Policy in Practice

6th September 2017

Little Tufton House
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Dear Sian,

Welfare Reform Impact Assessment – an update from December 2016

Policy in Practice has carried out an update to the first Welfare Reform Impact Analysis for Flintshire County Council (FCC). The Excel workbook attached provides details of the full findings of the analysis, which gives a picture of the situation as of June 2017 and how this compares to December 2016.

The circumstances of FCC residents have been modelled for today and as they will be in 2020, both under the current benefits system and Universal Credit. Households are moved onto Universal Credit assuming that no transitional protection is paid, in order to reflect the eventual situation after roll-out has been completed.

The analysis has identified a number of households that continue to be highly impacted by welfare reform, and has evaluated individual circumstances using two measures of living standards: relative poverty and financial resilience[1]. These insights can be combined with the household-level dataset to identify vulnerable households more accurately, and to evaluate the success of interventions.

Policy update

Since the last analysis was carried out for FCC in December 2016, the following measures have come into effect:

- The National Living Wage (NLW) has increased to £7.50/hour for people over the age of 25, and the Personal Tax Allowance (PTA) has increased from £11,000/annum to £11,500/annum.
- The removal of Universal Credit housing support for 18-21 year olds who are not in employment and who do not qualify for a number of exemptions. Non-exempt 18-21 year olds are expected to "earn or learn" after 6 months in order to continue receiving housing support.
- The removal of the WRAG premium in ESA. This has the effect of reducing benefit levels for those who receive ESA and are placed in the Work Related Activity Group and those that previously received the limited capability for work component in Universal Credit.
- Child Tax Credit (CTC) is limited to two children, for any households having a third or subsequent child after April 2017.
- The taper rate for Universal Credit has been reduced from 65% to 63%.
- From September 2017 onwards, the number of free childcare hours available to qualifying parents with 3-4 year olds will double, from 15 hours a week to 30 hours a week.

[1] A measure developed at Policy in Practice, which assesses a household's financial situation in a more comprehensive way, by taking income and expected costs into account.

How have the demographics of FCC residents changed?

The number of pension-age households in the cohort has decreased slightly between December 2016 and June 2017, from 5,897 to 5,671 households. There have been only slight changes in demographics for working-age FCC residents. Amongst these:

- **The proportion of working-age households in the cohort has increased** slightly, from 53.9% in December 2016 to 54.7% in June 2017.
- **Single households are still the most common household type**, making up 41.3% of all working-age households in the cohort, compared to 40.5% in December 2016.
- **There are significantly fewer owner-occupiers** compared to December 2016 falling from 1,069 to 868. There are also few private renters, whilst the proportion of council tenants has increased from 32.9% to 35.7%.
- **The percentage of working-age households in receipt of a disability or sickness benefit has decreased slightly**, from 55.4% to 54.4%.

The implications for claimants moving to Universal Credit vary for each individual household, but lone parents face lower work allowances under UC, since rates were reduced in April this year. These households are likely to lose income when they migrate to Universal Credit and transitional protection is lost through a change of circumstances.

What is the impact of welfare reform as of July 2017?

5.7% fewer people are 'highly impacted' by pre-2017 welfare reforms

The three main pre-2017 welfare reforms affecting FCC residents (the LHA cap, the under-occupation charge and benefit cap) in combination impact less people "highly", defined as losing over £30/week in income. This is driven by the LHA cap, which affects 17.5% fewer households than observed in December 2016, partly due to the reduced number of private renters and households in temporary accommodation in the dataset. In addition, the increase in the National Living Wage and tax allowances has increased incomes. For all three pre-2017 reforms, the amount that an affected resident stands to lose in weekly income has fallen or remained the same, compared to the December 2016 analysis.

Many households at risk from ongoing & upcoming reforms

Looking at reforms that came into effect in April 2017, 970 FCC residents are identified as being at risk from the changes to Child Tax Credit (outlined above). Of these, only residents that have a third or subsequent child will currently face the income shortfall associated with not receiving CTC. Limiting support to 2 children also applies to Universal Credit. Therefore, when these households migrate to Universal Credit (from 2019 onwards) they risk losing income if transitional protection is lost due to changes of circumstances.

23 residents are 18-21 year olds that we identified as being at risk of losing housing support under Universal Credit. FCC could check these cases individually using the dataset provided, as they could qualify for an exemption.

The removal of the limited capability for work premium for ESA WRAG recipients, which also came into effect in April 2017, will affect FCC residents that make new claims. Up to now, the number affected will be small, but in the long run 2,626 working-age FCC residents in the ESA WRAG could face substantial income losses.

We have identified 196 FCC residents that are eligible to benefit from the extra hours of free childcare for 3-4 year olds from September 2017 onwards[2]. FCC could contact these in advance to ensure that they take up this support.

2,363 social renters are currently paying rent above their applicable LHA rates. From April 2019, the tenancies that began after April 2016 will see their housing support capped at the LHA rate.

More people are better off under Universal Credit in June 2017

More households face both increases and decreases under Universal Credit than in March 2017. The number of households whose income remains roughly the same has reduced.

In June 2017, the number of FCC residents who would be better off under Universal Credit, if it was rolled out today, is higher than identified in December, at 2,739 households (38.4%). This is largely due to the combined effect of reducing the taper rate for Universal Credit and increasing the NLW and PTA, which benefits households in work.

The number of households that would be worse off is 13.8% higher than found in December, at 1,862. The reason these households are worse off is that they are affected by reforms implemented in April 2017 (such as the removal of the limited capability for work premium for ESA WRAG claimants, or the restriction of Child Tax Credit to 2 children), and this analysis does not award transitional protection in the UC scenario.

28% of people will be better off by 2020

The mitigation measures being rolled out by the government – the increase in the NLW to an estimated £8.80/hour and in the PTA to £11,500/annum – will positively affect 1,734 working-age FCC residents. Putting this together with the welfare reforms outlined above, 2,216 (32%) of working-age residents will have a higher income in 2020, compared to 4,636 (68%) that will face an income loss. 1,506 working-age residents face a cumulative income loss of over £30/week by 2020 as a result of welfare reform.

What are the overall living standards of residents in Flintshire?

As well as looking at the individual and cumulative impact of welfare reform, Policy in Practice has used the datasets provided to measure the living standards of FCC residents.

63.1% of people in the low income group are below the poverty line

By comparing ONS data on average incomes in the UK with SHBE and CTR data, Policy in Practice has calculated the number of low income residents in FCC that are below the national poverty line, and could therefore be considered to be in relative poverty. The poverty line applied is equivalised to take into account different household sizes. As of 2017, 63.1% of FCC residents in the low-income cohort are identified as being in relative poverty.

[2] The regulation around free childcare differs slightly in Wales, for more information see here: http://gov.wales/topics/people-and-communities/people/children-and-young-people/parenting-support-guidance/childcare/talk-childcare/?lang=en

Of these, 4,630 (over half) have incomes that are over £100/month below the poverty line. 4,398 children in the cohort live in households that are in relative poverty.

Poverty amongst low-income residents of FCC is set to increase to 82.4% by 2020.

21.4% of people are in crisis or at financial risk

Policy in Practice has developed a measure of financial resilience, which compares FCC residents' incomes to their expected expenditures. The figures on household expenditure are based on data from the Living Costs and Food survey. This measure identifies 18 FCC residents as being in crisis, defined as having income that is insufficient to cover even housing costs. A further 2,663 are at risk, and face a shortfall between expenditure and income that exceeds £100/month.

The proportion of households at financial risk or in crisis, in the low-income cohort, is set to increase to 49.4% by 2020.

Financial resilience captures a different subset of struggling households

Compared to the relative poverty measure, using the measure of financial resilience captures a greater proportion of households. In particular, those affected by pre-2017 housing reforms, private renters and households with children. Tables comparing the two measures can be found in the workbook.

Through the household-level dataset provided, FCC could use these two measures – together with the analysis on the cumulative impact of welfare reform – to identify the types of households that are particularly vulnerable, and begin to understand the local drivers of poverty among FCC residents.

What actions can FCC take today?

By combining the household level dataset with the analysis in the workbook, FCC can begin to take action on welfare reform and living standards today. Possible actions to consider include:

- Target financial support at the 21.4% of FCC residents identified as being in crisis or at risk.
- Target employment support – there are currently 883 FCC residents that are unemployed but appear to face low barriers to work, 25 more than December 2016. These households can be identified in the household dataset.
- Track residents that receive support in order to understand what works and what doesn't.
- Ensure the take up of extra childcare hours for parents of 3-4 year olds from September 2017 onwards; 196 low income FCC residents are eligible.
- Investigate potential exemptions, including any exemptions that may apply to the 23 households at risk of losing housing support under Universal Credit, in order to maximise residents' incomes.

Policy in Practice is more than happy to discuss further actions or potential uses of the dataset and analysis with FCC.

We hope you find this information useful and insightful. I would be pleased to schedule a call to discuss the findings with you further, and look forward to hearing your feedback and comments on this in the coming weeks.

Best wishes,

Jethro Martin
Policy Analyst
Policy in Practice.