

Enterprise and Business Committee 8 May 2013

Update from the Minister for Communities and Tackling Poverty on the impact of the UK Government's Welfare Reforms in Wales

Written Evidence Paper

Introduction

1. I welcome the opportunity to submit written evidence to the Enterprise and Business Committee on the impact of the UK Government's Welfare Reforms in Wales and I will address this in the order of issues of interest presented by the Committee:
 - Scrutiny of the devolution of benefits;
 - Plans to reform the eligibility criteria for passported benefits e.g. free school meals;
 - Impact of the reforms on certain groups of people e.g. disabled people and households; and
 - Economic effects of welfare reform on specific regions in Wales.
2. The UK Government's Welfare Reform Act 2012 legislates for the biggest change to the welfare system for over 60 years. The main changes are:
 - The introduction of Universal Credit (UC) which is intended to provide a single streamlined payment that will improve work incentives;
 - Reforms to Disability Living Allowance (DLA), through the introduction of the new Personal Independence Payment (PIP);
 - A new system of child support; and
 - Changes to Social Fund, Council Tax Benefit (CTB), Housing Benefit, and Employment and Support Allowance (ESA).

Devolution of benefits

3. Welfare payments (other than those directly related to the tax system, such as tax credits) are a devolved matter in Northern Ireland. (In practice the policy freedom in Northern Ireland has rarely been exercised and welfare payments tend to operate on an equivalent basis to the rest of the UK). In other nations of the UK the social security system is delivered by the UK Government on a unified basis.
4. The Holtham Commission was set up by the Welsh Government to look at the present Barnett formula and the distribution of public funding to the Welsh Government and to identify possible alternative funding mechanisms, including tax varying and increased borrowing powers. The Holtham Commission published its final report: 'Fairness and accountability: a new funding settlement for Wales' in July 2010.

The Commission considered the devolution of welfare payments, and the taxes that are notionally earmarked for funding them. The Commission concluded that the welfare system is part of a wider social union across the UK, and would not be appropriate for devolution.

5. The Silk Commission, an independent Commission established to review the present financial and constitutional arrangements in Wales, recommended against the devolution of National Insurance contributions given their link to the non-devolved welfare system in Part 1 of their review (November 2012). Part 2 of the Silk Commission's work is considering the powers of the National Assembly for Wales.
6. Since the establishment of devolved government in Wales, Scotland and Northern Ireland in 1999, there have been several wide-ranging reviews of the existing constitutional settlement, including its fiscal arrangements. A great deal of background work on the issues covered by the Silk Commission has been undertaken including:
 - The Richard Commission on the Powers and Electoral Arrangements of the National Assembly for Wales (2004);
 - The Steel Commission (March 2006)
 - The Calman Commission (June 2009)
 - The House of Lords Committee on the Barnett Formula (July 2009); and
 - The Holtham Commission (2010)
7. Under present funding arrangements there would be significant financial risk from the devolution of benefits payments. In any given year, these payments can fluctuate by substantial sums as economic conditions change. With a fixed budget (i.e. in the absence of borrowing), the Welsh Government does not have the financial tools to deal with this volatility.

Plans to reform the eligibility criteria for passported benefits

8. The introduction of the Universal Credit (UC) will replace many of the income-based working age benefits for people that are both in and out of work. This requires the Welsh Government to review and amend the eligibility and relevant legislation for its passported benefits that base their eligibility on the current Department for Work and Pensions (DWP) benefits that will now be replaced by this Universal Credit.
9. DWP has made their position clear that they expect any amendments to passported benefits to be delivered in a cost neutral way unless UK Government Departments and Devolved Administrations are content to fund the additional cost of any changes they wish to introduce.
10. There has been productive engagement between DWP and Welsh Government officials on what is generally recognised to be a complex matter. Challenges include: the complex nature of current

arrangements and information sharing with UK Government departments and other stakeholders; and also, the continued need for detailed advice from DWP on matters that may have implications for our passported benefits such as free School Meals.

Pathfinder and Next Phase (October 2013 –April 2014)

11. The DWP has confirmed its intention to introduce Universal Credit in a controlled way starting initially, with just one Jobcentre in England. I understand that as a result of this controlled introduction, DWP considers any potential impact on Wales during this period will be negligible and will only occur where a claimant in the Pathfinder moves to Wales, retains their entitlement to UC and meets the other qualifying criteria. DWP is yet to confirm details of the arrangements from October 2013 to April 2014 however; they still consider the risk of impact on passported benefits in Wales to be low.
12. Therefore, in general terms, the preferred option for the Pathfinder is that all UC customers should be eligible to apply for relevant passported benefits subject to meeting the other qualifying criteria. This is provided the volumes, client group characteristics and design details of UC, which could impact on our passported benefits, remain unchanged. However, to allow maximum flexibility and to take into account emerging detail, individual Welsh Government Departments are continuing to consider alternative arrangements.
13. Whilst there remains some uncertainty around the detail of Universal Credit arrangements, the Welsh Government has made clear that Welsh Ministers reserve the right to review their options subject to any change to the details of the Pathfinder and early rollout, or in light of other emerging details. This will also allow the Welsh Government to take account of any early lessons from the Pathfinder.

Interim Option (From April 2014)

14. I understand that DWP has suggested using information on their earnings thresholds as an interim solution to passported benefits which should be available from 2014. Under current proposals, earnings thresholds are intended to provide a proxy for household characteristics and will allow the delivery of passported benefits to a similar cohort of claimants during the rollout of UC and migration from the current legacy benefits. We understand that the intention is to introduce these earnings thresholds in April 2014, in line with the wider roll-out of UC. We would be keen to see any modelling UK Government Departments have undertaken, or are undertaking, to estimate the impact of any earnings thresholds regarding passported benefits, especially with respect to winners and losers, and the associated costs. In addition, to assist our considerations, the Welsh Government requires DWP to provide outstanding information on, for example, the detail of their available earnings thresholds, the roll-out and migration plan for Universal Credit

etc. All of which, as I have highlighted, could have implications for the longer term delivery of passported benefits in Wales.

Long Term Options

15. I understand that in the longer term, DWP is considering proposals for passported benefits which will be put forward in due course for our consideration.
16. In developing new arrangements for Welsh Government passported benefits we remain committed to focusing support for people most in need and for specific vulnerable groups; and in so doing, help alleviate poverty.

Impact of the reforms on certain groups of people

17. In 2011, the Welfare Reform Ministerial Task and Finish group commissioned a three-stage programme of research to assess the impact of the UK Government's reforms in Wales. The findings from Stage 1 and 2 have been published on the Welsh Government's website. As part of this research, the impact of the welfare reforms across the income distribution and by family type in Wales has been assessed.
18. It is clear that changes to the benefit system are set to reduce the disposable incomes of households substantially in the next few years. However, not all types of households will be hit equally hard. At least until Universal Credit is substantially rolled out, those towards the bottom of the income distribution will see their incomes fall by a larger percentage as a result of reforms than other types of households. Following the full rollout of Universal Credit, the biggest average income losses are experienced by low-to-middle income families. Such families lose around 3.6 per cent of their income on average compared to an average loss of 1.4 per cent for all households.
19. By family type, overall, the biggest average income losses (over 7 per cent) are experienced by families with children, particularly those who are not working. Pensioners, and families without children in which all adults work, are largely protected from the welfare cuts, with average income losses less than 0.4 per cent.
20. Our research shows that the reforms to Disability Living Allowance and contributory Employment and Support Allowance account for some of the greatest cuts, suggesting that some disabled people in Wales will be particularly hard hit by the welfare reforms. Income losses for some claimants are likely to be over £80 per week or £4,000 per annum. Combined with the impact of changes to other benefits, losses could be even higher.

21. We are also aware of evidence produced by the Institute for Fiscal Studies (IFS) on the aggregate impact of the tax and benefit changes by gender that was published in summer 2011. Although this is a little dated now, this suggests that the tax and benefit reforms introduced between 2012–13 and 2014–15 will proportionately reduce the incomes of households with a single woman more than those with a single man. The IFS have attributed this difference to the fact that very few men are lone parents (over 90 per cent of lone parents are female). Given that lone parents are particularly reliant on income from benefits, they lose a particularly large amount from some of the benefit reforms. For example, more recent IFS research undertaken in December 2012 shows that non-working lone parents are particularly hard hit by the reforms losing over 7 per cent of their income on average.
22. The impact of the welfare reforms on employment in Wales is predicted to be, at best, very modest and will depend on wider economic conditions. The IFS central estimate (including Universal Credit) is for employment in Wales to increase by around 5,000 or 0.3 percentage points, for aggregate hours of work to increase by around 1 per cent, and for aggregate earnings to increase by £149 million (or 0.5 per cent, with the biggest portion of the increased earnings going to lone parents). By household type, it is estimated that there will be an increase in employment among single adults, lone parents, and those with non-working partners. However, this will be partly offset by falls in employment among those with working partners.
23. Our Stage 3 research, which is currently underway, is considering in more detail the potential impact of the welfare reforms on those with protected characteristics in Wales (e.g. gender, ethnicity, disability and age). The findings from this assessment are currently expected to be published in July 2013.

Economic effects of welfare reform on specific regions in Wales.

24. Research by the IFS finds that the benefit and tax credit cuts will hit Wales harder than the UK as a whole due to its higher levels of welfare dependency. The latest statistics show that 17.9 per cent of the working age population in Wales were claiming welfare benefits compared to the Great Britain average of 14.3 per cent (Department for Work and Pensions, August 2012).
25. As part of our Stage 2 research, the **IFS** have estimated that the UK Government's welfare reforms announced prior to December's Autumn Statement will reduce total benefit and tax credit entitlements in Wales by around **£590 million in 2014-15**. Additional cuts announced in December's Autumn Statement mean losses will be higher, but the IFS have not quantified this.

26. Recently published research by **Sheffield Hallam University** estimates that once the welfare reforms have come into full effect, Wales will lose around **£1.1 billion** a year as a result and will see greater average losses compared to Great Britain as a whole. The gap between the two estimates relates to differences in coverage, methodology and data sources used. However, these latest estimates from Sheffield Hallam University suggest that the impact of the welfare reforms in Wales is even worse than indicated by the IFS research.
27. As well as assessing impacts at a national and regional level, the research by Sheffield Hallam University has also considered impacts by local authority district. This research suggests that older industrial areas such as the South Wales Valleys are amongst the worst-hit areas. According to the research, **Merthyr Tydfil** is the fourth worst affected local authority in the UK. **Blaenau Gwent, Neath Port Talbot, Rhondda Cynon Taff** and **Caerphilly** also fall within the 25 worst affected local authorities. This is a reflection of the relatively high dependency on sickness and disability benefits in these areas. They are therefore expected to be particularly affected by the reforms to Disability Living Allowance (DLA) and Incapacity Benefit (IB). For example, Neath Port Talbot and Merthyr Tydfil are the top two worst affected local authorities by both the DLA and IB reforms.
28. These findings are broadly in line with the findings from our early Stage 1 research. Notwithstanding the impact throughout the rest of Wales, this research identified that the **South Wales Valleys** and the inner city areas of **Newport, Cardiff** and **Swansea** would be hardest hit by the reforms. It is currently planned that our Stage 3 research will further assess the impact of the reforms at a local authority level. The findings from this element of the Stage 3 research are due to be published in January 2014.

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