because the requirement to have reached Pension Credit qualifying age only applies to the claimant.[23]

The Coalition Government legislated in the *Welfare Reform Act 2012* to change the rules so that in future *both* partners would need to have reached qualifying age in order to claim.[24] The rationale was that:

> […] all people of working age who can work should be expected to do so and that it is not right to continue the current position where pension credit can go to households which contain a person of working age without that person having to meet any work-related requirements.[25]

20 Protecting people and places in poverty from the risks of a no-deal Brexit; see also Trussell Trust, Five weeks if too long to wait for Universal Credit – join the campaign, 8 February 2019
21 Gov.UK Pension Credit;
22 *State Pension Credit Act 2002*, s1; *Pensions Act 1995*, Sch 4
23 *State Pension Credit Act 2002*, s1; Gov.UK Pension Credit/eligibility; DWP, a detailed guide to Pension Credit for advisers and others, January 2019
24 *Welfare Reform Act 2012*, s31, Sch 2 (64). This amended section 4 of the *State Pension Credit Act 2002* (exclusions)
25 HC Deb 20 December 2011, c1091W

A written statement of 14 January 2019 announcement its implementation from May 2019 and explained the transitional protection arrangements:

> I set out to Parliament last year that this change would be implemented once Universal Credit was available nationally for new claims. Today I can confirm that this change will be introduced from 15th May 2019. The change is being brought into effect in Great Britain through a Commencement Order under the Welfare Reform Act 2012. There will be an equivalent Order to introduce the change for Northern Ireland.
>
> Couples with one partner under State Pension age who are already in receipt of Pension Credit or pension-age Housing Benefit at the point of change will be unaffected while they remain entitled to either benefit.[26]

The change was brought into effect by *The Welfare Reform Act 2012 (Commencement No. 31 and Savings and Transitional Provisions and Commencement No. 21 and 23 and Transitional and Transitory Provisions (Amendment)) Order 2019 (SI 2019/37)*.

The commencement order provides for transitional protection - covering people with entitlement to either Pension Credit or Housing Benefit for people of Pension Credit age at the point of change, and for this to continue while there is continuity of entitlement to either benefit.[27] Gov.UK explains:

> **Changes to Pension Credit eligibility from 15 May 2019**
>
> From 15 May 2019, if you're in a couple you'll only be eligible to start getting pension credit if either:
>
> - you and your partner have both reached Pension Credit qualifying age
> - one of you has reached Pension Credit qualifying age and is claiming Housing Benefit (for you as a couple)
>
> If you're not already getting Pension Credit on 14 May 2019, you can backdate your claim. You could still be eligible to get Pension Credit.
>
> You can ask for your claim to be backdated to 14 May or before. You'll need to apply by 13 August 2019 to do this.
>
> You can apply for Universal Credit instead if you're still not eligible
>
> **If you already get Pension Credit and you're in a couple**
>
> You'll continue to get Pension Credit after 15 May 2019. If your entitlement stops for any reason, for example your circumstances change, you cannot start getting it again until you (or your partner) are eligible under the new rules.
>
> **If you already get Pension Credit and you're single**
>
> From 15 May 2019, you'll stop getting Pension Credit if you start living with a partner who is under Pension Credit qualifying age.

26 Pensions Update: Written statement – HCWS1249
27 SI 2019/37

> You can start getting it again when your partner reaches Pension Credit qualifying age.[28]

The expected impact of the change was set out in a recent Parliamentary Written Answer:[29]

> Helen Hayes: To ask the Secretary of State for Work and Pensions, what estimate her Department has made of the savings for the public purse that will be made as a result of the changes to the claiming of pension credit by mixed age couples.
>
> Guy Opperman: The *Welfare Reform Act 2012* amended entitlement conditions for Pension Credit so as to require both members of a couple to have reached the qualifying age for Pension Credit before the couple can be entitled to it.
>
> The change will not affect mixed age couples who are entitled to Pension Credit and/or pension age Housing Benefit immediately before the implementation date unless their entitlement to both those benefits subsequently ends.
>
> An estimate of the number of mixed age couples who may be affected by the forthcoming changes to be introduced on 15 May 2019 is set out below:

Year	2019/20	2020/21	2021/22
	15,000	20,000	30,000

> The table below gives estimates of the effects on Annual Managed Expenditure (AME) of the changes to be introduced in May 2019 to the eligibility for Pension Credit and pension-age Housing Benefit of couples where one partner has reached state pension age and the other has not. The estimates relate to couples who are not in receipt of either Pension Credit or pension-age Housing Benefit at the point the changes are introduced. They include no estimate of behavioural effects, for example from job retention or increased saving for retirement.

Year	2019/20	2020/21	2021/22
	£45m	£130m	£220m

For more detail, see Library Briefing Paper CBP-8135 Pension Credit – current issues (Feb 2019).

Impact of Universal Credit

On 15 June 2018 the **National Audit Office (NAO)** published a report, Rolling out Universal Credit.[30] The NAO found that while some elements of Universal Credit were working well, with evidence of good relationships between work coaches and claimants, and significant improvements in systems since they were first introduced, some claimants had struggled to adjust to Universal Credit. It noted:

https://www.gov.uk/government/publications/universal-credit-full-service-claimant-survey

- Evidence from local and national bodies suggesting that a significant number of claimants had suffered difficulties and

[28] Gov.UK – Pension Credit/eligibility
[29] PQ 217672, 12 February 2019
[30] HC 1123 2017-19

hardship during roll-out of the Full Service, as a result of issues with the design of UC and its implementation.

- The Department had found it difficult to identify and track those it deemed vulnerable – it had not measured how many UC claimants were having difficulties because it does not have systematic means of gathering intelligence from delivery partners.

- DWP did not accept that Universal Credit has caused hardship among claimants, because of the availability of advances. However, its own survey of Full Service claimants published in June 2018 found that four in ten claimants surveyed were experiencing financial difficulties.

- One in five claimants do not receive their full payment on time. Around 113,000 new claims were paid late in 2017, approximately 25% of all new claims. On average these were paid four weeks late.

- Universal Credit is creating additional costs for local authorities and other organisations that help administer Universal Credit and support claimants. The Department had acknowledged and compensated local authorities for some additional costs, but had placed the burden of proof on local authorities to prove them and had not sought to systematically collect data on these wider costs.

- Organisations told the NAO that DWP had been "unresponsive" to issues they had raised.

NAO noted that the DWP's Full Business Case for Universal Credit (a summary of which was published on 7 June 2018) stated that the Department expects UC eventually to deliver £8 billion of net benefits of year, but added that this "depends on some unproven assumptions." NAO had "significant doubt" about the main benefits of UC. It pointed out:

- It is not known whether the employment impact identified in early evaluations can be replicated across the programme.

- It is not clear that UC will cost less to administer than existing benefits.

- DWP does not know whether UC is reducing fraud and error.

The NAO stated that "The Department will never be able to measure whether Universal Credit actually leads to 200,000 more people in work, because it cannot isolate the effect of Universal Credit from other economic factors in increasing employment."[31]

The NAO's overall conclusion on value for money was that:

> 17 We think that there is no practical alternative to continuing with Universal Credit. We recognise the determination and single-mindedness with which the Department has driven the programme forward to date, through many problems. However, throughout the introduction of Universal Credit local and national organisations that represent and support claimants have raised a number of issues about the way Universal Credit works in practice. The Department has responded to simple ideas to

[31] Executive Summary, para 16

> improve the digital system but defended itself from those that it viewed as being opposed to the policy in principle. It does not accept that Universal Credit has caused hardship among claimants, because it makes advances available, and believes that if claimants take up these opportunities hardship should not occur. This has led it to often dismiss evidence of claimants' difficulties and hardship instead of working with these bodies to establish an evidence base for what is actually happening. The result has been a dialogue of claim and counter-claim and gives the unhelpful impression of a Department that is unsympathetic to claimants.
>
> 18 The Department has now got a better grip of the programme in many areas. However, we cannot judge the value for money on the current state of programme management alone. Both we, and the Department, doubt it will ever be possible for the Department to measure whether the economic goal of increasing employment has been achieved. This, the extended timescales and the cost of running Universal Credit compared to the benefits it replaces cause us to conclude that the project is not value for money now, and that its future value for money is unproven.

The NAO report noted that the DWP was now approaching the task of migrating existing benefit and tax credit claimants to Universal Credit and that, after that, UC needed to provide the basis for future development and refinement of working age benefits. To succeed, NAO believed that DWP "must ensure its flexible approach to delivery helps it learn from its own experiences, those of claimants, and those who support them." It recommended that the Department (Executive Summary, para 19, original emphasis):

> **Improve the tracking and transparency of progress towards Universal Credit's intended benefits**. It should set out clearly how it calculates those benefits and encourage third parties to review and monitor assumptions. The Department should assess the impact of Universal Credit on third parties and include this in its calculation and budgeting of the implementation costs.
>
> **Ensure that operational performance and costs improve sustainably before increasing caseloads through managed migration**. It should formally assess the readiness of automation and digital systems to support increased caseloads before migration begins, and ensure the programme does not expand before business-as-usual operations can cope with higher claimant volumes.
>
> **Work with delivery partners to establish a shared evidence base for how Universal Credit is working in practice**. The Department needs to ensure that delivery partners' feedback on both implementation issues and the impact on claimants is considered alongside the existing feedback from frontline staff and programme managers. It needs to systematically collect, analyse and publish data and evidence from delivery partners and produce a shared understanding of what is happening on the ground and how it is addressing any issues raised.
>
> **Make it easier for third parties to support claimants**. This might include:
>
> 1. extending the concept of the landlord portal to simplify verification processes (for example, for childcare costs);

2. sharing, with the claimant's consent, appropriate information with third parties, such as information on additional support requirements;
3. allowing the bulk upload and download of information helpful to the support of claimants, such as changes in rent; and
4. allowing those supporting claimants access to a version of the journal through which they can view appropriate shared information and communicate with the Department

The **Office for Budget Responsibility (OBR)** estimates that, taking into account measures announced in Budget 2018 including the increased work allowances, when fully introduced Universal Credit will have a marginal cost to the Exchequer, compared with the "legacy" benefits it replaces – in other words, UC will cost more than the existing system.[32]

However, the overall marginal cost of Universal Credit masks gains and losses within the population affected by UC. Research published by the **Joseph Rowntree Foundation (JRF)** on 20 February 2019[33] suggests that UC is likely to reduce the number of people in poverty in working families by 300,000, but increase the number of people in out-of-work families in poverty by 200,000. While JRF estimates that 5.5 million people in poverty should see increases to their income, the majority in working families; However, 3 million people in poverty – the majority also in working families – will see their incomes reduced. While acknowledging that the Government has made changes to UC which mean it has the potential to substantially raise the incomes of millions of people in poverty, JRF argues that changes have not gone far enough. It believes that "more and faster improvements" must be made to the design, funding and delivery of UC, otherwise there "continues to be a high risk that UC will fail to realise its potential and even increase hardship for some of those moving on to it in 2019 and beyond."[34]

In a separate report published in February 2019, **Citizens Advice** argues that the changes announced since 2017 to ease the transition to Universal Credit have "only made a dent in the problem rather than fixed it."[35] It recommends further "significant reform" of the system including

- making sure people can access adequate financial support at the beginning of their claim and looking to improve UC design to reduce the wait;
- ensuring UC provides enough to live on by reviewing how benefit rates are set and ensuring deductions are manageable; and

32 OBR, Economic and Fiscal Outlook, Cm 9713, October 2018, paras 4.130-4.137
33 JRF, Briefing: where next for Universal Credit and tackling poverty?; see also Helen Barnard, Where next for Universal Credit and tackling poverty?
34 Ibid. p1
35 Frank Hobson, Emily Spoor and Lindsey Kearton, Managing Money on Universal Credit: How design and delivery of Universal credit affects how people manage their money, February 2019

- helping people to budget by designing UC around "real lives", providing greater flexibility in how it is paid and income is assessed.

Further information

Commons Library, Constituency data: Universal Credit roll-out, updated 20 February 2019

Commons Library briefing CBP-8299, Universal Credit roll-out: 2018-19, 14 June 2018

Commons Library Debate Pack CDP-2018-0221, Opposition Day Debate: Universal Credit, 16 October 2018

Commons Library Debate Pack CDP-2018-0278, Backbench Business Debate: Impact of Changes to Disability Support, 18 December 2018

Commons Library briefing CBP-6547, Housing costs in Universal Credit, 3 January 2019

Commons Library briefing CBP-8494, Universal Credit and the Severe Disability Premium, 18 February 2019

Work and Pensions Committee, Universal Credit inquiry reports, evidence and memoranda

2.2 Personal Independence Payment

Personal Independence Payment (PIP) is replacing Disability Living Allowance (DLA) for people of working age. Like DLA, PIP is non-means-tested and is intended to help with the extra costs arising from ill health or disability. It has two components: a **mobility** component, based on an individual's ability to get around; and a "**daily living**" component, based on ability to carry out various day to day activities. Each component has two rates.

PIP was introduced for new claims from April 2013, and DWP is reassessing all existing working age DLA claimants for the benefit. Young people in receipt of DLA are also reassessed for PIP when they reach 16.

The 2010 Government believed that Personal Independence Payment would have certain advantages over Disability Living Allowance:

- It would target support more closely on those most in need of support
- It would be more responsive as claimants' circumstances change
- It would be based on a fairer, more transparent and consistent assessment of need
- It would be easier for claimants, DWP staff and disability organisations to understand[36]

[36] National Audit Office, Personal Independence Payment: early progress, HC 1070 2013-14, 27 February 2014, para1.5. See also Commons Library briefing SN05869, Disability Living Allowance reform

The **PIP assessment** is intended to provide "a more holistic assessment of the impact of a health condition on an individual's ability to participate in everyday life." It covers sensory impairments, developmental needs, cognitive impairments and mental conditions, as well as physical disabilities. PIP was intended to target support more closely on those most in need and significantly fewer people were expected to qualify for PIP than would have qualified for DLA, but the Office for Budget Responsibility has shown that PIP will not in fact deliver savings relative to DLA. In its latest January 2019 Welfare trends report, the OBR observes that while the Coalition Government assumed initially that PIP would ultimately cost 20% less than DLA would have done, by 2017-18 it was in fact costing around **15-20% more**, with rollout only around two-thirds complete.

The Department for Work and Pensions is responsible for handling claims for PIP and making decisions on entitlement to benefit. Contracted assessment providers are however a key element in the claims process. **Atos Healthcare** holds the contracts for undertaking assessments in Northern England and Scotland; and in London and Southern England. **Capita Business Services Ltd** holds the contracts covering Wales and Central England; and Northern Ireland.[37] These are separate from the contract under which Maximus assesses ESA claimants.

At October 2018 just under 2 million people in Great Britain were receiving PIP. By the end of October 2018, 1,227,000 DLA claimants had been reassessed for PIP. Of those:[38]

- 482,000 (39%) had their benefit increased
- 169,000 (14%) received the same amount as before
- 268,000 (22%) were awarded PIP but with a decreased award
- 253,000 (21%) were not awarded PIP following an assessment
- 49,000 (4%) were disallowed PIP before the assessment
- 8,000 (1%) withdrew their PIP claim

In total therefore, 47% of DLA claimants who registered a claim for PIP received a lower level of award or no award. However, of those who registered a claim, 349,000 (28%) were awarded PIP at the highest rate (i.e. enhanced rate daily living and mobility components). This is a higher proportion than under DLA. Of the DLA claimants who were reassessed for PIP, 191,000 (16%) were receiving the highest rate (higher rate care and higher rate mobility).

Claimants whose main disabling conditions were psychiatric disorders accounted for 36 per cent of DLA reassessments (445,000) but around 50 per cent of disallowances (153,000). The overall disallowance rate for claimants with psychiatric disorders was around 34 per cent.[39]

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[37] For further information on PIP see Commons Library briefing CDP-2018-0020, Claimant experience of the Personal Independence Payment process, 30 January 2018

[38] DWP, Personal Independence Payment: Official Statistics, 11 December 2018

[39] DWP, Personal Independence Payment: April 2013 to October 2018, PIP: DLA to PIP reassessment outcomes, October 2018, table 1D; and HoC Library calculations based

PIP mobility component and psychological distress

In March 2017 the DWP introduced regulations to reverse the effect of two Upper Tribunal judgments relating to the PIP eligibility criteria.[40] The most significant change made by the regulations was to tighten the rules on access to the mobility component for people unable to undertake journeys due to "overwhelming psychological distress." This would potentially affect people with a wide range of conditions including learning disability. Disability organisations called on the Government not to proceed with the changes. Some questioned how the changes fit with the Government's stated commitment to "parity of esteem" between physical and mental health issues.

In its judgment on 21 December 2017 in *RF v the Secretary of State for Work and Pensions & Others*,[41] the High Court ruled that the regulations introducing the March 2017 changes were unlawful because they discriminate against people with disabilities in breach of *Human Rights Act 1998* obligations, and declared that the Secretary of State did not have lawful power to make the regulations (i.e. they were "ultra vires'") and should have consulted before making them. In January 2018 the Government announced[42] that it would not contest the High Court's decision, and that it would also drop its appeal against the original Upper Tribunal decision that had prompted the change to the regulations.[43] The Secretary of State for Work and Pensions said that her Department would now "take all steps necessary to implement the judgment in MH in the best interests of our claimants, working closely with disabled people and key stakeholders over the coming months."

The DWP is reviewing all 1.6 million existing PIP awards, and PIP claims submitted since the original Upper Tribunal judgment in November 2016, to see who could be affected. On 25 June 2018 the Government announced that the review was underway and that new guidance required to implement the change had been published.[44] Further details of the review process are given in a Deposited Paper.[45]

It is expected that the review will result in around 25,000 claimants by 2022-23 receiving a PIP award who would not have done so otherwise and around 165,000 receiving a higher award than would otherwise have been the case.[46]

PIP assessments

on this. See also Commons Library Debate Pack CDP-2019-0005, Mental health and the benefits assessment process, 21 January 2019

40 For background to these changes see Commons Library briefing CBP-7911, Changes to the Personal Independence Payment eligibility criteria.

41 [2017] EWHC 3375 (Admin)

42 Written Statement HCWS414

43 *MH v Secretary of State for Work and Pensions* [2016] UKUT 0531 (AAC)

44 Written Statement HCWS793

45 DWP, PIP: Implementation of legal judgments: FAQs, DEP2018-0644

46 Office for Budget Responsibility, Economic and fiscal outlook, March 2018, para 4.112

Disability bodies have long voiced concerns about the assessment processes for both incapacity and disability benefits.[47] In its report on PIP and ESA assessments published on 7 February 2018[48], the Work and Pensions Committee said that failings in the assessment and decision making processes for PIP and for ESA had resulted in the "pervasive lack of trust" that risked undermining the entire operation of both benefits. It set out a series of recommendations including:

- recording face to face assessments and providing a record and a copy of the assessor's report to claimants;
- measures to improve understanding about what constitutes good evidence to support PIP and ESA claim, and ensuring assessors use evidence effectively;
- improving the accessibility of the process at every stage, from the application form, to information about home visits and about accessing reconsiderations and appeals; and
- improving contractor performance through more effective use of contractual "levers" and ensuring assessors are given feedback, including from the appeals process.

In its response to the Committee's report issued on 23 April, the Government made a number of commitments including:

- Producing an Easy Read version of the notes which accompany the PIP "How your disability affects you" form.
- Launching a series of videos which outline the PIP claim process in a simple and clear way, and explain the types of relevant information that are useful in support of a claim, in order to better prepare claimants for an assessment. The PIP assessment providers also supply information to claimants ahead of their assessment appointment via their websites and direct mail sent to the claimant.
- Addressing improvements to application forms by commissioning external research to identify whether, how and what aspects of the PIP (and ESA) claim forms could have the potential to cause distress; revising and amending the forms in light of these findings; and testing the revised forms with applicants to determine if improvements made result in the forms being more claimant-friendly and less likely to cause distress. This work would commence in summer 2018.
- Working closely with the PIP assessment providers around requests for home visits to ensure their processes align with guidance and claimant needs are being met.
- Working with PIP providers to enhance GP engagement – all providers to foster a greater level of engagement and source information from a broader range of health and social care professionals.

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47 72% of PIP appeals cleared by HM Courts and Tribunals Service between July and September 2018 found in favour of the claimant – see HMCTS, Tribunals and gender recognition certificate statistics quarterly: July to September 2018, 13 December 2018. The DWP points out however that of the 3.5 million PIP decisions made since the benefit was introduced, only 9% have been appealed and 4% have been overturned at tribunals – see PQ 202717 [on Personal Independence Payment: Appeals], 21 December 2018

48 HC 829 2017-19

- Pilot enhancements to the PIP telephony script to remind claimants to submit medical evidence and the types of evidence that are useful.
- The Department recognises that the complexity and potential costs of recording makes it difficult for claimants—of PIP especially—to record their assessment. It intends "to make recording the PIP assessment a standard part of the process". The Department would explore "potential options to test the recording of assessments, including video recording."
- Gathering more information on companions accompanying claimants to PIP assessments. In recognition of the fact that a family member, friend, carer or other advocate to support claimants in the assessment, and can be "particularly helpful where a claimant has a mental, cognitive or intellectual impairment and may not be able to give an accurate account of their daily living and mobility needs." DWP will consider how assessments where companions attend with claimants can be specifically examined in audit.

In a written statement on 5 June 2018, the Government announced further measures to "improve the experience" of those claiming PIP, including looking at how to enable more providers to deliver PIP by developing a DWP-owned IT system.[49]

Further information

Commons Library Debate Pack CDP-2018-0278, Backbench Business Debate: Impact of Changes to Disability Support, 18 December 2018

Commons Library Debate Pack CDP-2019-0005, Mental health and the benefits assessment process, 21 January 2019

Office for Budget Responsibility, Welfare trends report, January 2019

2.3 Employment and Support Allowance

Employment and Support Allowance (ESA) replaced incapacity benefits for new claimants from 27 October 2008. It has replaced Incapacity Benefit, the Severe Disability Allowance, and Income Support for people judged incapable of work.[50] There are two types of ESA:

- contributory ESA, for those with a sufficient National Insurance contribution record; and
- income-related ESA, which is means-tested

In 2018-19, 2.15 million people in Great Britain claim ESA of whom:

- 412,000 receive contributory ESA only
- 412,000 receive contributory ESA with a top-up of income-related ESA
- 1,189,000 receive income-related ESA only

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49 Written Statement HCWS733

50 The DWP began reassessing existing working-age IB, SDA and Income Support claimants for ESA in 2011

- 138,000 are claiming ESA only to receive National Insurance credits ("credits only ESA")[51]

DWP estimates that in 2018-19 expenditure on contributory ESA will total £4.6 billion, and expenditure on income-related ESA £10.6 billion.[52] Income-related ESA will ultimately be replaced by Universal Credit.

Eligibility for ESA is determined by the Work Capability Assessment (WCA). Claimants are assessed to determine whether they have a "limited capability for work", and also whether they are capable of engaging in "work-related activity." This second part of the assessment determines whether the person is placed in the "Support Group" or the "Work-Related Activity Group" (WRAG). **Maximus** – which operates as the Health Assessment Advisory Service – holds the contract to undertake assessments for the Department for Work and Pensions, but the decision on entitlement to ESA and on the relevant group is ultimately one for a DWP "Decision Maker."

ESA claimants in the Support Group are not required to undertake any activities as a condition of receiving their benefit. For claimants placed in the WRAG, access to the full rate of benefit may be conditional on participation in Work-Focused Interviews and undertaking work-related activity. "Work-related activity" is activity that makes it more likely that the person will get a job or remain in work. The exact activity is at the discretion of the work coach, and could include a wide range of activities such as skills training, drawing up a CV, work placements, or work experience (although the latter is voluntary). Any requirement must be "reasonable," taking into account the person's circumstances. A person cannot be required to apply for a job, undertake work or undergo medical treatment. All work-related activity must be recorded in an "action plan," which must be in writing and specify the activity the claimant is required to undertake.

As a result of measures in the Welfare Reform and Work Act 2016, the additional Work-Related Activity Component (WRAC) worth £29.05 a week payable to ESA claimants in the Work-Related Activity Group – and the equivalent element in Universal Credit – was abolished for new claims from April 2017. The changes were introduced to "remove the financial incentives that could otherwise discourage claimants from taking steps back to work". The changes were widely criticised by disability charities. The idea that the WRAC incentivises claimants to not look for work has been particularly disputed.[53] Alongside the changes, the Government promised a package of measures to provide additional help people with health conditions and disabilities get into work.

51 DWP, Benefit expenditure and caseload tables 2018: Autumn Budget 2018, last updated 21 November 2018
52 Supplementary Estimate 2018-19: Select Committee Memorandum, January 2019
53 See Commons Library briefing CBP-7649, Abolition of the ESA Work-Related Activity Component, 7 March 2017

Further details were given in the November 2017 policy document Improving Lives: The Future of Work, Health and Disability.[54]

ESA underpayments

The DWP began reassessing incapacity benefit claimants for ESA in 2011. It subsequently emerged that in some of these "transfer cases" the Department had failed to consider entitlement to income-related ESA, leading to claimants being underpaid. A typical example would be where a claimant on Incapacity Benefit was transferred to contributory ESA only, but – e.g. because of eligibility for a disability premium – they were also entitled to income-related ESA. The DWP did not recognise the problem as systemic until 2014, when it agreed to classify such cases as official error. In December 2017 the DWP announced that it would be reviewing cases to see who had been underpaid.[55]

Both the National Audit Office and the Public Accounts Committee published reports on the DWP's errors and its response to them.[56] The PAC was particularly scathing, describing the situation as "unacceptable and entirely avoidable" stemming from "multiple failures on the part of the Department."[57]

The Government initially said that it would only make backdated payments to people affected to 21 October 2014 – the date of an Upper Tribunal decision it claimed first established that it was making the wrong decisions. The Child Poverty Action Group issued judicial review proceedings challenging the decision of the DWP to limit backdated payments to people who had been underpaid when they transferred to ESA, and in July 2018 the Government said it would fully backdate payments to all those affected.[58]

The Department gave an update on progress in reviewing ESA awards in a written statement on 21 February 2019.[59] In total, around 570,000 cases are to be reviewed. DWP expects to complete the checking of "the majority" of around 320,000 cases by April 2019 (Phase 1). This phase also includes reviewing 20,000 cases where the claimant has died. Phase 2 will involve checking a further 250,000 cases; the department expects this will be completed by the end of 2019.

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54 Cm 9342; see also Commons Library briefing CBBP-7540, People with disabilities in employment, 29 June 2018

55 Written Statement HCWS356, 14 December 2017

56 NAO, Investigation into errors in Employment and Support Allowance, HC 837 2017-19, 21 March 2018; PAC, Employment and Support Allowance, HC 975 2017–19, 18 July 2018

57 Ibid, Summary; see also the PAC press release, "Thousands of claimants failed by DWP 'culture of indifference'", 18 July 2018

58 Written Statement HCWS877, 18 July 2018. For further information see Incapacity benefit to employment and support allowance and backdated payments at the CPAG website (last updated 13 August 2018), and their press release issued in response to the Government's announcement, CPAG legal action leads to full arrears for disabled claimants

59 Written statement HCWS1348; see also DWP, Research and analysis: February 2019: ESA underpayments: forecast numbers affected, forecast expenditure and progress on checking, updated 21 February 2019; and Employment and Support Allowance underpayment FAQs, DEP2019-0252

The latest forecast is that by the end of the exercise around 210,000 arrears payments will be made totalling £920 million. On average, the Department estimates that affected individuals could be due around £4,000 in arrears (rounded to the nearest £1,000).

2.4 Benefits freeze

Most working-age benefits and tax credit elements are subject to a **four-year freeze**, covering the period 2016/17 to 2019/20. This follows a three-year period (2013/14-2015/16) when increases were limited to 1%.[60]

The four-year freeze was announced in the 2015 Summer Budget and legislated for by the Welfare Reform and Work Act 2016 (section 11). The Government said that since 2008's financial crisis most benefits had risen by 21% compared to a rise in average earnings of 11% and that the freeze was necessary "*to ensure it always pays to work*".[61]

The four-year freeze keeps affected benefits and tax credit elements at the same cash amount as in 2015/16. The freeze does not include disability/carer benefits and premiums, statutory payments and the Support component of Employment and Support Allowance (payable to those with the severest work-limiting conditions).

The benefits that are frozen include:

- Jobseekers' Allowance
- ESA personal allowances and work-related activity component
- Income Support
- Child and Working Tax Credit (non-disability-related elements)
- Housing Benefit Local Housing Allowances (LHA)
- The equivalents of the above in Universal Credit
- Child Benefit

Benefits payable to working-age recipients that are not frozen include:

- Maternity Allowance
- Statutory Sick Pay
- Statutory Maternity, Paternity and Shared Parental Pay
- Statutory Adoption Pay
- Disability, carers and pensioner premiums
- Other disability, carers and pensioner benefits
- Employment and Support Allowance (ESA) Support component

The effect of the four-year freeze

If, instead of being frozen, benefits had been uprated in line with the September CPI rate, these payments would have been uprated by:

- **0.0%** in **2016/17** (CPI was -0.1% in the relevant period, so benefits would not have gone up anyway)
- **1.0%** in **2017/18**

[60] Announced at Budget 2013
[61] Summer Statement 2015 para 1.137

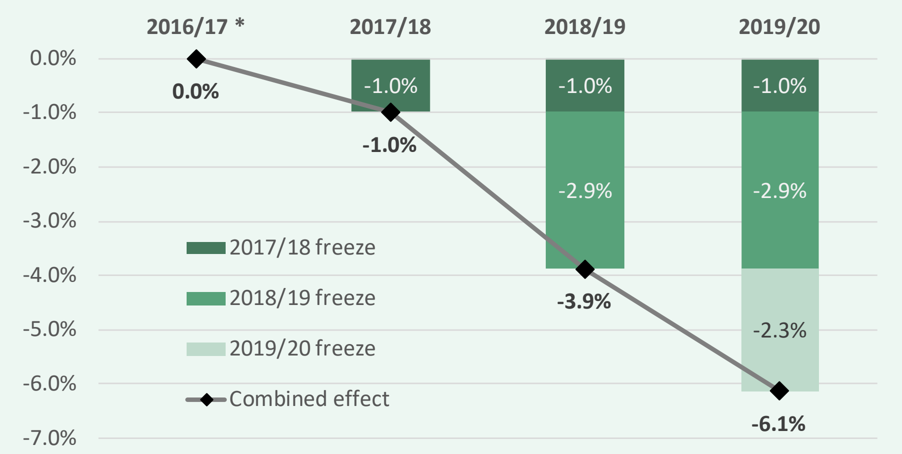
- **3.0%** in **2018/19**
- **2.4%** in **2019/20**.

Cumulatively, if there had been no four-year freeze and affected benefits had been allowed to rise in line with CPI, affected benefits would have risen by 6.5% in nominal terms by 2019/20 compared with 2015/16.

The converse way of expressing this is that benefit/tax credit rates in 2019/20 **are worth 6.1% less** than if the freeze had not been introduced (see the chart below).

The four-year benefits freeze means that benefit amounts will be 6.1% lower in 2019/20 than if the freeze had not been introduced

Comparison of nominal value of uprateable benefit and tax credit rates with what they would have been in each year if subject to normal CPI indexation



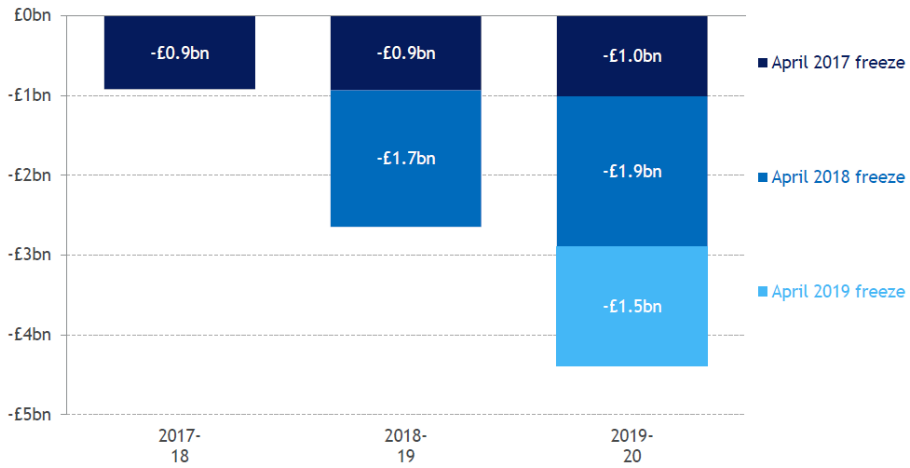
Source HoC Library calculation based on ONS Consumer Price Index.
* **Note** The first year of the freeze was 2016/17, but the relevant CPI uprating benchmark for 2016/17 was -0.1%, meaning that benefits would not have been uprated in that year anyway.

How much does the four-year freeze save the Exchequer?

The Resolution Foundation has estimated that the **fourth year of the freeze alone** saves the Exchequer **£1.5 billion** in **2019/20**. This comes on top of £2.9 billion of savings resulting from years two and three of the freeze, meaning that the **total in-year saving in 2019/20 resulting from the four-year freeze is £4.4 billion** (compared with a counterfactual of CPI uprating over the whole period).[62]

Resolution Foundation estimates of government savings resulting from the four-year freeze (nominal)

[62] Resolution Foundation (20 February 2019) The Living Standards Outlook 2019, page 20



Source: Resolution Foundation (Feb 2019) The Living Standards Outlook 2019 figure 7. RF analysis using the IPPR tax-benefit model.

At the 2016 Budget the Treasury forecast that the four-year freeze would achieve an annual saving of £3.5 billion by 2019/20.[63] The increase in the saving estimate for 2019/20 is in large part due to CPI inflation for the period 2016-18 turning out higher than originally forecast in 2016.[64]

2.5 Benefit cap

The benefit cap was introduced by the Coalition Government in 2013. It limits the maximum amount in benefits a household can receive. When originally introduced the cap was £500 a week (£26,000 a year) for a family, and £350 a week (£18,200 a year) for a single person. The 2015 Conservative Government lowered the benefit cap threshold from £26,000 for a family and £18,200 for a single person, to £23,000 in London (£15,410 for a single person) and £20,000 (£13,400 for a single person) elsewhere in the UK. The DWP estimated that the new lower benefit cap would affect 88,000 households, compared with around 20,000 under the previous policy. Around a third of the affected households were expected to be in London or the South East, although the cap has – for the first time – affected substantial numbers of households in other parts of Great Britain. Critics said that the lower cap was unlikely to incentivise people to move into work, and would have a significant negative impact on families. Social landlords, whose tenants are heavily reliant on Housing Benefit to meet their rent commitments, were concerned that a lower benefit cap would render a substantial number of their homes, particularly those let on affordable rents, unaffordable in London and the South East. In turn, they argued that an insecure rental stream could have implications for attracting private funding for the development of new affordable housing.

[63] HM Treasury, Budget 2016, red book table 2.2 line as.

[64] In its March 2016 Economic and Fiscal Outlook (table 4.1), the Office for Budget Responsibility forecast that CPI inflation for uprating purposes would be 0.6% for 2017/18, 1.6% for 2018/19 and 2.1% for 2019/20. The actual figures for these years were 1.0%, 3.0% and 2.4% respectively.

Further details are given in Commons Library briefing SN06294, The Benefit Cap, 23 November 2016.

The latest statistics on the numbers affected by the benefit cap can be found in the DWP statistical bulletin Benefit Cap: number of households capped to November 2018. Over 62,000 households had their benefits capped at November 2018, and nearly 220,000 households have been subject to the benefit cap since its introduction in April 2013. 74% of households that had their Housing Benefit capped at November 2018, and 60% of those who had their Universal Credit capped, were single parent families.

On 3 August 2018 the Work and Pensions relaunched its inquiry into the benefit cap (which had been interrupted by the 2017 General Election). The inquiry is seeking to establish to what extent the benefit cap is achieving its stated aims of incentivising behavioural change amongst claimants and securing savings for the Exchequer. Further information on the inquiry and links to oral and written evidence received can be found on the Committee's Benefit Cap inquiry home page.

2.6 Two-child limit

As a result of measures first announced in the Conservative Government's Summer Budget in 2015, the per child element in Child Tax Credit and in Universal Credit was limited to two children for new claims and births from 6 April 2017. The Government justified this on the grounds that families in receipt of means-tested benefits "should face the same financial choices about having children as those supporting themselves solely through work." Around 800,000 families with three or more children currently receive tax credits.[65] The two-child limit is expected to eventually yield savings of around £3 billion a year.[66] There are limited exceptions to the rule, including where children are born as a result of "non-consensual conception."[67]

The first statistics on the impact of the policy were published in June 2018.[68] 73,530 households were affected by the two-child limit policy at 2 April 2018, of whom:

- 70,620 households were not receiving a child element or amount for at least one child; and
- 2,900 households were covered by an exception to the policy

Of the affected households:

- 9% were classified as in-work; and
- 62% contained two adults

65 HMRC, Personal tax credits: provisional statistics, 31 January 2019
66 IFS Observations, Significant cuts to two parts of the benefit system to be phased in from next week, 30 March 2017
67 Detailed information on how the two-child limit applies can be found at the Child Poverty Action Group website – see Ask CPAG Online - the two-child limit
68 DWP and HMRC, Child Tax Credit and Universal Credit claimants: statistics related to the policy to provide support for a maximum of 2 children, April 2018

And of the households covered by an exception:

- 2,440 (84%) were covered by a multiple birth exception;
- 270 (9%) received an exception for non-parental care; and
- 190 households (7%) had an exception for "non-consensual conception"

The number of families affected by the two-child limit will however increase sharply over the next few years. The Child Poverty Action Group and the Church of England estimate that by 2020-21 the two-child limit will affect around 640,000 families including around 2 million children.[69]

Changes to the policy

From 28 November 2018, an additional exception to the two-child rule was introduced for certain families looking after children under kinship care arrangements, or who have adopted a child. This was in response to the High Court's judgment on 20 April 2018 in the case of *SC & Ors v Secretary of State for Work And Pensions & Ors* [2018] EWHC 864 (Admin). Previously, a child element was available to three children if the family had two biological children and then took on a child in kinship care, but not if the child in kinship care arrived first.[70]

The case was brought by the Child Poverty Action Group (CPAG). In its judgment, the High Court did not accept CPAG's wider challenge to the lawfulness of the two-child rule as breaching fundamental human rights to private and family life and to non-discrimination. CPAG did not agree with the judge's findings in this regard and a substantive challenge to the two-child policy is now being appealed to the Court of Appeal. The hearing took place on 19 and 20 December 2018 and the judgment is awaited.[71]

The two-child limit initially only applied where a third or subsequent child was born after the policy was introduced (6 April 2017). From February 2019 however, it was to have applied in certain circumstances to some children who were born before 6 April 2017. In a speech on 11 January, the Secretary of State for Work and Pensions, Amber Rudd, said that her Department has looked again carefully at this issue and had concluded that it "would not be right and therefore they will be entitled to support for any children born before 6 April 2017, the date that the policy was introduced."[72] The two-child policy remains however for children born after this date. The Secretary of State said:

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69 CPAG and the Church of England, Unhappy Birthday! The Two-Child Limit at One Year Old, April 2018

70 See CPAG, High court finds two-child rule exception perverse, 20 April 2018; Extending support in Universal Credit and Child Tax Credit: Written statement - HCWS653, 27 April 2018; and More support for non-parental carers, DWP press release, 27 April 2018

71 See CPAG, Two child limit challenge, 14 December 2018

72 DWP, Speech delivered by the Secretary of State for Work and Pensions at Kennington jobcentre about the future of Universal Credit, 11 January 2019

> Most families make a conscious decision about how many children they have, considering in part their income and the additional costs each child will bring. I think it is fair that those on welfare are asked to make the same considered decision as other taxpayers, who support themselves solely through work. So I believe it was right to limit the number of children for whom support can be provided through Universal Credit – funded by the taxpayer.[73]

Further information

Commons Library briefing CBP-7935, The two child limit in tax credits and Universal Credit, 10 April 2017

Jonathan Bradshaw, Why the two-child policy is the worst social security policy ever, Social Policy Association 50th Anniversary Blog Series No 3, 1 November 2017.

Kirsty McKechnie, Two-child limit: one year on, CPAG Welfare Rights Bulletin, Issue 263, April 2018.

CPAG and the Church of England, Unhappy Birthday! The Two-Child Limit at One Year Old, April 2018.

Letter to The Times from faith leaders expressing concern about the consequences of the two-child limit policy for children and families, 6 April 2018

2.7 Auto-enrolment

From October 2012, the Government started to phase-in the "work-place pension reforms". These are new duties on employers to automatically enrol workers into, and contribute to, a workplace pension saving scheme. Workers covered by the rule are those who:

- are not already in a workplace pension scheme;
- are between age 22 and State Pension age; and
- earn more than a minimum earnings threshold (£10,000 since 2015/16).[74]

The reforms were phased-in by employer size (number of employees) between October 2012 and February 2018.[75]

Workers can choose to opt out. Where they remain in the scheme, minimum contributions must be made on a band of "qualifying earnings." The statutory minimum contribution – once fully phased-in, from April 2019 - is 8% of a band of "qualifying earnings": 3% from the employer; 4% from the employee and 1% tax relief.[76] In 2018/19,

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73 Ibid.

74 *Pensions Act 2008*, s1 and 3

75 Impact Assessment – Employers' Duties (Implementation) (Amendment) Regulation 2012, p18

76 *Pensions Act 2008*, s20

the qualifying earnings band is from £6,032 to £46,350 – in line with the National Insurance lower and upper earnings limits.[77]

People who do not have to be auto-enrolled (for example, because they earn below £10,000), can opt in and (provided they are between age 22 and State Pension age) receive the minimum employer contribution on qualifying earnings.[78]

Automatic enrolment has reversed the decline in workplace pension saving. Latest figures show that more than 10 million workers have been automatically enrolled into workplace pension by more than 1.4 million employers. By 2019/20 an estimated extra £18.4 billion a year is estimated to go into workplace pensions as a result of auto enrolment.[79] Overall, workplace pension participation increased from 55 per cent of eligible employees in 2012 to 84 per cent in 2017.[80]

Although the policy is widely viewed to have been a success, there are still around 12 million people thought to be under saving for retirement.[81] Key concerns are the design of the policy as it relates to low earners and whether minimum contribution rates are high enough.

Low earners

The 2017 review of auto-enrolment said that, despite gains in participation levels, some workers saw more limited benefits from auto-enrolment:

- Workers who earn more than £10,000 a year in a job are automatically enrolled, but because their contributions are calculated from the bottom of the qualifying earnings band (£5,876) in each job, they will miss out on a potentially significant contribution, and possibly more than once.
- Non-eligible jobholders who earn £10,000 a year or less in each of their jobs do not qualify for automatic enrolment, even if their combined earnings exceed £10,000.
- Entitled workers who earn at or below the Lower Earnings Limit (LEL) in each of their jobs are not necessarily entitled to an employer contribution even if they opt-in.
- Younger workers aged 18 to 21 currently miss out on automatic enrolment because the lower age limit of 22 was based on previous National Minimum Wage (NMW) criteria which were subsequently superseded in 2010.[82]

To address this, the Government proposed changing the framework for auto-enrolment, so that pension contributions would be paid from the first pound earned:

77 draft *Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2019;* DWP, Review of the Automatic Enrolment Earnings Trigger and Qualifying Earnings Band for 2019/20: Supporting Analysis, December 2018
78 *Pensions Act 2008*, s1 and 3 and 7(3); The Pensions Regulator, Auto—enrolment - Detailed guidance for employers, vol 5, para 56; vol 6, appendix A;
79 PQ 2019503, 19 February 2019
80 DWP, Pensions dashboard – working together for the consumer, Cm 7917, December 2018
81 Ibid
82 DWP, Automatic enrolment review 2017 – maintaining the momentum, December 2017

- We want to help lower earners build their resilience for retirement; to support individuals, predominantly women, in multiple part-time jobs; and to further simplify automatic enrolment for employers. We propose to change the framework for automatic enrolment so that pension contributions would be calculated from the first pound earned, rather than from the lower earnings limit, currently set at £5,876.
- Removing the lower earnings limit simplifies messaging: everyone earning over £10,000 and under £45,000 a year (who meet the other eligibility rules) would be automatically enrolled by their employer and get pension contributions on 8 per cent of all their earnings. Those earning at or below £10,000 would not be automatically enrolled, however if they opt in they would also benefit from pensions contributions on 8 per cent of all their earnings. The change to how contributions are calculated would also improve the incentives for those in multiple jobs to opt-in to their workplace pension scheme, as they would benefit from an employer contribution for every pound they earn in every job, up to the upper earnings limit (currently set at £45,000).[83]

It would also reduce the minimum age for auto-enrolment from 22 to 18. Its ambition was to implement its proposed changes in the mid-2020s, subject to consultation:

> Our ambition is to implement these changes to the automatic enrolment framework in the mid-2020s, subject to discussions with stakeholders on the implementation approach during 2018/19, finding ways to make these changes affordable, and evidence of the impact of the increases in statutory minimum contribution rates in April 2018 and April 2019.
>
> We recognise that employers and other delivery partners need time to plan for these changes so that they can manage costs with certainty and will ensure that before any changes are made to automatic enrolment, we have full discussions with stakeholders, followed by formal consultation in due course. Our overall approach is intended to provide employers and delivery partners (including small and micro employers, payroll practitioners and others) with the necessary stability to continue to introduce automatic enrolment schemes for employees in the most effective way for all parties.[84]

Tax relief

The principle of the current system of tax relief is that contributions to pensions are exempt from tax when they are made, but taxed when they are paid out to the individual. Pension contributions made by individual employees are usually paid out of pre-salary, so tax relief is received at the individual’s marginal tax rate. There are two ways to administer tax relief on pension contributions:

83 DWP, Automatic Enrolment Review 2017: Maintaining the Momentum, Cm 9546, December 2017
84 Ibid

- "Net Pay" takes pension contributions before tax has been paid, so people automatically receive tax relief at their correct marginal rate;
- "Relief at Source" where contributions are deemed to have had tax at the basic rate deducted and the pension scheme then claims the relief from HMRC.

Non-taxpayers can benefit from tax relief but only if their pension scheme operates the 'relief at source' arrangement. Gov.UK explains:

> **If you don't pay Income Tax**
>
> You still automatically get tax relief at 20% on the first £2,880 you pay into a pension each tax year (6 April to 5 April) if both of the following apply to you:
>
> - you don't pay Income Tax, for example because you're on a low income
> - your pension provider claims tax relief for you at a rate of 20% (relief at source)[85]

Concerns have been raised about the unfairness of people earning below the income tax threshold in net pay arrangements missing out tax relief.

In response to PQs, the Government has said that "ultimately, it is for pension schemes to choose which to apply. To help employers choose an appropriate pension scheme, the Pensions Regulator offers guidance, including information on the different methods by which tax incentives are obtained.[86] In its 2017 review of auto-enrolment, the Government said that it had not so far been possible to identify a straightforward or proportionate solution:

> To date, it has not been possible to identify any straightforward or proportionate means to align the effects of the net pay and relief at source mechanisms more closely for this population. The government is currently increasing the data provided directly to HMRC as part of our ambition for HMRC to become one of the most digitally advanced tax administrations in the world. The government is already committed to ensuring we can deliver a modern digital tax system to make it more effective, more efficient and easier for customers to comply and reduce the amount of tax lost through avoidable error. This may present opportunities to look afresh at the two systems of paying pension tax relief. Alongside further work on the automatic enrolment changes in this report, the government will examine the processes for payment of pensions tax relief for individuals to explore the current difference in treatment and ensure that we can make the most of any new opportunities, balancing simplicity, fairness, and practicality. We will also engage with stakeholders to seek their views.[87]

A letter to the Chancellor of the Exchequer in advance of the 2018 Budget, signed by former pensions Ministers, Steve Webb and Ros

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85 Gov.UK Tax on your private pension contributions
86 PQ 10359, October 2017; PQ HL11217 19 November 2018
87 DWP, Automatic Enrolment Review 2017: Maintaining the Momentum, Cm 9546, December 2017, p47-48

Altmann and organisations including Age UK and the Low Income Tax Reform Group (LITRG) argued that action on the issue was becoming increasingly important with the increase in minimum auto-enrolment contributions. [88] In its Budget 2018 representation, LITRG said HMRC's Pay As You Earn Real Time Information system might offer a solution.[89] According to an article in the *Financial Times* in October 2018, the Government was "looking at the opportunities provided by the move to a modern digital tax system to tackle any differences of treatment in provision of tax relief for pensions."[90]

Contribution rates

Minimum contribution rates are payable on a band of qualifying earnings (between £6,032 and £46,350 in 2018/19):[91]

In its May 2016 report on auto-enrolment, the Work and Pensions Committee recommended that the Government consider "approaches to increasing contributions beyond the statutory minimum of 8% of qualifying earnings."[92]

The Government's 2017 review of auto-enrolment proposed removing the lower earnings limit from which contributions are paid. This would create additional pension saving:

> Removing the LEL would create an additional £2.6 billion in annual pension savings through an additional £1 billion in employer contributions, £1.2 billion in employee contributions and £0.4 billion in income tax relief on individuals' pension contributions in 2020/21.[93]

It would look again at contribution rates once it had evidence of the increases in contributions already planned (to 5% from April 2018 and to 8% from April 2019):

> Recognising that these proposals present significant additional costs we will seek to better understand the full impacts for all stakeholders as part of the consultation process and plan to do a full impact assessment of the increased costs to businesses. For employers, we will explore the potential for cost mitigation as part of the consultation process. We recognise that an estimated 12 million individuals will be under-saving for their retirement even when we reach the 8 per cent contribution rate in 2019. We will continue to monitor and evaluate the impact of the legislated increases in contributions and will carry out further analysis to inform a longer-term debate on the right balance between

88 'Campaigners press government for action on pension tax relief', LITRG press release, 5 October 2018
89 LITRG, Budget 2018 representation. Net Pay Arrangements for lower paid workers, September 2018
90 'Treasury to tackle pensions anomaly', *FT Adviser*, 10 October 2018; 'UK to tackle pension anomaly hitting 1.2 m low earners', *Financial Times,* 10 October 2018 (£)
91 The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2018 (SI 2018/367); *Pensions Act 2008*, s20; The Occupational and Personal Pension Schemes (Automatic Enrolment) 2010 (SI 2010/772), reg 32E
92 Work and Pensions Committee, Automatic enrolment, HC 579, May 2016, para 81
93 DWP, Automatic enrolment review 2017 –analytical findings, December 2017

statutory and voluntary pension contributions, and the optional overall savings rate.[94]

The Government is supporting the introduction of the pensions dashboards to support better planning for retirement.[95]

Self-employed

The duty to auto-enrol applies to employers in relation to workers, not to self-employed people.[96]

In 2004, the Pensions Commission identified the self-employed as a group where pension provision had always been deficient. It was concerned that levels of saving were not increasing.[97] It recommended the option of allowing the self-employed to make payments to its proposed National Pension Savings Scheme alongside their National Insurance Contributions (NICs).[98]

The Government looked at the issue but said the self-employed were not a homogeneous group. It did not think that either a mandatory mechanism for automatically enrolling them or a suggested default minimum contribution rate would be appropriate. The self-employed remained "best placed to make their own decisions about whether they can afford to save towards pension, and if so how much."[99]

Overtime, different mechanisms for including this group have been suggested – such as using the tax or National Insurance system.[100]

The Government's 2017 auto-enrolment review estimated that there were around 2 million traditional self-employed individuals (including contractors in the construction sector and others) who would meet auto-enrolment age and income criteria if they were workers, but were at risk of under-saving for retirement. The Government would test targeted interventions from 2018, followed by consultation and any legislative changes.[101] In December 2018, the Government announced further details of the approaches it intended to trial for the self-employed.[102]

For more detail, see Library Briefing Paper CBP 6417 Automatic Enrolment – current issues (February 2019).

94 DWP, Automatic enrolment review 2017 – maintaining the momentum, December 2017, p35
95 DWP, Pensions dashboards: working together for the consumer, Cm 9719, December 2018; Library Briefing Paper CBP-8407 Pension dashboards (Feb 2019)
96 *Pensions Act 2008*, s1 and 3
97 Pensions: Challenges and Choices – the First Report of the Pensions Commission, October 2004, p165
98 Pensions Commission, 2nd report, p370
99 Ibid
100 'Britain's forgotten army' – the collapse in pension scheme membership for the self-employed and what to do about it, Royal London 23 April 2016; Work and Pensions Committee, Automatic enrolment, 11th report of 2015-16, HC 579, May 2016, para 8
101 DWP, Automatic Enrolment Review 2017: Maintaining the Momentum, Cm 9546, December 2017, p7
102 DWP, Enabling pension savings for the self-employed: pensions and long-term savings trials, December 2018

2.8 The new State Pension

The new State Pension (nSP) was introduced under the *Pensions Act 2014*, for people reaching State Pension age from 6 April 2016.

The old State Pension had two tiers:

- the basic State Pension, which is paid at a flat-rate (£125.95pw in 2018/19) for those with at least 30 'qualifying years' - of National Insurance (NI) contributions or credits); and
- the additional State Pension, which is partly earnings-related. It was provided through the State Earnings-Related Pension Scheme (SERPS) between 1978 and 2002 and, from 2002 through the State Second Pension (S2P). It was possible to contract-out of the it into an occupational or personal pension which met set requirements. An individual who was contracted-out paid a lower rate of NI in recognition of the fact that they were foregoing additional State Pension rights for that period.

The new State Pension is single tier. It is set just above the basic level of means-tested support - £164.35 pw in 2018/19. It is uprated according to the triple lock, which means it will increase by 2.5% to £168.60 pw in April 2019.[103]

Thirty-five 'qualifying years' are needed for the full amount. Those with fewer than 35 qualifying years receive a pro-rated amount, subject to them having at least ten qualifying years. The Government intended that individuals should qualify on the basis of their own contribution record, so the special rules allowing people to derive or inherit State Pension entitlement on the basis of the contribution record of a (former) spouse or civil partner ended, with some transitional protection.

Because the nSP is single-tier, there is no option to contract-out of it. This means that from April 2016, employees who were previously contracted-out start to pay the same rate of NI and build up State Pension rights on the same basis as other employees.[104]

There are transitional arrangements to deal with past contribution records – for example, people who had already built up more than the full amount of the nSP in April 2016 and people who had been contracted-out during working life.[105]

For more detail, see Library Briefing Paper CBP 7414 The new State Pension: transitional issues (Feb 2019).

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[103] *Pensions Act 2014*, s 3 (1), s5 and Sch 2; *State Pension Regulations 2015 (SI 2015/173)*, Part 1A, as amended by SI 2016/267
[104] DWP, Single-tier Impact Assessment, October 2013, section 5.2
[105] *Pensions Act 2014*, Part 1

3. Impact of welfare reforms

Major changes to the benefits system are currently underway in Great Britain as a result of a series of substantial reforms introduced by the Coalition Government, and further measures initiated by the current Conservative Government. Some changes have already been introduced while others are either being phased in or will not begin to have an impact until later in this Parliament. The full impact of the overall welfare reform package will not be felt until the mid-2020s or even later.

3.1 Expected savings

Measures announced from the June 2010 Budget onwards to limit spending on welfare (DWP benefits and HMRC tax credits) have been estimated to achieve a total of £30 billion of savings to the Exchequer in 2018-19, rising to **£36 billion in 2020-21** and **£38 billion by the end of the forecast period (2023-24)**.[106]

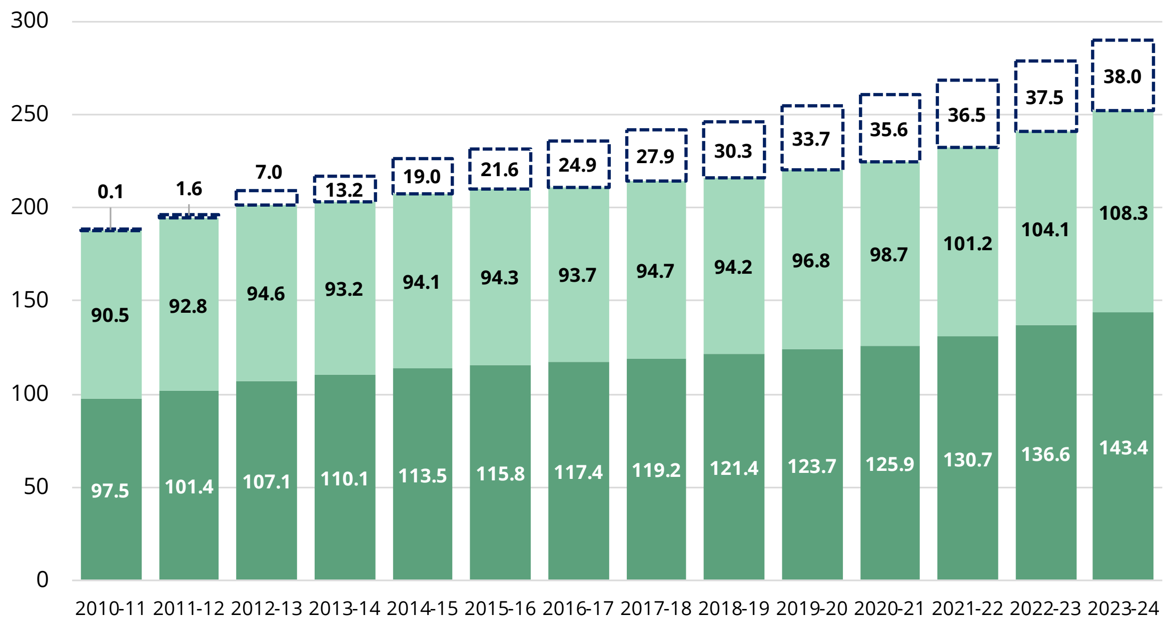
These figures include the effect of the measures announced at Budget 2018, which included extra annual spending of £1.9 billion by 2023-24 on Universal Credit resulting from an above-indexation increase in Work Allowances additional measures to support transition of legacy benefit claimants.[107]

There is however an important caveat. The savings figures are based on the Treasury's estimates of savings as announced at fiscal events (i.e. Budgets and Autumn Statements). **Actual savings may not reflect these estimates**.

[106] HoC Library calculations based on OBR Policy measures database, accessed February 2019. Figures are the original costings featured on HM Treasury fiscal event scorecards, with OBR extrapolations extending them to the end of the current forecast horizon. These figures exclude the effect of measures specifically affecting the State Pension and Pension Credit.
[107] HM Treasury Budget 2018 red book table 21 lines 13 and 14.

Great Britain welfare expenditure (actual and Budget 2018 forecast) and scorecard savings from welfare measures announced from June 2010 Budget onwards

All figures £ billion, nominal (cash) terms



Scorecard savings from measures announced since 2010 (Excluding State Pension and Pension Credit)

Benefit and tax credit spending on working-age and children: actual to 2017-18 and forecast (after measures) to 2023-24

Pension-age spend (including State Pension): actual to 2017-18 and forecast (after measures) to 2023-24

Source HoC Library calculations based on Office for Budget Responsibility (OBR) policy measures database (accessed February 2019) and DWP Benefit Expenditure and Caseload Tables 2018 (Budget 2018 edition table 'GB welfare')

Total expenditure in Great Britain on DWP benefits (including the State Pension) and HMRC tax credits is currently forecast to be £251.7 billion in nominal terms in 2023-24.[108] The scorecard savings achieved from limits on welfare expenditure since 2010 amount to £38 billion in 2023-24 – without these savings (which predominantly affect payments to working-age families), total expenditure would have been 15% higher, at around £290 billion.

3.2 Other analysis

The following key resources/reports provide analysis/comment on the impact of welfare reforms.

The **Equality and Human Rights Commission** published a report The cumulative impact of tax and welfare reforms on 14 March 2018. This is the final report from a research project looking at the effect of tax, welfare, social security and public spending. The analysis focuses on the impact on people with protected characteristics, as set out *in the Equality Act 2010*. It also looks at other categories, for example,

[108] DWP Benefit Expenditure and Caseload Tables 2018, October 2018 edition

household income and the type of people living in the household. It takes into account all changes introduced by the Coalition Government and the subsequent Conservative Governments.

The **National Association of Welfare Rights Advisers** has produced a Welfare Reform and Benefits Changes Chart. The chart – past updated in May 2018 – gives a detailed timetable of changes (although note that since the chart was last updated changes have been announced – including to the Universal Credit rollout schedule). For each measure, the chart indicates the benefit(s) affected, what the change is, the expected impact, and relevant further analysis.

Information on trends in poverty and inequality can also be found in the **Institute for Fiscal Studies'** annual report on poverty, living standards and inequality. The most recent report – Living standards, poverty and inequality in the UK: 2018 – was published on 20 June 2018.

The **Scottish Government** published its 2018 Annual Report on Welfare Reform on 1 October 2018. The report discusses recent UK Government reforms of the welfare system and the effects of these reforms on people in Scotland.

The **Joseph Rowntree Foundation** published its UK poverty 2018 report on 4 December 2018. The report examines how UK poverty rates have changed over the last few years, as well as over the longer term.

On 20 February 2019 the **Resolution Foundation** published The Living Standards Outlook 2019. The analysis combines survey data, OBR forecasts, tax and benefit policies and more, to project household income growth for different groups.

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