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WELFARE

REFORM

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1. EXECUTIVE SUMMARY

The Welfare Reform Act 2012 was enacted by the UK Parliament on 8 March 2012.¹ This report is sixth in a series of Scottish Government reports which examine the impacts of the Act, and the third since the Scotland Act 2016.²

The first chapter of this report looks at how the social security system has changed in recent years, and is expected to change in the years to come. The second chapter of the report provides a detailed update on Universal Credit (UC) and its roll out. The report reviews new evidence on several welfare reforms in particular detail.

The Benefit Cap

Since the introduction of the policy in April 2013, almost 11,000 Scottish households have been subject to the Benefit Cap at one point. Since the cap was lowered in 2016, an average of 3,500 Scottish households have been capped each month.³ Among families to whom the cap is applied through Housing Benefit (as opposed to UC), 89% contain children, while 64% are lone parent households.⁴

The Two Child Limit (2CL)

Across the UK, so far 9% of Child Tax Credits (CTC) or UC claimants with three or more children have been affected by the limit. This share will continue to increase each year as more of the cohort of children eligible for benefits in a given year will be born after April 2017 or be part of households making new claims to UC. Across Scotland, 4,000 households in receipt of CTC or UC have added a third or subsequent child to their claim since April 2017.⁵ Whilst around 5% of these 4,000 households are exempt and can therefore continue to claim for three or more children, the remaining 95% or 3,800 claimants are affected by the policy.⁶ Across the UK, around 74,000 households are affected, and of these, around 4% or 2,900 are exempt. Of these, exempt households across the UK, around 190 have received exemptions because the child was conceived non-consensually. There is no data available on how many of these cases are in Scotland.

1 The National Archives (2012), [Welfare Reform Act 2012](#)

2 The National Archives (2016), [Scotland Act 2016](#)

3 Please note that these figures refer to Housing Benefit claims. For most capped households, the Benefit Cap is applied by reducing the amount of Housing Benefit they receive, so their total benefits no longer add up to more than the cap level. Due to the early stage of Universal Credit rollout, most claims affected by the Benefit Cap are claims to legacy benefits rather than Universal Credit.

4 DWP (2018), [Benefit Cap Statistics](#)

5 DWP (2018), [Child Tax Credit and Universal Credit claimants: Statistics related to the policy to provide support for a maximum of two children](#)

6 Claimants can be exempted from the policy if the affected child is the second or subsequent child born in a multiple birth, is adopted from care by the Local Authority, or was conceived non-consensually. The full list of exemptions is discussed in section 3.2.2 of this report.

Personal Independence Payment (PIP)

As of April 2018, there were 190,000 PIP claims in payment in Scotland. There appear to be persistent problems in the PIP eligibility assessment process. In recent months, 56% of the reports of one of the assessment agencies were considered unacceptable by UK Government quality control processes.⁷ Across Great Britain, claimants have made 781,000 disputes of PIP awards to the Department for Work and Pensions (DWP), through which 18% of original decisions were overturned.^{8,9} At the next stage of appeal, 68% of cases going to tribunal were decided in favour of claimants.¹⁰ The High Court recently overturned DWP regulations which stated that limitations on mobility which occurred due to psychological distress would not qualify claimants to the mobility element of PIP. The DWP will conduct a review of potentially affected cases, which is estimated to cost £3.7 billion in backdated awards. The court ruling could also lead to an annual increase in expenditure of around £400 million from 2018/19 onwards.¹¹

Employment and Support Allowance (ESA)

Since 2011, an estimated 70,000 people across Great Britain who transferred onto ESA have been underpaid due to errors made by the DWP.¹² These people were not paid the disability premiums they were entitled to, and lost an average of £5,000 per person, with some losing as much as £20,000. Initially, the DWP planned to only reimburse claimants affected after 21 October 2014 as social security legislation prevented the DWP from paying back underpayments built up before this date. That meant claimants would have lost around £100 million to £150 million of underpaid benefits. However, following widespread pressure, including legal action taken against the DWP by the Child Poverty Action Group, DWP recently reversed this decision, and agreed to repay underpayments incurred as far back as 2011.^{13,14} The DWP expect to pay out up to £500 million of underpayments by April 2019, but do not plan to pay any compensation to reflect the value of lost passported benefits, like NHS prescriptions, dentistry treatment and free school meals.

The overall change in welfare spending

Welfare reforms imposed by successive UK governments since 2010 will have resulted in an overall £3.7 billion reduction in welfare spending in Scotland by 2020/21. We estimate that by 2020/21 the post-2015 Conservative Government welfare reforms with the largest financial impact on Scotland will be the Benefit Freeze (£367 million), the reduction of UC Work Allowances (£236 million) and the introduction of the 2CL (£92 million). Since 2010, the share of economic output as measured by the Gross Domestic Product (GDP) allocated to welfare spending has fallen by over 2% in Great Britain.¹⁵

7 UK Parliament (2018), [PIP, ESA trust deficit fails claimants and the public purse](#)

8 These are referred to as 'Mandatory Reconsiderations' by the DWP.

9 DWP (2018), [Personal Independence Payment: Official Statistics](#)

10 DWP (2018), [Tribunals and gender recognitions certificates statistics quarterly: January to March 2018](#)

11 UK Parliament (2018), [PIP back payments](#)

12 National Audit Office (2018), [Investigation into errors in Employment and Support Allowance](#)

13 Child Poverty Action Group (2018), [Charity takes legal action against DWP for disabled claimants' arrears](#)

14 Child Poverty Action Group (2018), [CPAG legal action leads to full arrears for disabled claimants](#)

15 Office for Budget Responsibility (2016), [Welfare trends report](#), p. 5

The impact of tax and welfare reforms on Child Poverty

UK Government reductions in the generosity of social security are set to make it more difficult for the Scottish Government to meet the ambitious targets to reduce child poverty passed in the 2017 Child Poverty (Scotland) Act.¹⁶ The Tackling Child Poverty Delivery Plan identifies a number of key priority groups who are at most risk of poverty.¹⁷ These groups include lone parents, families with three or more children, families with a disabled adult or child, families with a child under one and young mothers. Various welfare reforms introduced in the July 2015 budget such as the removal of the 'family element' for CTC and UC and the 2CL have explicitly focused on reducing benefit generosity towards families with children, including those in priority groups. The reduced generosity of the social security system is a key driver of increased poverty rates for lone parent families and families with three or more children.¹⁸

By 2021/22 the share of children living in relative poverty after housing costs is estimated to increase by 8% in Scotland as a result of tax and welfare reforms implemented by UK Government since 2010.¹⁹

Scottish Government welfare reform mitigation

In 2018/19, it is estimated that over £125 million will be spent by the Scottish Government on policies to mitigate the impacts of welfare reform and support people on low incomes. These policies include full mitigation of the Bedroom Tax, Crisis Grants delivered through the Scottish Welfare Fund, and advice services for people affected by welfare reform.

Council Tax Reduction scheme

As part of the wider measures to tackle poverty, £351 million has also been allocated to fund the Council Tax Reduction (CTR) scheme, which reduces Council Tax liabilities for people with lower incomes.

Universal Credit (UC)

UC roll out continues across Great Britain, however, further delays have been announced which mean that the roll out will now not be completed until March 2023.²⁰ As of May 2018, there were around 90,000 UC claimants in Scotland, who were predominately young and out of work.²¹ Thus far, only a minority of claimants with more complex claims, such as families with children and people with disabilities, have been affected by the transition to UC. More of these households will come onto UC through managed migration which is scheduled to begin in July 2019.

16 The National Archives (2017), [Child Poverty \(Scotland\) Act 2017](#)

17 The Scottish Government (2018), [Every child, every chance - The Tackling Child Poverty Delivery Plan 2018-22](#)

18 Landman Economics (2018), [Forecasting Child Poverty in Scotland](#), p. 26 - 27

19 Equality and Human Rights Commission (2018), [The effect of tax and welfare reforms](#), p. 150

20 UK Parliament (2018), [Universal Credit: Written statement](#)

21 Scottish government analysis using [Stat-Xplore](#)

Transitional Protection (TP)

Although households who are part of the managed migration will be entitled to TP, over time some households will lose it due to a change of circumstances, while for others inflation will gradually erode their TP entitlement until eventually their benefit income is the same as for new claimants of UC.

There are a range of estimates of what proportion of the people who will move onto UC will do so through managed migration, and therefore be entitled to TP. The Office for Budget Responsibility (OBR) estimated that 1.9 million GB households will be migrated.²² The most recent estimate comes from an explanatory memorandum to the Social Security Advisory Committee which estimated that approximately 2.09 million households, containing around 2.87 million claimants, will be migrated from legacy benefits to UC.²³

Based on their 1.9 million household estimate the OBR estimated that implementing TP across Great Britain will cost the UK government £0.3 billion in 2020-21, peaking at £1.3 billion in 2022-23, compared to a scenario in which claimants were moved onto UC without protection. Afterwards it will slowly decline as claimants gradually lose TP due to UC entitlements increasing beyond legacy benefit entitlement, or changes of circumstances.²⁴

UC waiting times

UC claimants must wait five weeks for their first payment, which is relatively long compared to the legacy system and problematic for claimants already experiencing poverty. For example, Child Benefit and Tax Credit claims were processed within 16 working days on average in 2016/17 whilst Housing Benefit claims were processed within 22 calendar days on average in 2017/18.^{25,26} The DWP's March 2018 estimate showed that following the UC waiting period, payment of full benefit entitlement on time failed for 21% of claimants with 13% not receiving any payment.²⁷ When claimants do not receive their payment on time, the average wait is a further four weeks, totaling nine weeks since their initial claim. The DWP do not expect payment timeliness to improve significantly above 80% in 2018.²⁸

Generosity

UC is less generous than legacy benefits. The OBR and Resolution Foundation estimate that across Great Britain and by full roll out, UC would be less generous by £2.4 billion per year in 2022/23 and £2.7 billion per year in 2021/22 if transitional protection was not provided.^{29,30}

22 Office for Budget Responsibility (2018), [Welfare Trends Report](#), p. 69

23 Social Security Advisory Committee (2018), [Government proposal to move claimants on 'legacy' benefits to Universal Credit: consultation announced](#), p. 29

24 Office for Budget Responsibility (2018), [Welfare Trends Report](#), p. 24

25 National Audit Office (2018), [HM Revenue & Customs 2016-17 accounts](#), p. R51

26 DWP (2018), [Housing Benefit: statistics on speed of processing 2017 to 2018](#), p. 1

27 National Audit Office (2018), [Rolling out Universal Credit](#), p. 36

28 National Audit Office (2018), [Rolling out Universal Credit](#), p. 40

29 Office for Budget Responsibility (2018), [Welfare Trends Report](#), p. 126

30 Resolution Foundation (2017), [Universal Remedy: ensuring Universal Credit is fit for purpose](#), p.27

Self-employment rules

Self-employed people are subject to an additional set of rules which do not apply to employed claimants. UC work coaches have the discretion to decide whether the claimant's business should be considered as 'gainful self-employment'.³¹ Once claimants have been considered gainfully self-employed for over 12 months, they are treated as having gross earnings equivalent to 35 hours per week at the National Living Wage even if their earnings are lower than this level. This policy is known as the Minimum Income Floor (MIF). The MIF policy means that claimants with fluctuating monthly incomes (as can be the case for self-employed people) could receive a lower UC award than claimants who earn the same income in a more stable pattern. Effectively, where a self-employed claimant's profits fall below the minimum wage in a month, the MIF reduces the ability for the benefit system to compensate for low earned income.

Surplus Earnings (SE)

SE reduces future benefit entitlement when claimants temporarily earn too much. When claimants earn too much to receive UC in a given month, SE acts as a record of how much income claimants made over and above the amount it took to reduce their monthly UC award to zero. SE then uses this historical excess income to reduce the claimant's future UC entitlement. This policy can affect both employed claimants, for example when they receive a bonus, and self-employed claimants, when they make more earnings in a given month. SE's complexity has led the UK Government's Social Security Advisory Committee, among other commentators, to express their concern that claimants will not fully understand it.³² SE can leave claimants with a confusing choice over whether to submit claims to UC each month even if they know they won't be entitled to payment.

Conditionality

UC claimants are more than six times as likely to be sanctioned than claimants of any of the legacy benefits UC replaces.³³ The latest evidence suggests that the UC conditionality and sanctions regime can lead to deterioration in mental health, food security and even cause destitution.³⁴ Those sanctioned are much more likely to be young unemployed people who are less likely to have the financial resilience to withstand reductions in their benefit income.

Conclusion

Since 2010, the UK Government has enacted a range of welfare reforms that have significantly reduced the generosity of the UK welfare system. We estimate that the welfare reform policies of successive UK governments since 2010 mean that welfare spending in Scotland in 2020/21 will be £3.7 billion lower than had they not been introduced. Within its limited powers, the Scottish Government has taken action to reduce the impact of welfare reforms, however the substantial welfare cuts will continue to have an effect and make Scotland's child poverty targets more challenging.

31 According to the DWP self-employment in a trade, profession or vocation should be the claimant's main occupation. It must also be organised, developed, regular, and carried out in expectation of profit.

32 Social Security Advisory Committee (2018), [The Universal Credit \(Miscellaneous Amendments, Savings and Transitional Provision\) Regulations](#). Other critical organisations include Policy in Practice (2018), [Three significant but little known welfare changes for April 2018](#). The policy has also generated critical coverage in the wider media, such as Manchester Evening News (2018), [The ridiculously complex Universal Credit change that could affect 240,000 people](#).

33 Child Poverty Action Group (2018), [David Webster \(Glasgow University\) briefings on benefit sanctions](#), 24 July 2018 briefing p. 24

34 These findings are supported by a range of studies, which are discussed in more detail in section 4.6.5.

2. INTRODUCTION

2.1 Background

The Welfare Reform Act 2012 was enacted by the UK Parliament on 8 March 2012.³⁵ The Department for Work and Pensions (DWP) stated that these reforms were aiming to:

- make the benefit system fairer and more affordable;
- reduce poverty, worklessness and welfare dependency; and
- reduce levels of fraud and error.³⁶

Scottish Ministers were required to introduce regulations to enable devolved legislation to take account of these changes. Amongst other provisions, the Welfare Reform (Further Provision) (Scotland) Act 2012 required Scottish Ministers to report annually until 2017 to the Scottish Parliament on the impact of the Act on the people of Scotland.

2.2 Purpose of the report

Although this report is no longer a statutory requirement, the impacts of welfare reforms made by successive UK governments continue to affect the living standards of Scottish households. This report brings together important new evidence on how the social security system, and people's experience of it, is changing.

2.3 Key features of the report

The first chapter of this report discusses the key changes in UK Government policy since the publication of the previous report in June 2017 and provides a focused update on welfare reform. It includes updated evidence about four notable welfare reforms: the Benefit Cap, the Two Child Limit (2CL), Personal Independence Payment (PIP) and Employment and Support Allowance (ESA). The report then looks at the scale and composition of the welfare spending reductions imposed by UK governments since 2010. With this context, it then discusses the effect these will have on child poverty, particularly for the priority groups identified in the Scottish Government's Child Poverty Delivery Plan, and the action taken by the Scottish Government to mitigate the impacts of welfare reform.

The second chapter of this report provides a detailed update of Universal Credit (UC), how people experience it, how claims are calculated and how it is different from the benefits system that it replaces. In the last year, a variety of new evidence has become available on how moving onto UC from the legacy system can negatively affect claimants. Despite concerns raised by the Scottish Government, the National Audit Office, third sector and other civic organisations, the DWP have confirmed that it intends to continue with the UC roll out. It now appears inevitable that almost all working-age benefit claimants will eventually be affected.

³⁵ The National Archives (2012), [Welfare Reform Act 2012](#)

³⁶ DWP (2015), [2010 to 2015 government policy: welfare reform](#)

3. HOW IS THE SOCIAL SECURITY SYSTEM CHANGING?

3.1 Key changes in UK Government welfare policy since June 2017

Since last year's publication, there have been some significant changes to the UK welfare system, most of which were announced in the Autumn Budget 2017.³⁷ These include:

1. **The end of the 7 day 'waiting period' for UC payments.** Since the introduction of Universal Credit, almost all new claimants had to wait around six weeks to receive payment. From February 2018, the seven waiting day period at the start of the claim was abolished, reducing the waiting time for receipt of the first UC payment to five weeks. This means that households are now entitled to UC seven days earlier, which the Department for Work and Pensions (DWP) estimates would be worth an average of around £160 per household.³⁸
2. **Introduction of 100% UC Advance Payments.** Before January 2018 only up to 50% of the UC award could be paid as an advance. From January 2018 onward, new rules increased the proportion of the monthly awards that can be paid in advance to 100%.³⁹ This advance should be paid within 5 days, or on the same day if the claimant can make a case to the DWP that the need is sufficiently urgent. The period of time over which the advance will be repaid has also been extended, from 6 months to 12 months.⁴⁰

As shown in table 1, the UK Government has estimated that the changes to the waiting period and advances will cost £895 million over the six years to 2022/23.⁴¹

Table 1 - The estimated cost to the UK Government of Universal Credit waiting period and advances reforms

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Cost of removing the 7 day wait and improving advances	£20m	£170m	£205m	£195m	£160m	£145m	£895m

3. **Housing Benefit (HB) run-on.** From April 2018, claimants who are in receipt of HB and move onto UC will receive two further weeks of HB payments, which they do not have to repay. This HB award will be paid on top of their UC entitlement, helping claimants to cover housing costs while they wait to receive their UC payments. Table 2 shows the estimated annual costs of the policy change, which total £540 million over the six years to 2022/23.⁴²

37 HM Treasury (2017), [Autumn Budget 2017](#)

38 DWP (2018), [First Universal Credit payment paid quicker](#)

39 DWP (2018), [Universal Credit Advances](#)

40 HM Treasury (2018), [Autumn Budget 2017: documents](#)

41 HM Treasury (2018), [Autumn Budget 2017: policy costings](#), p. 12

42 HM Treasury (2018), [Autumn Budget 2017: policy costings](#), p. 13

Table 2 – The estimated cost to the UK Government of paying two additional weeks of HB to HB claimants moving onto Universal Credit

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Cost of allowing a two-week run-on of HB payments for new UC claimants	0	£130m	£125m	£135m	£110m	£40m	£540m

4. **Housing Benefit for 18-21 year olds.** In the 2015 Summer Budget, the UK Government announced that, with some exceptions, people aged from 18 to 21 would not receive support for their housing costs under UC.⁴³ Last year's Welfare Reform Report found that, although it would only save around £40 million a year by 2020/21, the average impact on those who were affected was very large, leaving them over £5,000 per year worse off.⁴⁴ To mitigate this change, the Scottish Government offered support to people in this age group through the Scottish Welfare Fund.⁴⁵ In March 2018, the UK Government announced it would change the regulations to allow people aged 18 to 21 to claim their housing costs under UC. In August 2018, the UK Government also announced that it would keep HB in place for people living in supported housing. This is instead of them receiving housing costs through UC, or the previous plan to devolve support for such accommodation to local authorities in England, and the devolved administrations elsewhere. The decision to retain funding within HB provides security, after years of uncertainty, for vulnerable users of supported accommodation, and ensures that they can continue to access this support. Homeless households in temporary accommodation also receive support for housing costs through HB.
5. Local Housing Allowance policy. In the Autumn 2015 Spending Review, the UK Government announced that people living in the social rented sector would have the amount of rent covered by their HB capped to the same amount as those in the private rented sector (this cap is called the Local Housing Allowance).⁴⁶ Local Housing Allowance (LHA) is meant to cover the full rental cost of living in an appropriately-sized property in the cheaper 30% of the local market (rather than 50% as before).⁴⁷ However in practice, the benefit freeze has meant that as in many areas LHA rates are no longer sufficient to cover the full housing costs of living in a property in the cheaper 30% of the market. Social sector landlords therefore voiced concerns that applying these rates would result in rent arrears for social sector tenants and increase the risk of homelessness.⁴⁸ In October 2017, the UK Government announced that this policy would not be implemented. Applying LHA rates to social sector HB claimants would have saved the UK Government £520 million in 2020/21.⁴⁹

43 UK Parliament (2018), [Housing cost element of Universal Credit and 18 to 21-year-olds](#)

44 The Scottish Government (2017), [Annual Report – 2017 Welfare Reform \(Further Provision\) \(Scotland\) Act 2012](#), p. 32

45 The Scottish Government (2018), [Support with housing costs](#)

46 HM Treasury (2015), [Spending Review and Autumn Statement 2015](#)

47 The Scottish Government (2017), [Annual Report on Welfare Reform Follow up Paper: Housing and Social Security](#)

48 UK Parliament (2017), [Local Housing Allowance and the social rented sector](#)

49 UK Parliament (2017), [Local Housing Allowance caps and the social rented sector](#).

3.2 Focused update on welfare reforms

3.2.1 The Benefit Cap

With some exemptions⁵⁰, working age couples with or without children and single parents can receive a maximum of £20,000 (single people without children can receive a maximum of £13,400) of benefit payments per year even if their circumstances would normally entitle them to more.⁵¹ This is known as the Benefit Cap, which was first introduced in April 2013 at £26,000 for couples and lone parents and lowered to the above levels in November 2016. For most capped households, the Benefit Cap is applied by reducing the amount of HB they receive, so their total benefits no longer add up to more than the cap level. Due to the early stage of UC rollout, most claims affected by the Benefit Cap are claims to legacy benefits rather than UC.⁵²

In May 2018, 3,400 households receiving HB across Scotland were capped, of which 2,300 were living in the social rented sector and 1,100 were in the private rented sector. Nearly 11,000 households in Scotland have seen their payments capped at some point since the introduction of the Benefit Cap in April 2013.⁵³

Before the new lower cap was introduced, there were around 800 households being capped per month in Scotland. Since the introduction of the lower cap in 2016, this number increased to a monthly average of 3,500 (almost a fourfold increase).

As table 3 shows, lone parents, families with children, young people and women are disproportionately affected by the HB cap.

50 Those receiving Working Tax Credit, Disability Living Allowance, Personal Independence Allowance, Carers Allowance and Guardians Allowance are exempt from the Cap. People living in London are subject to a slightly higher benefit cap (£23,000/£15,410).

51 UK Government (2018), [Benefit Cap](#)

52 DWP (2018), [Benefit Cap Statistics](#), p. 2

53 Scottish government analysis using [Stat-Xplore](#)

Table 3 - The proportion of households claiming Housing Benefit affected by the Benefit Cap by characteristic - May 2018, Scotland

Characteristic	Share of all Housing Benefit capped households
Have children	89%
Have three or more children	77%
Lone parents	64%
Female ⁵⁴	86%
Aged 25 to 34	46%
Live in the social rented sector	68%
Are capped by less than £50 per week	55%
Are capped by more than £100 per week	14%

The Benefit Cap is also applied to UC claimants and as the UC roll out continues, the number of households on UC affected by the Benefit Cap will continue to increase. DWP statistics show that of those households receiving UC, 180 had their award capped in May 2018 across Scotland. Since October 2016, 410 households across Scotland have had their UC capped at some point. Table 4 shows that like households claiming HB, those claiming UC and being affected by the Benefit Cap are disproportionately families with children and lone parents.⁵⁴

Table 4 - The proportion of households claiming Universal Credit affected by the Benefit Cap by characteristic - May 2018, Scotland

Characteristic	Share of UC capped households
Have children	90%
Lone parents	51%
Capped by less than £50 per week	66%
Capped by £50- £100 per week	22%
Capped by more than £100 per week	12%

⁵⁴ This row shows the proportion of single-adult households affected by the Benefit Cap where the adult is female.

3.2.2 The Two Child Limit

From April 2017 a new rule restricted the child element of UC and Child Tax Credits (CTC) to two children. The rule applied to new births after 5 April 2017 for CTC and new claims to UC after that date and is also known as the Two Child Limit (2CL).⁵⁵ In 2018/19 families with three children will lose up to £2,780 each year per child who does not qualify.⁵⁶ In addition, after 5 April 2017, families with children who make new claims to UC and CTC will no longer be entitled to the family element that is available to older claims, and they are estimated to lose up to £545 of benefit entitlement per year.⁵⁷

There are no exemptions to the removal of the family element. However, for the 2CL policy the UK Government has introduced the following exemptions:

- a second or subsequent child born in a multiple birth, but not the first child in a multiple birth;
- children adopted from local authority care;
- children living long-term with family or friends including informal caring arrangements where had this not occurred the child would be looked after by a local authority; and
- children likely to have been conceived as a result of rape or coercion.⁵⁸

Over the first year of the introduction of the 2CL across Scotland, 4,000 households in receipt of CTC or UC have added a third or subsequent child to their claim since April 2017. Around 5% of these 4,000 households are exempt and can therefore continue to claim for three or more children. The remaining 95% or 3,800 households cannot claim CTC or UC for the third and subsequent children.

Across the UK, around 74,000 households have been affected by the 2CL between April 2017 and April 2018. Around 865,000 households claim UC or CTC while having three or more children, which means only 9% of families claiming these benefits with three or more children had at least one child born after 5 April 2017.

Of these 74,000 affected families, 2,900 were exceptions. These exceptions comprised of:

- 2,440 (84%) families who had a multiple birth;
- 270 (9%) where the children lived with people other than their parents while otherwise being at risk of being taken into care, or are the children of under-16 year olds living in the household; and
- 190 (7%) were because they were conceived non-consensually (i.e. the rape clause).

Across all countries of the UK, households with a second or subsequent child born in a multiple birth were the most common type of exception. These accounted for 85% of CTC or UC households with an exception in Scotland.⁵⁹

55 UK Government (2018), [2 child limit: claiming benefits for more than 2 children](#)

56 HM Revenue & Customs (2018), [Tax credits, Child Benefit and Guardian's Allowance](#)

57 DWP (2018), [Universal Credit: What you'll get](#)

58 DWP (2018), [Child Tax Credit and Universal Credit claimants: Statistics related to the policy to provide support for a maximum of two children](#)

59 The number of exceptions of other types are not currently provided for Scotland, due to both rounding and suppression of small numbers of cases.

Accounting for all exceptions, 70,620 households across the UK were unable to receive the child element for third and subsequent children in their household. Around 59% of affected households across the UK are in-work,⁶⁰ while 38% were lone parent households.

In 2016, the UK Government published estimated savings as a result of the 2CL.⁶¹ Over the first four years of its implementation, the 2CL policy is expected to save the UK Government almost £4 billion cumulatively, as shown in table 5.

Table 5 - Estimated UK-level savings from the Two Child Limit, HM Treasury 2016

	2017/18	2018/19	2019/20	2020/21
Limit child element to 2 children for new births in tax credits and new claims in UC	£360m	£795m	£1,200m	£1,585m

It is important to note that, as time passes, more households will be affected by the 2CL and the removal of the family element. Each year, more children born before the implementation of the 2CL policy grow older and stop qualifying for the child element, while newborns and some new claims will be subject to the 6 April 2017 cut-off. Given that caregivers are entitled to claim CTC and UC child element for children up to a maximum age of 19, theoretically the full effect of the policy may only be felt on 6 April 2037 (when every child under 20 will be born after 6 April 2017), although most of the policy's savings will occur earlier.

The aspect of the policy that has drawn the most public attention is the exemption for non-consensually conceived children, otherwise known as the 'Rape Clause'. Despite widespread criticism of the 2CL policy, there has been no indication from the UK Government that it will be changed. When meeting the Scottish Parliament's Social Security Committee, the Secretary of State for the DWP pointed to how the act of proving exemption from the 2CL due to the 'Rape Clause' could help victims of sexual abuse.⁶²

3.2.3 The introduction of Personal Independence Payment

Personal Independence Payment (PIP) is a benefit for people aged between 16 to 64 with a disability or long-term ill-health. PIP began replacing Disability Living Allowance (DLA) for people in that age group in April 2013 and is one of the benefits being devolved to Scotland.⁶³

At April 2018, there were around 190,000 PIP claims in payment to people living in Scotland.⁶⁴ Around 167,000 (88%) were working-age people. As of November 2017, around 90,000 working-aged people in Scotland remained on DLA.

Although people aged 65 and over cannot make a new claim to PIP, they can remain on it if they had a pre-existing claim when they turned 65. As of April 2018, there were around 23,000 over 64 year olds claiming PIP, representing around 12% of the total 190,000 Scottish claimants.

The most recent combinable data from November 2017 showed claims of PIP and DLA combined totalled 250,000 working-age claimants in Scotland, as shown by figure 1.

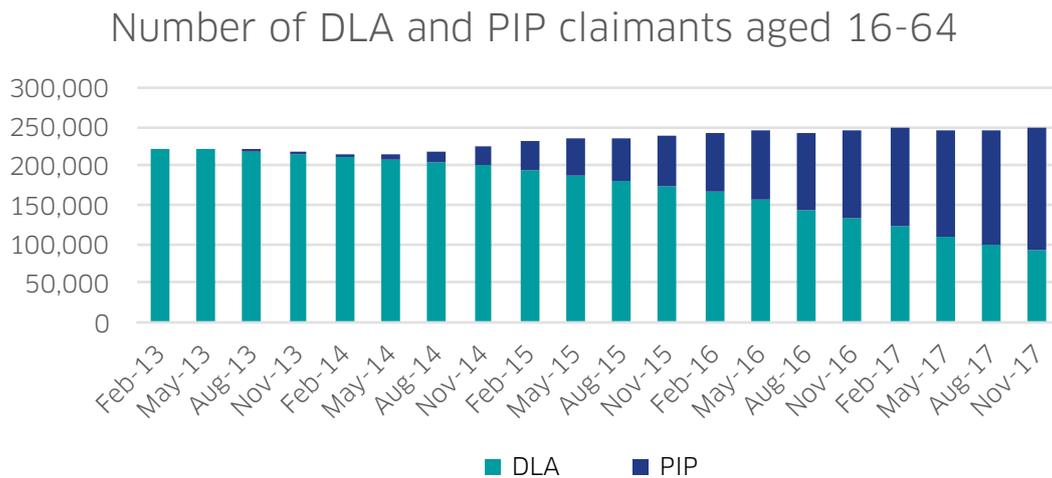
60 In these statistics, "in work" is defined as eligible for Working Tax Credit within the tax credit system

61 HM Treasury (2016), [Budget 2016](#)

62 The Scottish Parliament (2018), Official Report of the Social Security Committee meeting of 16 April 2018

63 Scottish government analysis using [Stat-Xplore](#)

64 DWP (2018), [Personal Independence Payment \(PIP\)](#)

Figure 1 - The number of working-age DLA and PIP claimants in Scotland from 2013 to 2017

Source: Stat Xplore

PIP is a non-means tested benefit, meaning that eligibility is not dependent on income and savings. An individual's eligibility for PIP, and the rate of award they receive, is assessed based on how the condition impacts their ability to carry out various daily living and mobility activities. Each of the activities has a corresponding list of statements, referred to as descriptors, intended to capture the extent to which an individual is able to carry out the activities, each of which provides a certain number of points.

After submitting a form detailing how their condition affects them, most claimants will be given an appointment for a face-to-face assessment with a healthcare professional. The assessor will evaluate the individual's ability to carry out the activities set out in the table below and choose the appropriate descriptor.

A minimum of eight points needs to be scored in relation to the daily living activities to receive the standard rate of £57.30 per week for the daily living component, and the same number of points in relation to the mobility component to receive £22.65 per week. If 12 points or more are scored they will receive the enhanced rate of £85.60 for daily living and/or £59.75 for mobility.

PIP **daily** activities:

1. Preparing food
2. Taking nutrition
3. Managing therapy or monitoring a health condition
4. Washing and bathing
5. Managing toilet needs or incontinence
6. Dressing and undressing
7. Communicating verbally
8. Reading and understanding signs, symbols and words
9. Engaging with other people face-to-face
10. Making budgeting decisions

PIP **mobility** activities:

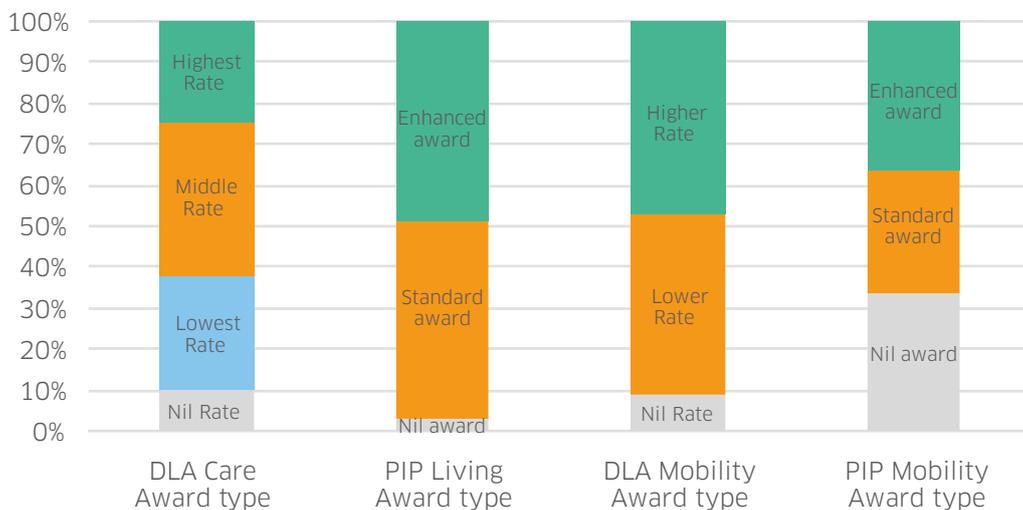
1. Planning and following journeys
2. Moving around

For people who are diagnosed as being terminally ill there is a fast track process not requiring an assessment and such individuals will receive the enhanced rate of the daily living component.

Compared to DLA, the PIP system has introduced tighter eligibility criteria and a points-based assessment to determine entitlement and amount of award.⁶⁵ Between April 2013 and April 2018, 25% of people who had pre-existing DLA entitlement were not awarded PIP following the reassessment process.⁶⁶

On average, it takes 11 weeks for a decision to be made on a PIP claim from the date of initial application.⁶⁷ PIP claimants are notably less likely to receive the mobility component of the benefit than DLA claimants. This is shown in figure 2 which presents the proportions of PIP and DLA claimants receiving the different components of each benefit. However, PIP claimants are more likely to receive the higher Daily Living component than DLA claimants are to receive the Care component it replaces.

Figure 2 - DLA and PIP award components of people aged 16-64 in November 2017



Source: Stat Xplore

By April 2018, around 350,000 PIP claims have been made in Scotland, of which around 200,000 were awarded payment. Around 55% of those awarded payment were new claims, while the remainder had been re-assessed from DLA.

The UK Parliament's Work and Pensions Committee has criticised several aspects of PIP and noted that there is consistent evidence that claimants do not trust assessors to record what happened during assessments accurately.⁶⁸

The committee stated that, "the definition of an 'acceptable' report leaves ample room for reports riddled with errors and omissions" and noted that neither Atos nor Capita, the contractors assessing claims on the UK Government's behalf, have ever met their target to have less than 3% of reports considered as being of 'unacceptable' quality. The Work and Pensions Committee also noted that in recent months the quality of 56% of Capita's reports were found to be unacceptable.

⁶⁵ Child Poverty Action Group (2018), [Welfare Benefits and Tax Credits Handbook, 20th Edition](#)

⁶⁶ Scottish government analysis using [Stat-Xplore](#)

⁶⁷ DWP (2018), [Personal Independence Payment: Official Statistics](#), p4

⁶⁸ UK Parliament (2018), [PIP, ESA trust deficit fails claimants and the public purse](#)

When claimants are not satisfied with their assessment decision, the first step is to request a 'mandatory reconsideration'.⁶⁹ By April 2018, a total of 781,000 PIP claims across Great Britain had undergone mandatory reconsideration. Of these claims, 141,000, or 18% resulted in a new decision.⁷⁰

Once claimants have undergone a mandatory reconsideration, they are entitled to appeal to the tribunal.⁷¹ It usually takes up to six months for an appeal to be heard by the tribunal. Table 6 presents data on PIP and DLA tribunals since 2013/14.⁷²

Table 6 - UK PIP and DLA number of tribunals and share of decisions in favour of claimants by year

	2013/14	2014/15	2015/16	2016/17	2017/18
PIP tribunals	1,017	20,899	61,529	104,205	112,752
Cleared PIP decisions in favour of claimant	26%	50%	61%	65%	68%
DLA tribunals	46,869	7,983	7,497	8,166	9,708
Cleared DLA decisions in favour of claimant	42%	49%	56%	58%	60%

It is evident from the table that a significant number of claimants are successful in challenging their PIP and DLA award decisions, despite an application form detailing claimants health conditions, a follow-up assessment with a trained health professional and the mandatory reconsideration process.

In November 2017, the High Court ruled against the DWP, finding that restricting the PIP enhanced mobility rate to claimants whose difficulties with mobility were due to "reasons other than psychological distress" was illegal.⁷³ In January 2018, the UK's Minister for Disabled People, Health and Work announced that the DWP will review the existing caseload (around 1.6 million claimants at that time), at an estimated cost of £3.7 billion.⁷⁴ The Office for Budget Responsibility (OBR) estimated that disability benefit spending across Great Britain will on average be £400 million per year higher between 2018-19 and 2022-23 as a result of this change.⁷⁵

3.2.4 Employment and Support Allowance

Since 2011, an estimated 70,000 people who transferred onto Employment and Support Allowance (ESA) have been underpaid due to errors made by the DWP.⁷⁶ These people were not paid the additional disability premiums they were entitled to as a result of the DWP placing them into contribution-based ESA, where additional disability premiums are not payable, rather than income-related ESA. Under income-related ESA, these people would have received additional premiums such as enhanced disability, severe disability, carer and pensioner premiums. Affected people lost an average of £5,000 per person, with some losing as much as £20,000. Between 2011 and 2017, Scotland made up around 11% of Great Britain's ESA caseload, which suggests there could be around 8,000 affected people in Scotland.⁷⁷

69 DWP (2018), [Challenge a benefit decision \(mandatory reconsideration\)](#)

70 DWP (2018), [Personal Independence Payment: Official Statistics](#)

71 DWP (2018), [Appeal a benefit decision](#)

72 DWP (2018), [Tribunals and gender recognitions certificates statistics quarterly: January to March 2018](#)

73 England and Wales High Court (2018), [Transcript of Resolution Foundation v Secretary of State for Work And Pensions court decision](#)

74 UK Parliament (2018), [PIP back payments](#)

75 OBR (2018), [Economic and fiscal outlook](#)

76 National Audit Office (2018), [Investigation into errors in Employment and Support Allowance](#)

77 Scottish government analysis using [Stat-Xplore](#)

A recent report by the UK Parliament's Committee of Public Accounts criticised the DWP for its "culture of indifference to underpayments".⁷⁸ Their report suggests that the DWP was aware it was underpaying many ESA claimants since at least 2013. Despite this, DWP continued to underpay claimants for several years, before accepting the underpayments were a result of the department's error and setting up a team to repay those underpaid.

Initially, the DWP planned to pay back only those claimants who were affected after 21 October 2014, having asserted that social security legislation prevented the DWP from paying back underpayments built up before this date.

That meant claimants would have lost around £100 million to £150 million of underpaid benefits. However, following widespread pressure, including legal action taken against the DWP by the Child Poverty Action Group, this decision was reversed, and the underpayments incurred as far back as 2011 will be repaid.^{79,80} The department expects to pay out up to £500 million of underpayments by April 2019, but do not plan to pay any compensation to reflect the value of lost passported benefits, like NHS prescriptions, dentistry treatment and free school meals.

3.3 What has been the overall change in social security spending?

Social Security spending in the UK has reduced significantly due to government decisions since 2010. In 2016 the OBR estimated the effect that the UK Government welfare reforms would have on social security spending, against a counterfactual scenario of what social security spending would have been without the reforms. The OBR found that social security spending across Great Britain would reduce by £19.6 billion in 2015/16, relative to the pre-existing system.⁸¹ This spending cut was estimated to get larger over time, and by 2020/21 the OBR estimated the difference will be around £46.5 billion.

The starkest change is when social security is considered as a share of the size of the economy. The OBR's 2016 report confirmed that in 2009/10 welfare spending represented 12.4% of Great Britain's economic output. Their estimates indicate that share will be 10.3% by 2020/21. Unless the UK Government increases the generosity of the system in coming years, the 2.1 percentage point drop in the welfare spending share of GDP is estimated to be the biggest on record across two consecutive parliaments.⁸² Spending to support children and working-age people would be at its lowest share of GDP since 1990/91.

Scottish Government analysts have estimated the financial impact of welfare reform on Scotland, based on the Scottish share of total UK spending on the benefit/tax credit associated with each welfare measure.⁸³ These calculations are based on the OBR's 2016 estimates of the financial impact of UK Government welfare reforms since 2011/12, and UK Budget Policy Costings published by HM Treasury. Policies which do not apply in Scotland are excluded from the analysis. The full methodology used in preparing these estimates is presented in Annex II. Figure 3 shows the estimated financial impact of UK Government welfare reforms in 2020/21.

78 UK Parliament (2018), [Employment and Support Allowance inquiry](#)

79 Child Poverty Action Group (2018), [Charity takes legal action against DWP for disabled claimants' arrears](#)

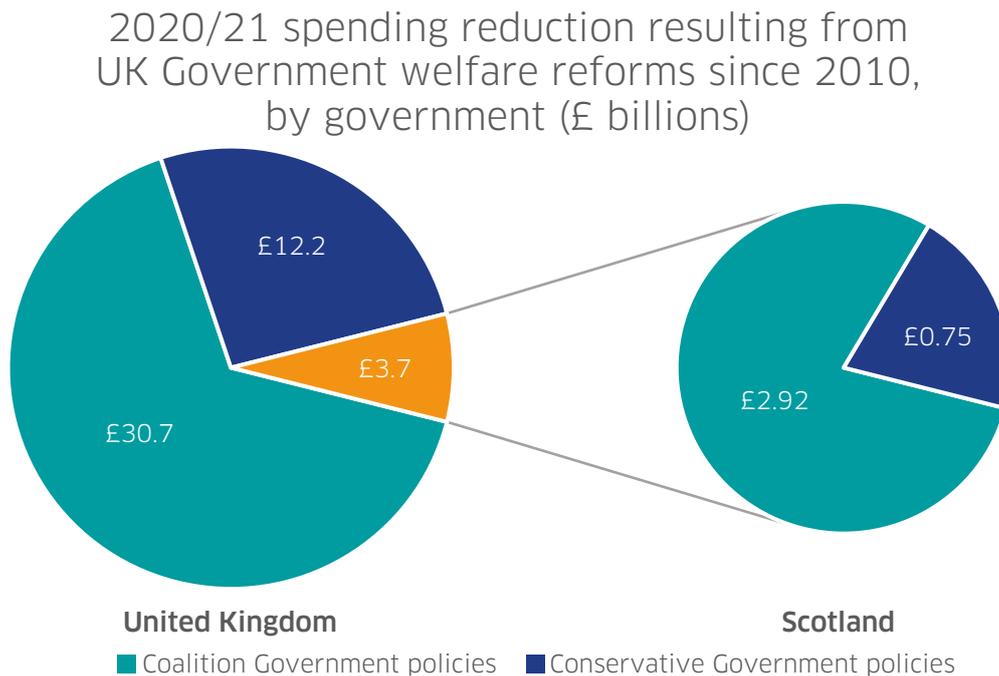
80 Child Poverty Action Group (2018), [CPAG legal action leads to full arrears for disabled claimants](#)

81 OBR (2016), [Welfare trends report](#), p. 4

82 OBR (2016), [Welfare trends report](#), p. 5

83 Please note share of spending is used where available, otherwise a share of caseload is used. For a full methodology please see Annex II.

Figure 3 – The estimated reduction in Social Security spending in 2020/21 from Coalition and Conservative government policy, at UK (left) and Scotland level (right).



Source: SG analysis based on OBR 'Welfare Trends' (2016) and HMT Policy Costings since 2015.

The financial impact of the Coalition Government's welfare reforms has increased each year. From 2016/17 onwards, further welfare reforms introduced by the Conservative Government have contributed to a further reduction in benefit generosity. Successive UK Governments' welfare reform policies are estimated to have reduced welfare spending in Scotland by over £2.5 billion in 2018/19, relative to the absence of these reforms. This spending reduction will reach around £3.7 billion by 2020/21. At the UK level, the welfare reforms have led to a £32.4 billion reduction in welfare spending in 2018/19. By 2020/21 the combined impact of the reforms is expected to have reduced benefit spending by around £46.5 billion across the UK. A policy-by-policy breakdown of the impacts of individual welfare reforms is shown in Annex II.

3.4 What has been the impact of welfare reforms on child poverty?

Following the publication of the Child Poverty (Scotland) Act 2017, Scotland became the only part of the UK with statutory targets to tackle child poverty.^{84,85} By 2030, the Scottish Government is required to ensure that fewer than:

- 10% of children live in relative poverty;
- 5% of children live in absolute poverty;
- 5% of children live in combined low income and material deprivation; and
- 5% of children live in families in persistent poverty.

Interim targets for 2023 are also set out in the Act.

⁸⁴ The National Archives (2017), [Child Poverty Act \(Scotland\) 2017](#)

⁸⁵ Scottish Government (2017), [Tackling child poverty](#)

However, research by Landman Economics commissioned by the Scottish Government forecast that, based on current and existing policy trajectories and without counter measures, all four of these poverty measures would increase by 2030 in Scotland. The report concluded that the “reduction in the real-terms generosity of the social security system between 2016/17 and 2020/21 as a result of planned reforms by the UK Government” was a key driver of these increased poverty rates.⁸⁶ Relative child poverty rates after housing costs (AHC) were forecast to increase particularly quickly for lone parents, families with three or more children and families with no parents in full-time employment. This is especially concerning given that lone parent and larger families were identified within a group of ‘priority families’ in the Scottish Government’s Tackling Child Poverty Delivery Plan.⁸⁷

The Child Poverty (Scotland) Act was introduced because the Child Poverty Act 2010, which set income targets for 2020 for the whole of the UK, was repealed by the UK Government in 2016. The UK’s own welfare reforms since 2010 meant that it would be extremely challenging for the UK Government to meet its 2020 targets. The Equality and Human Rights Commission (EHRC) found that welfare and tax reforms since 2010 have disproportionately reduced the incomes of people at the bottom of the income distribution. It also suggested that the impact of reforms on households with children was particularly concerning, and that the more children there are in a household, the greater the reduction in its income. By 2021/22, EHRC estimated that 80,000 children in Scotland would be brought into relative poverty AHC as a result of UK Government’s reforms since 2010. Across Great Britain, 1,360,000 children were estimated to be brought into relative poverty AHC.⁸⁸

Like Landman Economics, EHRC find that the income-reducing effects of reforms are particularly severe on vulnerable groups. The study estimates that across Great Britain by 2021/22, tax and welfare reforms since 2010 will have led to large income reductions.

- Lone parent households will have lost an average of £5,250 per year, equivalent to around 19% of their net income. Those in the bottom fifth of the income distribution are estimated to have lost 25% of their income (p. 80).
- Households with one disabled parent and one disabled child will have lost an average of over £6,500 per year, equivalent to around 13% of their net income. For a household with non-disabled parents but with disabled children the average income loss is estimated at £4,000 per year (p. 75).
- Households with three or more children will have lost an average of over £5,150 per year. The benefit cap and 2CL policy particularly affected these households, significantly reducing their income relative to smaller families (p. 82).
- Households with a lone parent and at least one child aged under one will have lost an average of over £9,000 per year. By comparison, couples with at least one child aged under one are estimated to have lost around £3,500 per year on average whilst families with a lone parent where all children are aged over one are estimated to have lost around £4,600 (p. 210).

The average loss for each of these groups is stark. However, the negative impact is greater for families with multiple disadvantages. EHRC intersectional analysis has shown that, across Great Britain, households with a disabled lone parent caring for a disabled child will lose, on average, almost £10,000 per year in income, equivalent to almost 30% of their annual income (p. 15).

⁸⁶ Landman Economics (2018), [Forecasting Child Poverty in Scotland](#), p. 26 - 27

⁸⁷ Scottish Government (2018), [The Tackling Child Poverty Delivery Plan](#)

⁸⁸ Equality and Human Rights Commission (2018), [The effect of tax and welfare reforms](#), p. 150

A UK-level paper by the Women's Budget Group on intersectional impacts found that, due to welfare cuts since 2010, Black families in the bottom fifth of the income distribution will see their living standards fall by over £8,400 a year on average. Asian families in the bottom fifth of the income distribution were estimated to see their living standards fall by almost £11,700 per year.⁸⁹

The Scottish Government has designed a number of policies which can help redress the negative impacts of welfare reforms on families with children, as laid out in the Tackling Child Poverty Delivery Plan.⁹⁰ This is a cross sector plan which aims to tackle the three drivers of poverty by increasing income from employment for lower income households; reducing costs of living and increasing social security. The plan covers a number of social security measures, including Best Start Grant, a more generous replacement for the UK Government's Sure Start Maternity Grant and the Job Grant which will provide young parents who have been unemployed for six months or more with £250 when they return to work, to cover the basic costs of doing so. The key social security action is the introduction of a new income supplement for low-income families with children, to be delivered by 2022.⁹¹ These policies demonstrate the Scottish Government's commitment to doing more to reduce child poverty in the future. The Scottish Government's existing policies which help to mitigate the effects of welfare reform are discussed in section 3.5.

3.5 How has the Scottish Government mitigated the effects of welfare reform?

In 2018/19, Scotland will spend over £125 million on mitigating the impacts of welfare reform and supporting people on low incomes. The breakdown of this spending is shown in table 7.

Table 7 – Scottish Government budget allocations in recent years, rounded to nearest £1 million

SG budget allocations on welfare reform impact mitigation and supporting those on low incomes				
	2015/16	2016/17	2017/18	2018/19
Discretionary Housing Payment	£35m	£35m	£59m	£62m
Scottish Welfare Fund	£38m	£38m	£38m	£38m
Fairer Scotland	£8m	£8m	£7m	£26m
Total	£78m	£78m	£104m	£126m

Source: Scottish Government budget allocations

3.5.1 Discretionary Housing Payments (DHP)

DHPs provide help with housing costs for those on HB or the housing element of UC. From 1 April 2017, these have been devolved to the Scottish Government, and continue to be administered by local authorities.

In the period 2015/16-2018/19, the Scottish Government has allocated a £190 million budget for DHPs to mitigate the bedroom tax. From 2017, in addition to funding the full mitigation of the bedroom tax the Scottish Government also provides funding for other DHPs, which are

⁸⁹ Women's Budget Group (2018), [Intersecting inequalities: The impact of austerity on Black and Minority Ethnic women in the UK](#)

⁹⁰ Scottish Government (2018), [The Tackling Child Poverty Delivery Plan](#), p. 11

⁹¹ Further information on each of these policies is available at Scottish Government (2018), [The Tackling Child Poverty Delivery Plan](#), p. 65 - 71

frequently made in mitigation of the impact of other aspects of welfare reform including changes to LHA and the Benefit Cap. The budget allocated to local authorities for other DHPs is £10.9 million in 2018/19.⁹²

3.5.2 Scottish Welfare Fund

The Scottish Welfare Fund (SWF) is delivered on behalf of the Scottish Government by local authorities. It was created to provide a safety net for people on low incomes. It is a national scheme that helps Scottish households in need, by the provision of Crisis Grants and Community Care Grants.

A Crisis Grant aims to help people on a low income who are in crisis because of a disaster (such as a fire or a flood) or an emergency (such as where money has been lost or an unexpected expense has arisen).

A Community Care Grant aims to help:

- people establish themselves in the community following a period of care;
- people remain in the community rather than going into care;
- people establish or maintain a home in the community following an unsettled way of life;
- families facing exceptional pressures with one-off items; and
- people to care for a prisoner or young offender on release on temporary licence.

The SWF is a discretionary, budget-limited grant scheme that prioritises applications according to need. Delivered since April 2013, the scheme was made permanent in April 2016 by the Welfare Funds (Scotland) Act 2015 and subsequent legislation. The Scottish Government provides an annual grant of £38 million to local authorities to deliver the scheme.

Between April 2013 and March 2018, local authorities were awarded £164.8 million of grants. These grants were made to 296,520 vulnerable households across Scotland (a third of which were households with children).

In 2017/18, local authorities received 65,035 applications for Community Care Grants, and awarded £23.6 million. Local authorities also received 174,155 applications for Crisis Grants during this time, and awarded £9.1 million.

⁹² Scottish Government (2018), [Annual Report on Welfare Reform Follow up Paper: Housing and Social Security](#)

3.5.3 Fairer Scotland

In 2018/19, the Scottish Government will spend almost £26 million on measures to build a fairer and more prosperous Scotland, an increase of almost £19 million on 2017/18.

The key actions within this funding include:

- providing £1 million to tackle food poverty, investing £800,000 in Scotland's Fair Food Transformation Fund and £200,000 in Fareshare;
- investing over £3.6 million in advice services, helping families in need to maximise their incomes and tackle the impact of welfare reform;
- £1.5 million investment in the Financial Health Check guarantee to help low income families maximise their incomes and avoid the 'poverty premium' of higher costs for essential goods and services, to be launched in 2018; and
- £5.7 million investment in the provision of free sanitary products, supporting those who menstruate and reducing the anxiety experienced by those who struggle to find the money to buy these essential items.

The Child Poverty Delivery Plan will cover the period 2018-22 and is supported by a new £50 million Tackling Child Poverty Fund. Employability is a key theme, following advice from the Poverty & Inequality Commission. Our new actions on Fair Work include investing £12 million of new funding to enable local areas to deliver additional intensive in and out of work employment support for low income parents who are either ineligible or not ready for Fair Start Scotland and other national/local programmes. This support will help those parents who face barriers that prevent a return to work, with a particular focus on our priority families. It will also help parents already in employment to stay in work and progress through a rewarding career.

3.5.4 Council Tax Reduction

Council Tax Benefit (CTB) was a social security benefit administered by the DWP which helped claimants meet their Council Tax liabilities. The UK Welfare Reform Act 2012 abolished CTB from April 2013. After this the UK transferred funding equivalent to their forecasted CTB expenditure in Scotland, less 10%, to the Scottish budget. The Council Tax Reduction scheme reduces the council tax liability of households, taking into account their income and any relevant household characteristics.

Between 2013/14 and the end of 2018/19, we will have invested over £1.4 billion in the Council Tax Reduction Scheme (CTR). There were around 485,000 CTR recipients in Scotland in March 2018, with 58% (280,240 claimants) being in one of the 30% most deprived areas in Scotland. A total of 16% (77,800 claimants) were lone parents. Table 8 shows the level of funding the Scottish Government has allocated to CTR in recent years.

Table 8 – Scottish Government expenditure on Council Tax Reduction in recent years, rounded to nearest £1 million

SG spending on Council Tax Reduction				
	2015/16	2016/17	2017/18	2018/19
Council Tax Reduction expenditure	£343m	£343m	£351m	£351m

Source: Scottish Government budget allocations

4. THE ROLL OUT OF UNIVERSAL CREDIT

4.1 What is Universal Credit?

Universal Credit (UC) is a new means-tested benefit for working-age people replacing the benefits and tax credits below:

- Income-based Jobseeker's Allowance (JSA)
- Income-related Employment and Support Allowance (ESA)
- Income Support (IS)
- Housing Benefit (HB)
- Child Tax Credit (CTC)
- Working Tax Credit (WTC)

UC was first announced in 2010, opened to new claimants in 2013, and is now being introduced gradually across Great Britain. Whilst initially expected to have rolled out in full by 2017, due to successive administrative delays, UC is currently estimated to be fully rolled out by March 2023.

The Office for Budget Responsibility (OBR) forecast that after full roll out, UC will be paid to around 6.7 million households in Great Britain, cost more than £60 billion a year and will make up around two-thirds of working-age welfare spending.⁹³

UC winners and losers

UC may provide some households with more income than they had under the legacy benefits, but the overall impact will be to reduce income from benefits. The OBR estimated that with UC full roll out in 2022/23 and in the absence of Transitional Protection, the net reduction in claimants' benefit entitlement from replacing legacy benefits with UC will be £2.4 billion across Great Britain.^{94,95} The Resolution Foundation (RF) estimated that without Transitional Protection, UC will be £2.7 billion less generous in 2020/21 than the legacy benefits and the average loss to working families will be around £625 per year.⁹⁶

4.2 The roll out of Universal Credit

As of May 2018, around 920,000 people claimed UC across Great Britain, with around 91,000 claimants in Scotland, as shown in table 9.

Table 9 - Numbers claiming Universal Credit in Scotland and Great Britain over time

	May 2014	May 2015	May 2016	May 2017	May 2018
Scotland claimants	337	2,287	28,912	51,424	91,144
Total Great Britain claimants	6,044	61,923	276,879	519,486	918,790

Source: Stat Xplore - people on UC data

⁹³ OBR (2018), [Welfare trends report](#), p. 3, 5

⁹⁴ Transitional Protection is discussed in detail in section 4.5.

⁹⁵ OBR (2018), [Welfare trends report](#), p. 126

⁹⁶ Resolution Foundation (2017), [Universal Remedy: ensuring Universal Credit is fit for purpose](#)

UC 'live service': UC was first introduced in April 2013 in 'live service' areas. In 'live service' areas new claims were only accepted from single persons (and couples in certain areas) who were unemployed or had very low earnings, with straightforward circumstances to minimise the complexity of claims e.g. single claimants of income-based JSA without children. Since 1 January 2018, people in 'live service' areas cannot make new claims to UC. Instead, claimants will be referred to claim legacy benefits until their area enters UC 'full service'.⁹⁷

UC 'full service': Roll out of the 'full service' began in 2016 and is expected to be completed in December 2018. When 'full service' rolls out in an area, all people who fit the eligibility criteria are free to make a new UC claim. As of August 2018, 'full service' had been rolled out to 56 Jobcentres in Scotland. The remaining 27 Jobcentres will enter full service by the end of 2018, including Glasgow, Edinburgh and Aberdeen .

The restrictions which ensured only simple claims entered UC early in the roll out meant that UC claimants were disproportionately young, male, out of work and without children. As more UC claims are delivered by 'full service' areas, the demographics of the UC claimant caseload have shifted to become more similar to the six legacy benefits, as shown in table 10.

Table 10 - The profile of the Scottish Universal Credit caseload by selected characteristics

Characteristic	June 2014	June 2015	June 2016	June 2017	June 2018
Aged 16-39	83%	78%	75%	70%	63%
Male	77%	72%	72%	66%	55%

Source: Stat Xplore - people on UC

Although the characteristics of people who claim UC have changed over time, there are still relatively few people who are entitled to the more complex elements of UC. Table 11 shows that the majority of households on UC are without children, and very few include people who qualify for the Limited Capability for Work element.

Table 11 - The entitlement and family structure of Scottish households on Universal Credit in December 2017

	Carer element	Child element	Child Care element	Disabled Child element	Housing element	Limited Capability for Work element
Single, no child dependant	1,214	-	-	-	25,424	2,106
Single, with child dependant(s)	437	6,844	380	356	5,490	196
Couple, no child dependant	242	-	-	-	1,017	166
Couple, with child dependant(s)	397	2,765	88	226	2,130	137
Total	2,290	9,609	468	582	34,061	2,605

Source: Stat Xplore - households on UC

⁹⁷ DWP (2018), [Universal Credit: full service and live service areas](#)

Thus far, a relatively small number of families with children and people with disabilities are claiming UC. This is because ‘full service’ has not yet fully rolled out and managed migration is scheduled to begin in July 2019, as discussed in more detail later in this report.

4.3 How people move onto Universal Credit

Although UC is simpler than the legacy system of six benefits it replaces, it is in its own right difficult for some claimants to understand and for the DWP to administer. This section will explain how people move onto UC and what choices are available to Scottish claimants.

There are three ways people can move onto UC. These are:

- **The ‘new claim’ process** – people who live in a full service area are directly referred to claim UC when they decide to apply for a means-tested benefit.
- **The ‘natural migration’ process** – people who already claim legacy benefits in a full service area and experience a change of circumstances such as moving address or the birth of a child are referred to make a UC claim instead.
- **The ‘managed migration’ process** – people who receive legacy benefits are selected by DWP to move onto UC. This is scheduled to begin in July 2019 and be completed by 2023.⁹⁸ As shown in Table 12, DWP estimate that between January 2019 and 2023, around 2.09 million households (or 2.87 million claimants) of legacy benefits will be moving from existing legacy benefits onto UC through managed migration.⁹⁹

Table 12 – Estimated number of households moving onto Universal Credit through managed migration across Great Britain between January 2019 and 2023, DWP

Legacy Benefit	Number	Share of cases
JSA only/JSA & CTC and/or HB	39,000	2%
ESA only/JSA & CTC and/or HB	745,000	36%
IS only/JSA & CTC and/or HB	119,000	6%
CTC only/CTC & HB	395,000	19%
WTC & CTC only/WTC & CTC & HB	620,000	30%
WTC only/WTC & HB	102,000	5%
HB only	72,000	3%
Total	2,092,000	100%

Source: DWP (2018) Explanatory memorandum for the Social Security Advisory Committee

There are a range of estimates of what proportion of the people expected to move onto UC will do so through managed migration. The OBR estimate that 1.9 million households will be subject to managed migration.¹⁰⁰ The most recent DWP estimate comes from an explanatory memorandum to the Social Security Advisory Committee, and predicted that approximately 2.09 million households, which contain around 2.87 million people, will move from legacy benefits to UC through managed migration.¹⁰¹ This memorandum also confirmed that managed migration is expected to begin in January 2019 and continue until 2023 when it is due to be complete.

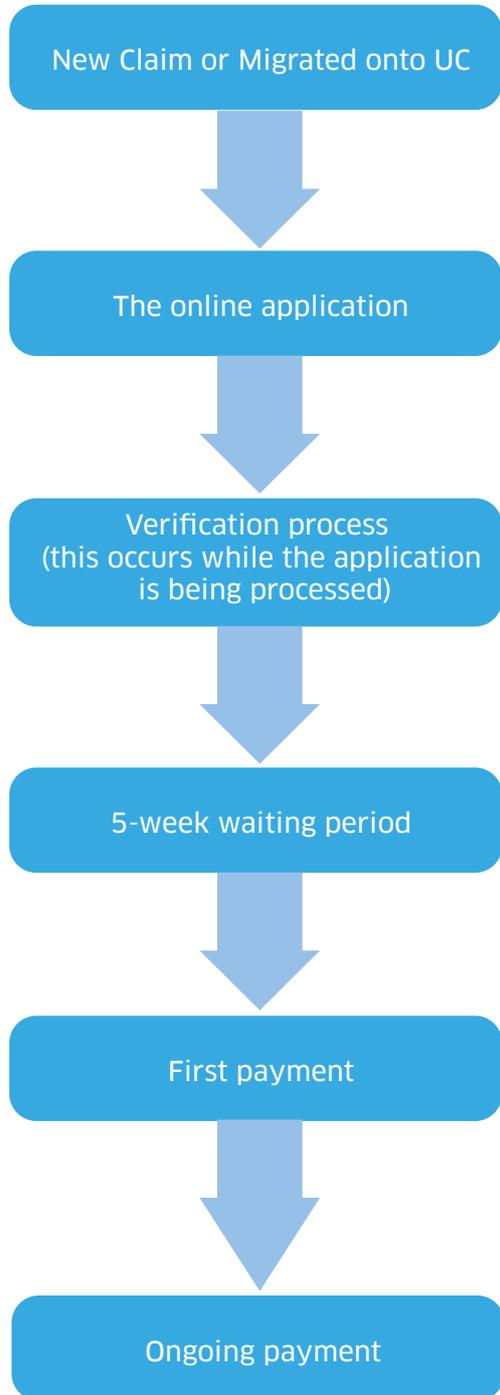
⁹⁸ As discussed in paragraph 8 of [this](#) explanatory memorandum, the DWP intend to test managed migration on a small number of cases, beginning in January 2019. Based on the results of these smaller migrations, the DWP intend to modify the process to allow a smoother roll out for the large scale roll out which will begin in June 2019.

⁹⁹ DWP (2018), [Explanatory memorandum for the Social Security Advisory Committee](#)

¹⁰⁰ OBR (2018), [Welfare Trends Report](#), p. 69

¹⁰¹ Social Security Advisory Committee (2018), [Government proposal to move claimants on ‘legacy’ benefits to Universal Credit: consultation announced](#), p. 29

How to claim UC



New claimants of UC are instructed to apply online through the UK Government's website. Claimants must then complete an online verification process to confirm their identity. The date the claim is submitted is referred to as the claimant's 'assessment date'. For employed claimants, the DWP will use 'Real Time Information' on earnings, provided by the claimant's employers to HRMC, to calculate the appropriate award amount. Self-employed claimants are required to report their income to DWP each month, in order for entitlement to be calculated. The DWP's target is to pay claimants within five weeks of their assessment date, which, going forward, will serve as the date each month when UC will be paid. Once the payment is made, claimants will receive a bank transfer on the same day each month as their initial application submission, or the weekday immediately before this if it is a weekend or bank holiday.

The memorandum also provided more detailed information on how managed migration will function. The memorandum proposed that:

- Before initiating the managed migration into UC, the DWP plan to allow a 4-6 month “preparation period” when claimants will be notified that their existing benefits are ending and advised on what steps to take to prepare to claim UC (p. 11).
- Once this period is over, claimants will be notified that they need to claim UC by a specific date (within one to three months) in order for their benefit payments to continue. This date is called the “deadline day” (p. 11). The notification will tell them that their benefits will be stopped on the deadline day and so they need to make a claim for UC (p. 13).
- When Tax Credits claimants with capital over £16,000 move onto UC through managed migration, they will be able to claim for 12 months (p. 30).¹⁰² Then their UC entitlement will stop unless their available capital has reduced below £16,000.
- Where self-employed claimants move to UC through managed migration and found to be gainfully self-employed, they will be allowed a 6-month ‘grace period’ before the Minimum Income Floor is applied regardless of how long they have been in self-employment under the legacy system (p. 24).
- Claimants who are in receipt of the Severe Disability Premium (SDP) in JSA (income-based), IS, HB or ESA (income-related) will not be naturally migrated onto UC. This is in recognition that there is no equivalent entitlement to the SDP in UC and these claimants would have the most to lose if they migrated over to UC. Therefore the legacy benefit claimants in receipt of the SDP will instead be moved onto UC through managed migration to allow them access to transitional protection. Claimants who have been naturally migrated before the regulations come into force will have a transitional protection award calculated based on the amount they would have been entitled to during their previous UC assessment periods. The amount of transitional protection they have missed out on since moving to UC will be paid as a lump sum and the transitional payment will then be paid as part of the UC award going forward.

4.4 Universal Credit Scottish choices

Sections 29 and 30 of the Scotland Act 2016 allow Scottish Ministers to introduce UC flexibilities with regard to who receives UC payments and when. These are:

- having the option of being paid UC twice a month rather than monthly;
- having the option of the UC housing element being paid directly to social and private sector landlords;
- the power to vary the amount of housing costs paid to people in receipt of UC; and
- the power to split payments between partners in a household.

If a claimant chooses twice-monthly payments, at the end of the second assessment period they will receive half of their UC award for that assessment period. Fifteen days later, they will receive the second half of their award. At this point, people with monthly and twice-monthly payments will have received the same amount – one month’s UC award. They will then receive a payment approximately every two weeks thereafter, compared to a claimant elsewhere in Great Britain who will have to wait one month for each UC payment.

¹⁰² People with over £16,000 of capital are normally unable to claim UC, whereas under Tax Credits there were no such capital limits. The UK government estimate that there are around 50,000 Tax Credits claimants with capital of over £16,000 across Great Britain.

Recent surveys by Housing Associations in Scotland and England found that UC claimants were more than twice as likely to be in rent arrears as people who did not claim UC.¹⁰³ In Scotland in 2017, 65% of UC claimants in social housing were in rent arrears compared to 32% of other tenants. In England, 73% of UC claimants in social housing were in rent arrears compared to 29% of other tenants. The Convention of Scottish local authorities reported that across East Lothian Council and Highland Council, which have been longest on UC Full Service, average rent arrears for those in receipt of UC are over 2.5 times the rent arrears of those on Housing Benefit.¹⁰⁴

The UC Scottish choices give people more choice and control over UC payments, as well as safeguarding tenancies and preventing the build-up of rent arrears. Neither option affects the overall amount of UC that is payable.

Whilst UC claimants in the rest of the UK can access similar services provided under Alternative Payment Arrangements, this is only possible at the discretion of DWP staff and after the claimant has demonstrated financial mismanagement, incurred rent arrears and/or have been at risk of financial harm.

Of the UC claimants in Scotland, 5,800 had been offered these choices between 4 October 2017 to 31 December 2017.¹⁰⁵ Of that 5,800, 2,600 (45%) decided to implement a choice. 1,600 chose to be paid twice monthly and 500 chose to have the housing element of UC paid direct to their landlords. A further 500 chose to take up both of these options. The Scottish Government intends to publish further management information covering the UC Scottish choices in October 2018.

By default, UC is paid as a single payment to one household on a monthly basis. This means, in the case of joint claims from couples, the couple nominates a single bank account to which the entirety of their joint UC award is paid. The single bank account nominated by the household can be a joint account. Scottish Ministers have publicly expressed concern that the UK Government's policy of single household payments can increase inequality in the welfare system, and act as an enabler for domestic abuse or financial coercion by one partner towards another.

The Scottish Government has committed to using Section 30 of the Scotland Act 2016 to introduce split payments in UC, with the aim of promoting dignity and respect in the welfare system, and providing everyone with an independent income.

As part of the consultation on social security (29 July – 30 October 2016), 88% of people supported payments of UC to be split between members of a household.¹⁰⁶ Since then, the Scottish Government have engaged with a wide range of stakeholders, including Engender, Scottish Women's Aid, Scottish Federation of Housing Associations, and Inclusion Scotland to gather views on how best to split the UC award between partners of a household.

103 Scottish Federation of Housing Associations (2018), [Housing federations across the UK say "flawed" universal credit is causing debt and hardship for families in social housing](#)

104 COSLA (2017), [Welfare Reform](#), p. 3

105 Scottish Government (2018), [Social Security for Scotland](#)

106 The Scottish Government (2017), [Scottish Government Response to the Consultation on Universal Credit](#), p. 4

4.5 Transitional Protection

Transitional Protection (TP) is an additional element of UC to compensate claimants who moved onto UC through managed migration for any difference between their previous legacy benefits award and their new UC award. Where the UC entitlement is lower, TP will be awarded to make up the difference. TP will be introduced in July 2019 and will be calculated by comparing the total household legacy benefit entitlement at the point of managed migration with the total first household entitlement of UC.

It is currently unclear exactly how long TP will be in place for and the details around the conditions under which it would end, which depend on changes in household circumstances. Historically, TP for other welfare reforms has lasted in some cases for several years. The details released by the DWP so far suggest that TP will end when either:

- current UC entitlements are greater than legacy tax credits/benefits; or
- circumstances of the claimant change significantly.

DWP have confirmed that the following changes of circumstances would end a claimant's TP.

- A partner leaving/joining the household.
- A sustained (three month) income drop beneath the expected earnings level in the claimant commitment.
- The UC award ending (due to an increase in income, for example).

The TP calculation will ignore any sanctions or deductions to which the household is subject from their legacy benefits or tax credits. This will ensure the TP amount is based on the household entitlement at the point of transition rather than the payment amount.

The Social Security Advisory Committee's June 2018 public consultation on draft regulations also provided some more detailed information on how TP and managed migration will function.¹⁰⁷ The memorandum proposes that:

- Claimants who qualified for SDP as part of JSA(IB), IS, HB or ESA(IR) awards before naturally migrating to UC will qualify for TP. UK government estimates there are around 4,000 claimants in this situation who have already naturally migrated onto UC (p. 32).
- Claimants who are receiving the childcare element of UC will not have their transitional element eroded as a result of their childcare costs increasing (p. 31).

The cost of Transitional Protection

In 2018, the OBR estimated that TP will cost UK government £0.3 billion in 2020/21, rising to £1.3 billion in 2022/23, compared to a scenario in which claimants were moved onto UC without protection. The explanatory memorandum presents a more recent DWP estimate that around 2.09 million households, comprised of 2.78 million people, will move onto UC through managed migration, as opposed to the OBR's estimate of 1.9 million households.¹⁰⁸ Should the numbers migrated be higher than the OBR's 1.9 million estimate, the cost of TP is likely to rise accordingly. The OBR estimate that the cost of TP will peak in 2022/23, and slowly decline as claimants gradually lose TP due to UC entitlements increasing beyond legacy benefit entitlement, or changes of circumstances causing their UC claim to end.¹⁰⁹

¹⁰⁷ Social Security Advisory Committee (2018), [Government proposal to move claimants on 'legacy' benefits to Universal Credit: consultation announced](#)

¹⁰⁸ OBR (2018), [Welfare trends report](#), p. 69, 84

¹⁰⁹ OBR (2018), [Welfare trends report](#), p. 24

The UK Government has put in place a benefits freeze which will continue until March 2020. In the absence of further policy change, the level of benefit entitlements will begin to be uprated with inflation beyond this date. Once benefit entitlements begin to increase, the difference between claimants' UC award under TP and their flat entitlement under the legacy system will reduce.

As previously discussed, the Resolution Foundation estimated that moving onto UC will cost the average working family £625 per year.¹¹⁰ Table 13 assumes that a hypothetical household is entitled to £8,000 of legacy benefits and are migrated onto UC in 2019 by DWP where their entitlement is reduced by this average of £625. If UC entitlements were linked to inflation from 2020/21 onwards, and a 2% inflation target is met each year, the family's TP will run out in 2024/25.

Table 13 - The impact of inflation on Transitional Protection

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Legacy benefits entitlement	£8,000	£8,000	£8,000	£8,000	£8,000	£8,000
UC entitlement	£7,375	£7,523	£7,673	£7,826	£7,983	£8,143
Transitional Protection entitlement	£625	£478	£327	£174	£17	£0

Source: Scottish Government calculations

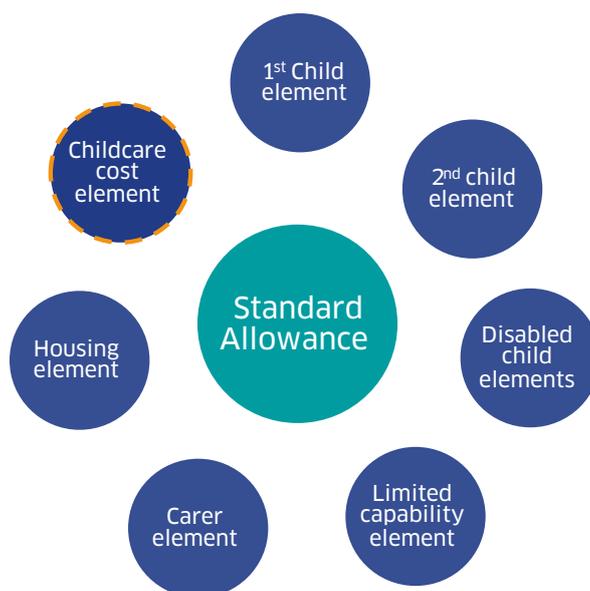
It is therefore inevitable that eventually people who receive less under UC than under legacy benefits will feel the effects of this.

4.6 How Universal Credit awards are calculated

This section will explain how UC awards are calculated, TP and some aspects of how UC entitlement interacts with income from self-employment.

UC consolidates six individual legacy benefits and whilst it is a single benefit it comprises several elements, as shown in figure 4.

Figure 4 - Universal Credit entitlements



¹¹⁰ Resolution Foundation (2017), [Universal Remedy: ensuring Universal Credit is fit for purpose](#), p. 27

There are three steps to calculating a UC award.

1. Calculate the maximum award.
2. Adjust maximum award based on income.¹¹¹
3. Reduce the maximum award by deductions to find the final entitlement.

Figure 5 - Universal Credit – 3 key parameters

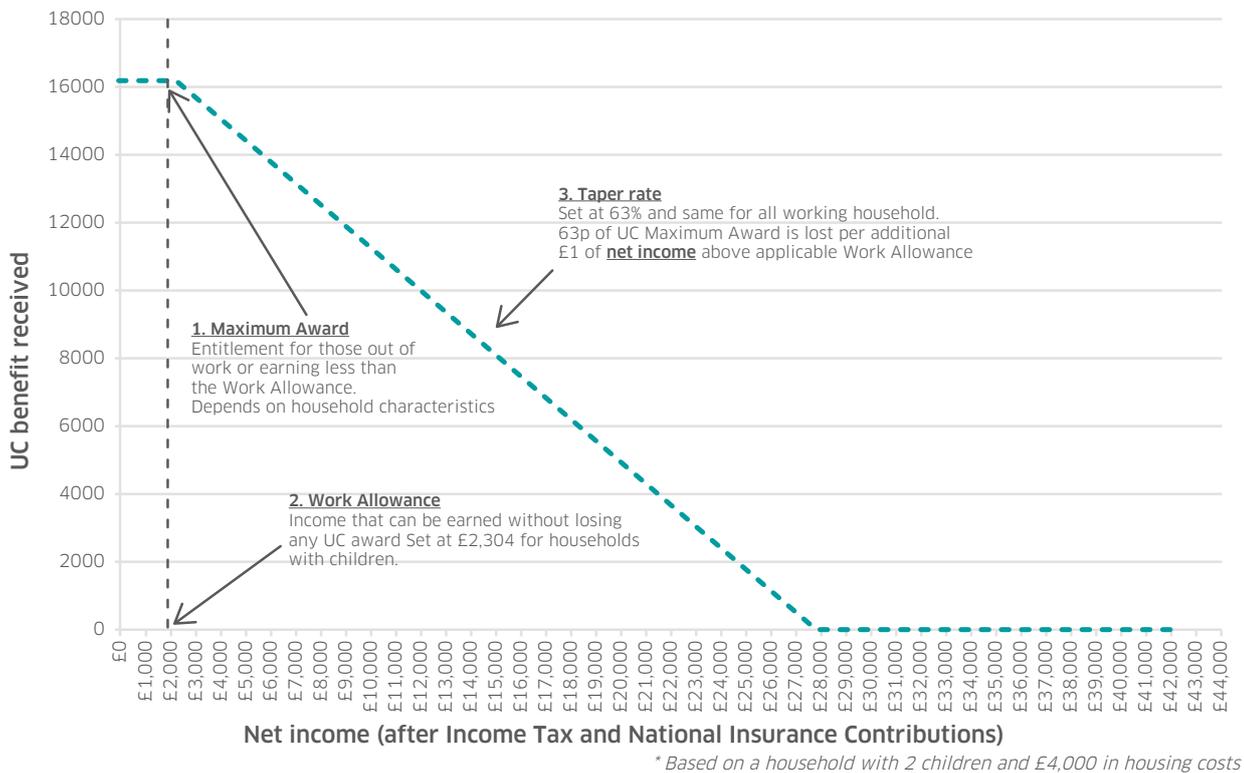


Figure 5 is a simplified illustration of how the key parameters of UC interact for calculating the UC award. Claimants who are out of work or earn less than the work allowance receive the maximum award. For every £1 of net income above the work allowance the claimant's UC award is reduced by 63 pence for they earn. The red line in the chart above shows the tapering effect. We use a simple case study to illustrate how this calculation works in practice.

¹¹¹ This may include earned income from employment, self-employment, investments, savings interest, and other types of unearned income.

Calculating UC awards

Angela is a 23 year-old who lives alone and works 30 hours per week in a job which pays the minimum wage for under-25s of £7.38. She has a 1 year-old baby and pays £100 in childcare costs per week. She lives in social housing and pays £75 in rent per week. Under the system of benefits UC replaces, her total benefit entitlement would be around £9,400 per year, made up of Working and Child Tax Credits and Housing Benefit.

Maximum Award

To calculate her UC award we should calculate the maximum award payable, should no deductions apply. Angela would qualify for four distinct elements of UC.

- The Standard allowance - £251.77 per month.
- The Child element - £231.67 per month.
- The Childcare costs element - 85% of her £100 per week childcare costs, or £368.33 per month.
- The Housing element - Her full amount of housing costs per week, or about £325 per month.

That gives a total maximum award for Angela of £1,176.77 per month.

Work Allowance and Taper rate

The next step is to estimate Angela's award deductions, which increase with her income. Additional deduction rules, such as those made when claimants have over £6,000 in financial assets, can apply in more complicated cases. Angela makes £7.38 an hour, working 30 hours per week, resulting in gross pay of £959.40. To taper away the UC award, income after tax and National Insurance (NI) is used.

Although Angela's income isn't high enough to pay income tax, she will pay some NI. The earnings threshold for this is £702 per month, so 12% of her monthly income between £702 and £959.40 must be paid as NI, which works out at £30.89. Her income after tax and NI is therefore £928.51.

Because she claims housing costs and is a lone parent, she is entitled to earn £198 per month before her income begins to taper from her UC award. When we take this work allowance off her monthly income, it leaves £730.51. Her maximum award is reduced by 63% of this figure, reducing it by £460.22.

Final Award

Angela's maximum award of £1,176.77 is reduced by £460.22. That leaves her final UC entitlement at £716.55 per month or £8,598.60 per year, about £800 less than she would have been entitled to under Tax Credits.

4.7 How is Universal Credit different from the legacy benefits?

UC is different from the legacy benefits in several ways: complexity of the system; waiting time for payment; generosity; self-employed claimants and conditionality.

4.7.1 Complexity of the Universal Credit system

Despite the DWP's website requiring claimants to apply for UC online,¹¹² a recent DWP survey of UC claimants found that only 54% of claimants managed to claim online without help. Of the remaining 46%, around 90% completed their application online with help, usually from friends or relatives, or a Jobcentre Plus advisor. Only around 10% used the Universal Support service from local councils, a programme intended to help those who found the transition to UC difficult. Of these, 16% said the website crashed during the application process.¹¹³

The survey also found that only 45% of claimants managed to use the online identity verification process. Those unable to complete the online verification must then apply for an interview at a Jobcentre Plus office to complete verification in person, potentially delaying their application.

4.7.2 Waiting times

The five-week wait for the first payment after completing the UC application is relatively long compared to the legacy benefits. This five week wait is comprised of a one month assessment period and a 7 day processing period. In 2016/17, Child Benefit and Tax Credit claims were being processed within 16 working days on average, which is between three and four weeks.¹¹⁴ The DWP do not publish statistics on the time it takes to process claims of most benefit types, however recent HB statistics show that in 2017/18, new claims for HB were processed within 22 calendar days on average, which is between three to four weeks.¹¹⁵ The DWP's March 2018 estimate showed that, following this waiting period, on-time payment of full benefit entitlement failed for 21% of claimants with 13% not receiving any payment.¹¹⁶ When claimants do not receive their payment on time, the average wait is a further four weeks, totaling nine weeks since their initial claim.

This one month assessment period is intended to replicate the experience of waiting for a first payslip from an employer and to encourage responsible budgeting.¹¹⁷ However, a prolonged waiting payment period can have adverse effects and financial implications for claimants. A survey for the Trussell Trust, an organisation that operates foodbanks across the UK, found that due to waiting for the first payment, 70% of respondents found themselves in debt, 57% experienced issues with their mental or physical health, and 56% experienced housing issues.¹¹⁸ Only 8% of respondents stated their UC award covered their cost of living, which is likely to exacerbate any debt which accrues as a result of the waiting time. Around 60% of claimants requested an advance on their UC entitlement to help them manage their expenses until their first payment comes in. The 49% of respondents who had claimed an advance on their UC found it was unhelpful. The most common reasons for this were that the amount was too little, or that it had to be repaid.

¹¹² DWP (2018), [Universal Credit: How to claim](#)

¹¹³ DWP (2018), [Universal Credit Full Service Survey](#)

¹¹⁴ National Audit Office (2018), [HM Revenue & Customs 2016-17 accounts](#)

¹¹⁵ DWP (2018), [Housing Benefit: statistics on speed of processing 2017 to 2018](#)

¹¹⁶ National Audit Office (2018), [Rolling out Universal Credit](#)

¹¹⁷ More information on UC claim processing and payment is available at DWP (2018), [Universal Credit: different earning patterns and your payments \(payment cycles\)](#)

¹¹⁸ Trussell Trust (2018), [Left Behind: Is Universal Credit truly universal?](#)

4.7.3 Generosity

UC's system of calculating awards is distinctly different from the legacy benefits. UC has different work allowances (the point after which benefits are tapered by income), taper rates, entitlement criteria and tax interactions. This means that UC awards are often different from the legacy benefit awards and the direction of change depends on claimants' personal circumstances.

The OBR estimate that the UC system will be less generous by £2.2 billion for Tax Credit recipients, £1.4 billion for ESA recipients and £0.1 billion for IS recipients. Conversely, for newly eligible UC claimants and HB-only claimants, it is estimated that the new system will be £0.7 billion more generous. It is estimated that the net effect on JSA claimants will be negligible.¹¹⁹

The Resolution Foundation estimate that while the gains and losses in the entitlement of couples with children will approximately even out in the aggregate, lone parents and non-parents will experience greater losses of £1,352 and £728 per year on average respectively, based on 2017/18 entitlements. The majority of people who rent will be better off under UC, while those who own their own home will generally be worse off.¹²⁰

The biggest single difference is the reduction of the Work Allowance in UC and Income Threshold in Tax Credits (TC). This is the point after which UC and TC awards will be reduced by claimant's income. In July 2015, the UK Government announced that these would be reduced in both UC and TC. That meant that households with incomes greater than the work allowances (£1,332-£8,808 per year under UC and £6,420 per year under TC in 2016/17) would lose up to around £2,500 per year under UC, or £1,000 under TC each year. The TC changes were reversed after they came under intense criticism, however the government implemented the UC changes. This distinction is a major component of the reduced generosity of UC, and the OBR estimate it will save UK Government £2.7 billion upon full UC roll out in 2022/23.

The OBR estimated that the second largest difference by size of impact would be the reduced generosity of disability benefits under UC. By replacing multiple disability premiums available in the older system with a single 'limited capability for work and work-related activity' element in UC, the OBR had estimated the government would reduce payments to disabled claimants by £2.2 billion in 2022/23. However, this estimated saving is likely to be substantially reduced, should draft regulations on TP proceed as planned. The DWP has announced that, "as UC does not have an equivalent to the Severe Disability Premium (SDP), claimants who are receiving the SDP are likely to lose the most in monetary terms should they migrate naturally to UC".¹²¹ The draft regulations propose that people who qualified for the severe disability elements of Income-Related ESA, Income-Based JSA, IS or HB will not be naturally migrated onto UC. Instead, these people will move onto UC through managed migration, and therefore receive TP. There are already an estimated 4,000 people across the UK who previously qualified for SDP who have naturally migrated to UC. The amount of TP these people have missed out on since moving to UC will be paid back to them as a lump sum and a TP element will be added to their award. The regulations make no mention of people who would begin to meet the criteria for SDP after UC has rolled out, but did not have existing claims which included it. Therefore it appears these people will move onto UC, and receive less benefit income than the cohort who have experienced similar levels of disability since before UC was rolled out.

¹¹⁹ OBR (2018), [Welfare trends report](#), p. 126

¹²⁰ Resolution Foundation (2017), [Universal Remedy: ensuring Universal Credit is fit for purpose](#), p. 31

¹²¹ DWP (2018), [Transitional Protection explanatory memorandum](#) p.25

UC also introduces capital limits on claimants which did not exist under the Tax Credits system. Where claimants have combined savings or assets of over £6,000 their UC award is reduced. For each £250 (or part of £250) of capital over £6,000, the DWP will treat claimants as if they receive an additional £4.35 of monthly income and their award will be tapered accordingly. This continues for each £250 above £6,000, until the claimant's capital reaches £16,000 at which point they will lose UC entitlement altogether. The OBR estimate this will save the UK Government around £200 million in 2022/23.¹²²

One important change that increases the generosity of UC is the removal of the 16 hours work requirement. Under the legacy system, lone parents and disabled people needed to work at least 16 hours per week to qualify for Working Tax Credits. By removing this requirement, UC becomes more generous for people working less than 16 hours per week, in the absence of any other differences in their circumstances. The estimated net cost of this change to UK government is £1.4 billion in 2022/23.

UC is also more generous in that it covers up to 85% of childcare costs, rather than up to 70% under Tax Credits. This change will cost the UK Government an estimated £0.3 billion. However a DWP survey found that only 57% of claimants with children knew they could claim childcare costs through UC.¹²³ Around two thirds of those with formal childcare costs claimed them, though 42% of these said they were unsatisfied with the process. Under UC, childcare costs are paid in arrears. However many childcare providers request payment upfront before accepting a child for childcare. Parents must therefore find some other way to cover these costs when starting a new job, which can leave them in a financially precarious situation.¹²⁴

Another large cost for the UK Government results from increased take-up rates. By combining benefits into one it makes it impossible for claimants to claim only part of their benefit entitlement, as could happen under the legacy benefits. For example, before UC, an individual could potentially claim Tax Credits but not HB despite being entitled to both. By rolling benefits together, the UK Government ensures that people in these circumstances will receive their full entitlement, at an estimated cost of £2.6 billion in 2022/23.

4.7.4 The Minimum Income Floor and Surplus Earnings

The Minimum Income Floor (MIF) and Surplus Earnings (SE) are two rules which can reduce the amount of UC claimants are entitled to. MIF affects only self-employed people. SE can affect employed people as well, but is particularly likely to affect the self-employed because they are more likely to have incomes which change from month to month.

The Minimum Income Floor (MIF)

Claimants who have been gainfully self-employed for over 12 months¹²⁵ are treated as having gross earnings equivalent to 35 hours per week at the national living wage, even if their earnings are less than this level. This means that claimants with fluctuating monthly income (as can be the case for self-employed people) could receive less UC than claimants who earn the same income in a more stable pattern. The MIF policy will significantly reduce the UC awards of self-employed people with fluctuating income. We use a simplified case study to explain how the MIF could work in practice.

¹²² OBR (2018), [Welfare Trends Report](#), p. 121

¹²³ DWP (2018), [Universal Credit Full Service Survey](#), p. 75

¹²⁴ Save the Children (2018), [Childcare debt set to soar as Universal Credit hits families with £1,000 bills upfront](#)

¹²⁵ This means that self-employment in a trade, profession or vocation should be your main occupation. It must also be organised, developed, regular, and carried out in expectation of profit.

Minimum Income Floor

Sandy is a 40 year-old self-employed gardener and made £12,970 after tax, which is around the annual income of someone who works 35 hours per week at the national living wage.

His work is seasonal and he makes most of his money during spring and summer. Because of this, in some months he earns less than someone working 35 hours per week at the national living wage, which would pay approximately £1,081 per month, after tax.

When that happens, the DWP will treat Sandy as if his income was the MIF of £1,081 per month. When Sandy earns more than the floor, his actual earnings will be used to calculate how much UC he should get. To calculate Sandy's UC entitlement, the DWP will add up his real income in months where he made more than £1,081, and substitute the MIF of £1,081 for his actual earnings in months where he made less than the MIF. That would come to a net pay of £16,566 for the year instead of his actual earnings of £12,970. The DWP will treat him as earning this £16,566 after tax when calculating his UC payment. The combined orange and blue area in the chart below represents the income level used by the DWP to calculate Sandy's award.



The MIF policy will significantly reduce the UC awards of self-employed people with fluctuating income. In 2018, the OBR estimated that 430,000 people will be affected by this rule after full roll out of UC. Using a Scottish share we estimate that between 30,000 and 40,000 people in Scotland are likely to be affected by the MIF.¹²⁶ The total loss of income to affected claimants is likely to be in the range of between £90 and £120 million per year. On average, those affected by the policy are expected to receive around £3,000 less than they would receive if the MIF were not in place. By 2022/23, the OBR estimate that UK Government will save £1.3 billion per year as a result. Concerns over the negative impact this policy may have on self-employed people has led the House of Commons Work and Pensions Committee, among others, to criticise the policy.¹²⁷ The Committee said the MIF “does not get this balance right” [between supporting entrepreneurship without subsidising unprofitable self-employment] and “risks stifling viable new businesses”.¹²⁸

¹²⁶ This estimate applies a Scottish share of self-employed people, and people claiming UC to estimate the number of people who will lose out from MIF in Scotland.

¹²⁷ Low Incomes Tax Reform Group (2017), [Self-employed claimants of universal credit – lifting the burden](#), Trades Union Congress (2017), [Is self-employment compatible with Universal Credit?](#)

¹²⁸ House of Commons Work and Pensions Committee (2017), [Self-employment and the gig economy](#)

Surplus Earnings (SE)

SE reduces the awards, over several months, of self-employed claimants who temporarily make larger sums of money. SE is more complicated than the MIF, which has led the Social Security Advisory Committee, among other commentators, to express their concern that claimants will not fully understand it.¹²⁹ When discussing SE, the Low Incomes Tax Reform Group stated that “These are some of the most complex rules we have ever seen and we doubt that DWP staff or claimants will be able to fully understand and implement them.”¹³⁰

We use another simplified case study to explain how it works.

Surplus Earnings

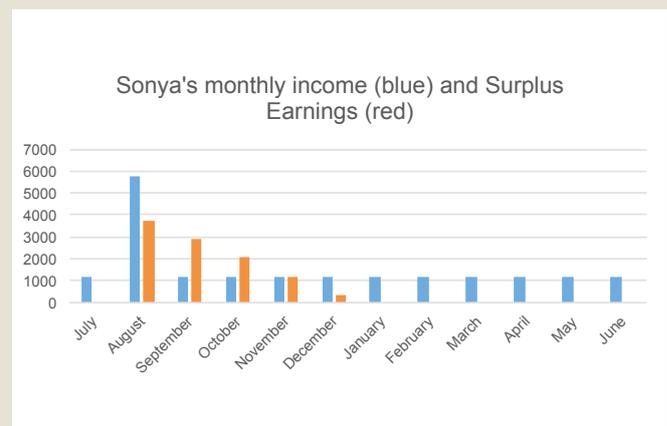
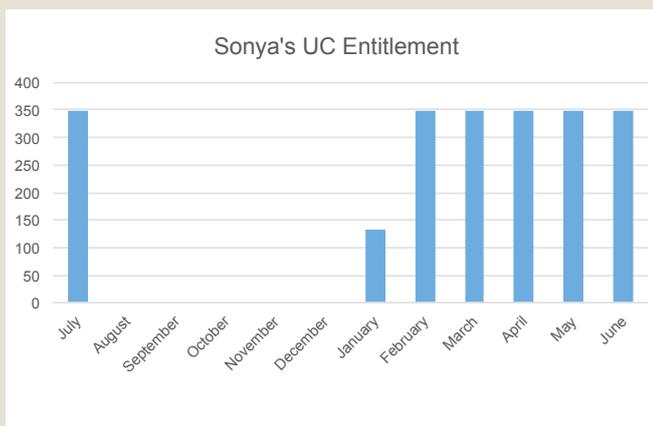
Sonya is 30-year old with a 5-year old child. She runs a small business which makes £1,200 net profit after tax selling arts and crafts in a normal month. Sonya’s UC maximum amount in a given month is £979. After tapering her UC award by her net income of £1,200 she receives £348 of UC each month.

In August she makes £5,800 net profit after tax selling her crafts at the Edinburgh festival. This is too much to receive UC, therefore her UC claim will stop. The cut-off point when Sonya’s net income would reduce her UC entitlement to 0 is £1,752. The DWP refer to this as her ‘nil UC threshold’. Her August net income was £4,048 beyond the £1,752 threshold. This £4,048, minus a disregard of £300, is called her Surplus Earnings. The DWP will use Sonya’s SE to reduce her UC entitlement in later months.

The Surplus Earnings policy offers Sonya two choices.

1. Stop claiming UC for six months. After six months any remaining SE will be forgotten and she can claim UC normally.
2. Submit a new claim every month until her SE run out.

To work through this example, we assume Sonya chooses the second option. The charts below show what would happen to her UC entitlement and Surplus Earnings as a result.



129 Social Security Advisory Committee (2018), [The Universal Credit \(Miscellaneous Amendments, Savings and Transitional Provision\) Regulations](#). Other critical organisations include Policy in Practice (2018), [Three significant but little known welfare changes for April 2018](#). The policy has also generated critical coverage in the wider media, such as Manchester Evening News (2018), [The ridiculously complex Universal Credit change that could affect 240,000 people](#)

130 Low Incomes Tax Reform Group (2017), [Self-employed claimants of universal credit - lifting the burden](#)

Surplus Earnings (continued)

Sonya will need to continue making UC claims each month from September to November even though she will not receive any UC award. Each month she applies, her SE will be reduced by the £1,752 threshold, plus a £300 disregard. Then her earnings for that month are added on. So each month until Sonya gets paid, her SE reduce by $(£1,752 + £300 - £1,200) = £852$. Once her SE have run out in December she will start receiving UC payments again.

It is important to note that the calculation in the above example would be more complicated for claimants receiving more complex elements of UC, or with less predictable income.¹³¹ Unlike the MIF, the SE policy can also apply to employed people who have an income above their “relevant threshold in a particular month”. This case study focuses on the effect on self-employed people, because for many small businesses a degree of income volatility is difficult to avoid.

In their 2018 report, the Social Security Advisory Committee were “not convinced that this proposal can be satisfactorily implemented in a way that is clear and fair to claimants”.¹³²

4.7.5 Conditionality

Under UC, the conditionality regime has become more stringent than the legacy system. In the legacy system, only claimants of JSA, ESA (Work-Related Activity Group) and IS can receive sanctions. Tax Credit and Housing Benefit awards are not subject to sanctions. Under UC all claimants, including those already in work, must accept a ‘Claimant Commitment’ which sets out what they must do to continue to receive benefit payments, which may be preparing for work, looking for work or increasing their income if they earn less than the DWP’s requirements.¹³³

The DWP have estimated that “around a third of UC cases will be subject to work-related requirements when UC is fully rolled out, of which half will be full conditionality and half will be less demanding regimes.”¹³⁴ Some of the UC claimants, subject to conditionality never experienced this under the legacy system. For example, the OBR estimate that upon full roll out, conditionality will affect:

- 300,000 former child tax credits and housing benefit claimants that don’t currently experience conditionality;
- 300,000 former ESA claimants who will experience additional work-preparation requirements;
- 150,000 former ESA claimants who will experience full conditionality; and
- 450,000 new claimants who didn’t previously claim means-tested benefits.

¹³¹ The £300 disregard, or de minimis will be temporarily increased to £2,500 during the 2018/19, the first year of the SE policy’s operation. For the purposes of this example the de minimis will be assumed to be £300 as this is more representative of how the policy will affect most claimants.

¹³² Social Security Advisory Committee (2018), [Report on Universal Credit \(Miscellaneous Amendments, Savings and Transitional Provision\)](#), p. 7

¹³³ DWP (2016), [Universal Credit and your claimant commitment](#)

¹³⁴ OBR (2018), [Welfare trends report](#), p. 73

UC Conditionality Regimes

Claimants of UC can fall into a variety of Conditionality Regimes, based on their circumstances. Some UC claimants will be exempt from work-related conditionality, and so come under the 'no work requirements' group.¹³⁵ The DWP define the conditionality regimes as follows:

Table 14 - Universal Credit Conditionality Regimes

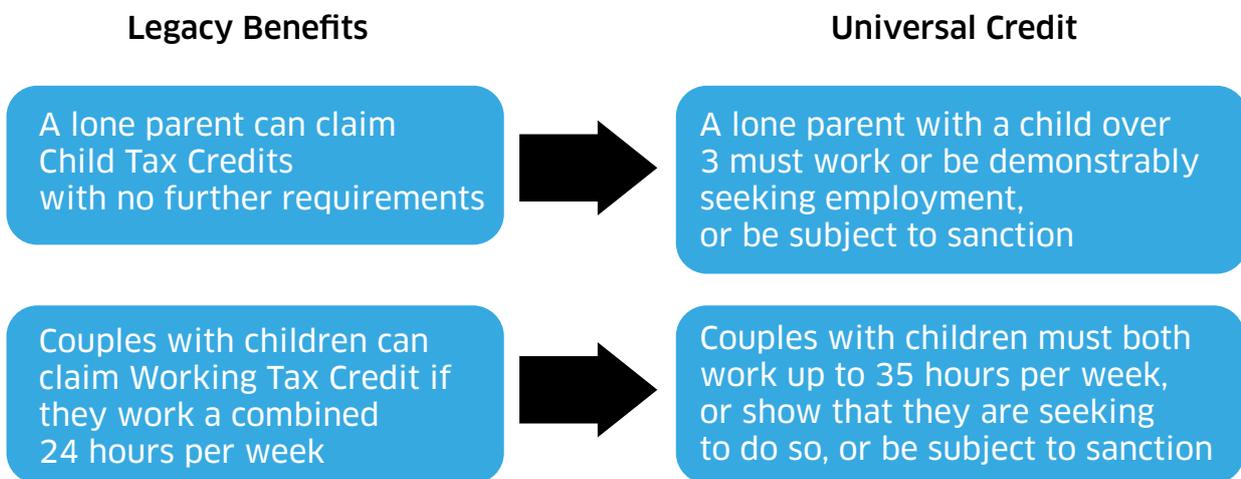
Conditionality Regime	Description	Scottish UC claimants in June 2016 (% share of total)	Scottish UC claimants in June 2018 (% share of total)
Searching for work	Not working, or with very low earnings. Claimant is required to take action to secure work - or more / better paid work. The Work Coach supports them to plan their work search and preparation activity.	21,091 (68%)	50,465 (51%)
Working - with requirements	In work but could earn more, or not working but has a partner with low earnings	2,345 (8%)	12,983 (13%)
No work requirements	Not expected to work at present. Health or caring responsibility prevents claimant from working or preparing for work.	581 (2%)	14,192 (14%)
Working - no requirements	Individual or household earnings over the level at which conditionality applies. Required to inform DWP of changes of circumstances, particularly if at risk of decreasing earnings or losing job.	6,851 (22%)	16,886 (17%)
Planning for work	Expected to work in the future. Lone parent / lead carer of child aged 1. Claimant required to attend periodic interviews to plan for their return to work.	77 (0%)	1,549 (2%)
Preparing for work	Expected to start preparing for future even with limited capability for work at the present time or a child aged 2, the claimant is expected to take reasonable steps to prepare for work including Work Focused Interview.	85 (0%)	3,239 (3%)

As discussed in section 3.2, during the early stages of UC roll out a large share of UC claimants were out-of-work single people with no dependents. This is changing over time as more complex benefit cases enter the system, which will reduce the share of claimants in the 'searching for work' group.

¹³⁵ These claimants may be primary carer for a child aged under one, caring for a severely disabled person for at least 35 hours per week, severely disabled themselves, of pensionable age or in the later stages of pregnancy. More information is available at Citizens Advice (2018), [Check you're in the right Universal Credit work-related activity group](#).

In-work conditionality under UC

In-work conditionality is a new feature introduced with UC with the aim to improve in-work progression. In-work conditionality requires the claimant to increase their earnings by increasing their hours of work or moving to better paid jobs. For example, a claimant working 16 hours a week who is judged to be capable of working 35 hours can be asked to demonstrate they are actively trying to increase their hours. However evidence that UC in-work conditionality supports in-work progression is very limited. For some people facing wider barriers to employment, such as caring responsibilities or high childcare costs, UC may not adequately account for these barriers, while the sanctions imposed under UC conditionality can have a detrimental impact.¹³⁶ In addition, under UC in-work conditionality self-employed claimants are required to be 'gainfully' self-employed. DWP's Work Coach can come to a view that self-employment is not the most appropriate way for the claimant to become financially independent and the claimant will then be expected to look for work.¹³⁷ The illustrative example below shows how in-work conditionality can be applied.

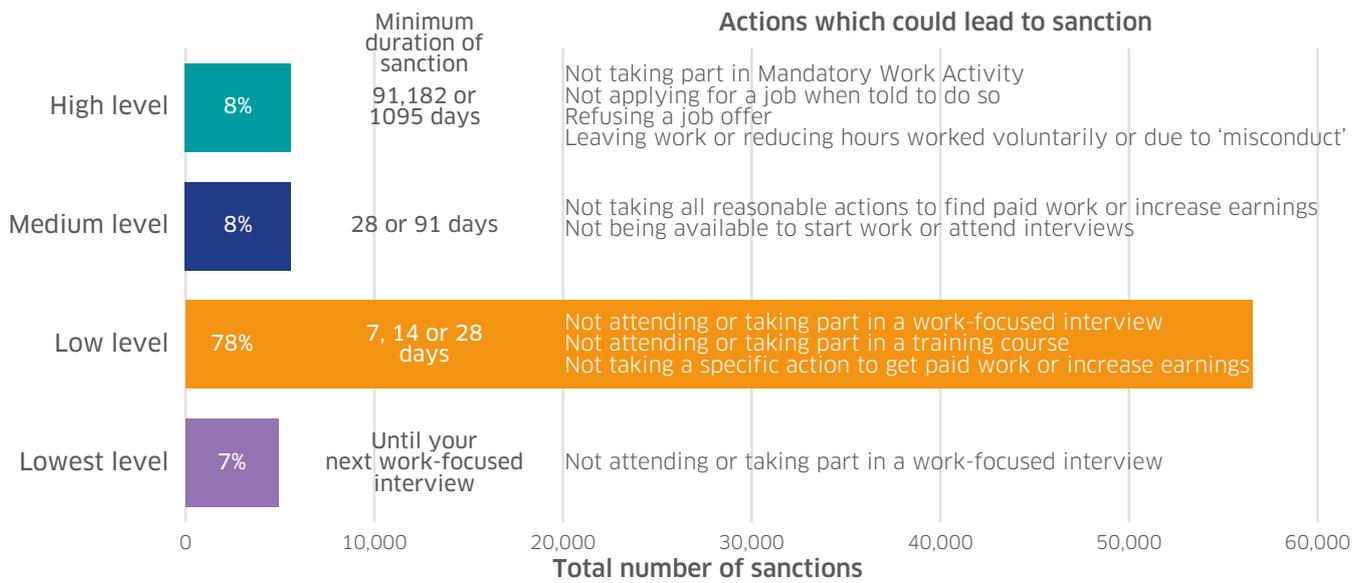


¹³⁶ Gingerbread (2018), [Unhelpful and unfair? The impact of single parent sanctions](#)

¹³⁷ DWP (2016), [Universal Credit for the self-employed](#)

If the Work Coach decides that the claimant has failed to meet the conditionality requirements, then a sanction is imposed reducing the claimant's payment. UC sanctions come in four levels: high, medium, low and lowest. The category of sanction determines the duration the payment reduction will apply. Figure 6 shows for each sanction level: the number of people sanctioned in Scotland, the share of all sanctions, the possible duration of sanctions and the actions which can lead to them.

Figure 6 - The number of sanction decisions made in Scotland from August 2015 - January 2018 by sanction level, minimum duration and the actions causing the sanction.



Source: Stat Xplore - UC Sanctions Decisions data

Most sanctions since the roll out of UC have been at the low level. These low or lowest level sanctions will last from the day they failed to comply with a work-related activity until the claimant complies with the work-related activity required, or the requirement no longer applies. At the low level, the claimant's first sanction will last a further seven days after the claimant complies with requirements. If it is a second sanction it will last a further 14 days after the claimant complies, and 28 if it is the third. Higher level sanctions last progressively longer, and can last a maximum of 1,095 days i.e. three years.

Should a sanction be imposed, the financial penalty is referred to as the Daily Reduction Rate. Claimants experience the low rate if they come under the Planning for Work or Preparing for Work groups, otherwise the high rate applies. The high rate reduces UC by up to £10.40 per day, while the low rate reduces UC by up to £4.10 per day.

Impact on employment

The DWP's full business case assessment estimated that, as a result of UC conditionality, 30,000 additional individuals will be in work.¹³⁸ However, the OBR described the evidence of the employment impact of conditionality and sanctions effect on employment as "mixed", suggesting that there was not sufficient evidence to judge how claimants' labour market outcomes might yet change.¹³⁹ In November 2016, the National Audit Office reported that the DWP did not track the costs, such as hardship or depression, or benefits, such as potentially increased employment, of sanctions and concluded that the "department does not know these wider costs and benefits".¹⁴⁰

A recent longitudinal study on welfare conditionality found that "movements into sustained employment and progression within the workplace were very rare".¹⁴¹ The report found that "respondents commonly regarded Jobcentres and Work Programme providers as being primarily focused on ensuring compliance with the mandatory benefit claim conditions rather than helping people into work." Benefit sanctions "were routinely experienced as punitive and more likely to undermine the likelihood of engagement or advancement in paid work."¹⁴²

Impact on food insecurity

Despite repeated warnings from charities, in 2015 the UK government maintained the position that there is no robust evidence that directly links sanctions and food bank use.¹⁴³ Some evidence suggests that a potential explanation for this could be that the DWP has chosen not to record data on the number of people using food banks.¹⁴⁴ A recent FOI request showed that Jobcentre Plus staff are explicitly told not to use foodbank referral slips records to count the number of referrals made.¹⁴⁵ The most recent of a number of studies found that for every 10 adults per 100,000 sanctioned in a Local Authority area, the number of people using food banks increased by 3.36 adults per 100,000.¹⁴⁶ A further study found benefit sanctions and other changes in benefit payments were the main reasons for the income reductions that led people to resort to food banks.¹⁴⁷

Impact on destitution

A Joseph Rowntree Foundation's study found that in 2016, the income-related factors that caused destitution tended to be "benefit delays, sanctions or other interruptions".¹⁴⁸ The survey findings suggest that 30% of destitute people had experience of benefit sanctions in the last 12 months, and 40% had experienced benefit delays.

138 DWP (2018), [Universal Credit Programme Full Business Case Summary](#)

139 OBR (2018), [Welfare Trends](#), p.55

140 National Audit Office (2018), [Benefit sanctions](#), p.9

141 Welfare Conditionality (2018), [Welfare Conditionality Project 2013 - 2018](#), p. 18

142 Welfare Conditionality (2018), [Welfare Conditionality Project 2013 - 2018](#), p. 23

143 Hansard (2015), [Food Banks](#)

144 Parliament (2018), [Social Security Benefits: Children](#)

145 FOI request (2018), [Foodbank Signposting](#)

146 Journal of Social Policy Volume 47, Issue 3, 2018. Loopstra et al, [Impact of Welfare Benefit Sanctioning on Food Insecurity: a Dynamic Cross-Area Study of Food Bank Usage in the UK](#)

147 Trussell Trust (2017), [Financial insecurity, food insecurity, and disability: The profile of people receiving emergency food assistance from The Trussell Trust Foodbank Network in Britain](#)

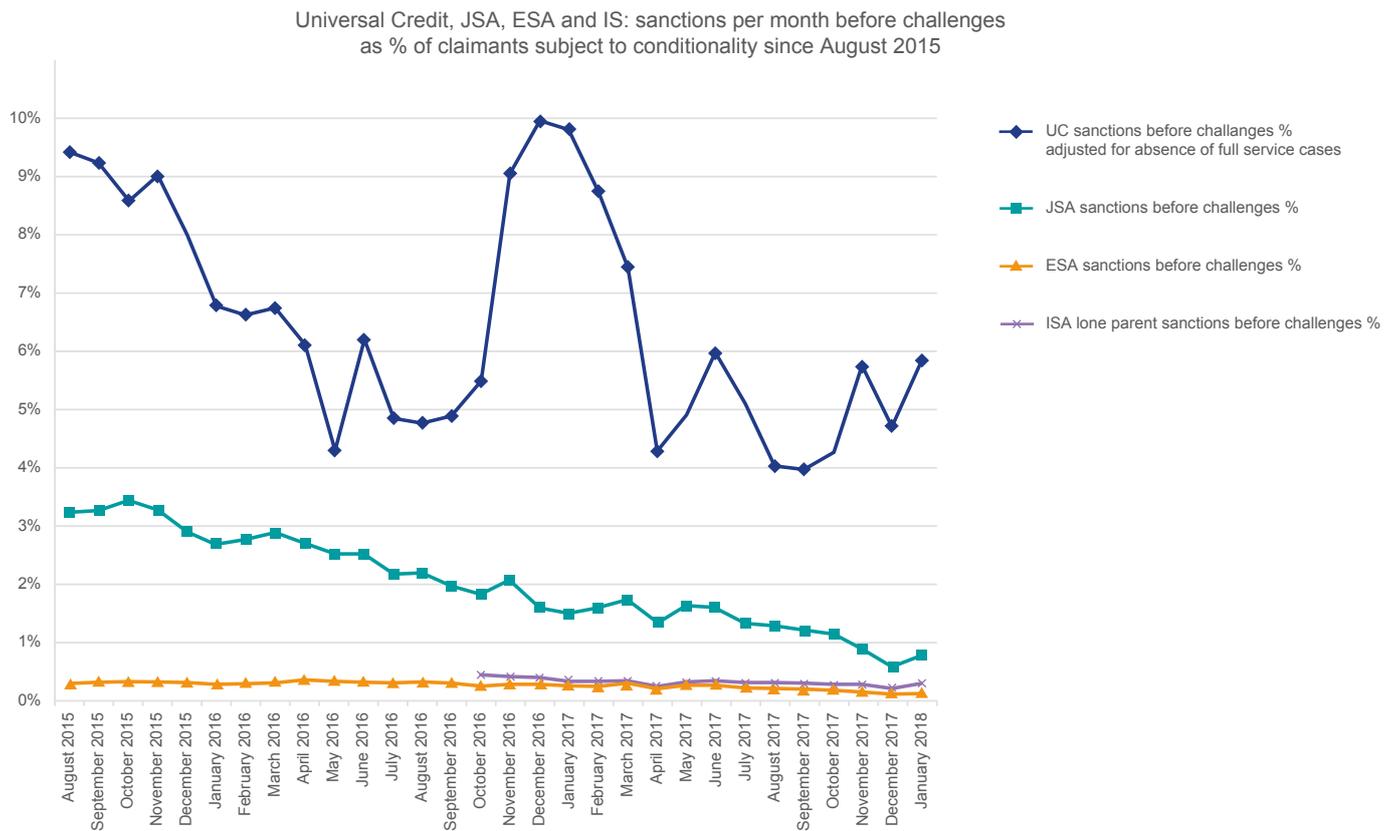
148 Joseph Rowntree Foundation (2016), [Destitution in the UK](#), p. 29

Impact on mental health

Imposing benefit conditionality on single mothers was shown to damage their mental health in a 2018 study.¹⁴⁹ The annual report of the Chief Medical Officer for Scotland reported evidence showing the UK Government's new welfare sanctions regimes had a "potential adverse impact on mental health".¹⁵⁰

As well as more benefit claimants being subject to conditionality under UC than under legacy benefits, the proportion of UC claimants who receive sanctions is also far higher than the share of the JSA, ESA and IS claimants who received sanctions under the previous system. This is shown in Figure 7.

Figure 7 – Sanction rate of Universal Credit, JSA, ESA and IS claimants across Great Britain since August 2015



Source: Child Poverty Action Group¹⁵¹

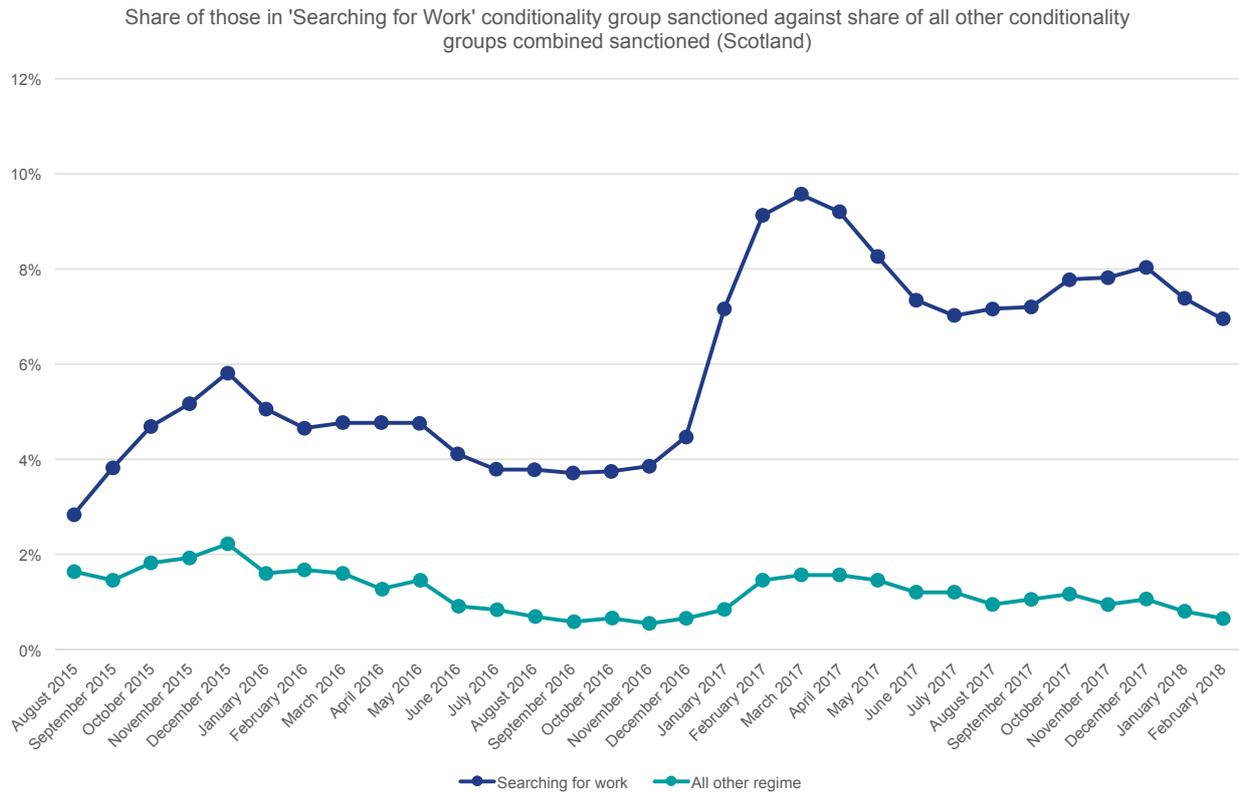
As of February 2018, UC claimants are over six times as likely to be sanctioned as claimants of JSA. People in the 'Searching for work' group, who are unemployed or have low employment income, are particularly likely to be sanctioned. Across Scotland, 2,900 people in the 'searching for work' group were sanctioned in February 2018, compared to 200 in all the other groups combined. They therefore accounted for 93% of sanctions while accounting for only 56% of claimants. This disparity in sanction rates is shown in figure 8.

¹⁴⁹ University of Glasgow (2018), [Lone parent jobseeking requirements negatively affect mental health](#)

¹⁵⁰ Scottish Government (2018), [Practising Realistic Medicine: Chief Medical Officer for Scotland annual report](#)

¹⁵¹ Child Poverty Action Group (2018), [David Webster \(Glasgow University\) briefings on benefit sanctions](#), 24 July briefing p. 24

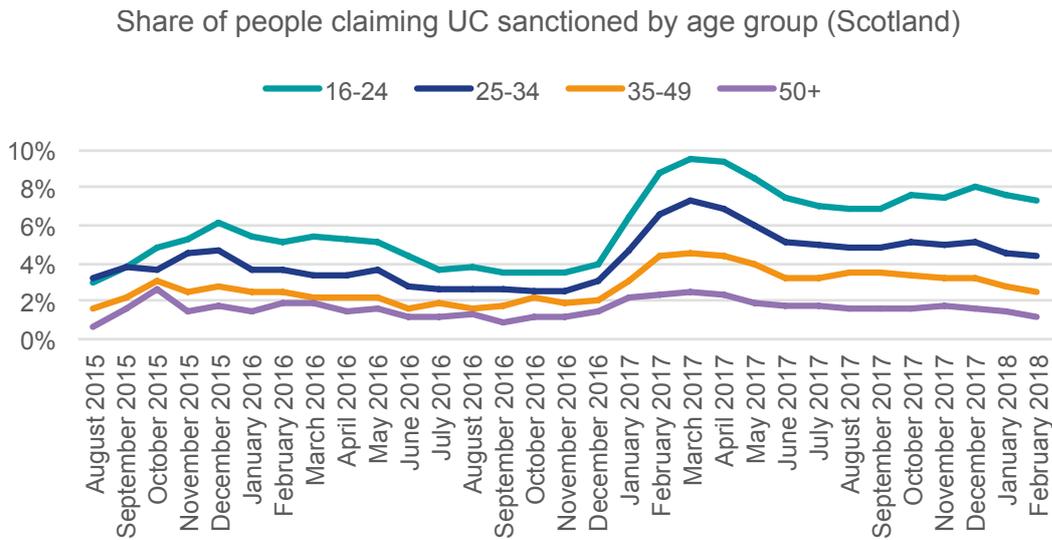
Figure 8 – Universal Credit Sanction rates of ‘Searching for work’ group against combined sanction rate of all other groups over time



Source: Stat Xplore

It should be noted that the second most likely group of claimants to be sanctioned are working people with requirements. The most recent data shows around 2% of this group are sanctioned each month. These people are employed and may have met the eligibility criteria for the legacy system, however under UC they face the prospect of financial penalties.

A significantly greater share of men than women have been sanctioned every month since data collection began in August 2015. In the most recent February 2018 data, the share of men sanctioned (5.5%) was 2.5 times higher than the share of women sanctioned (2.2%). There is also a distinctive trend for younger people to be sanctioned more often than older people. Figure 9 shows the sanction rate of different age groups in Scotland over time.

Figure 9 – Universal Credit Sanction rates of different age groups over time in Scotland

Source: Stat Xplore

Of Scottish men aged under 24 in the UC searching for work group, 14% were sanctioned in the most recent February 2018 data. Among the 40 to 65 age group, the sanction rate was 3%. Young people, particularly those who are unemployed, are less likely to have the financial assets which can prevent destitution when their incomes fall.

In their 2016 review of DWP sanction regimes, the National Audit Office noted that “the available evidence suggests the Department’s use of sanctions is linked as much to management priorities and local staff discretion as it is to claimants’ behaviour.”¹⁵²

Fair Start Scotland

The Scottish Government has long raised its concerns over the UC conditionality and sanctions regime with the UK Government. Building on the success of transitional services Work Able Scotland and Work First Scotland which operated in 2017/18, in April 2018 the Scottish Government introduced Fair Start Scotland, which is a new Scottish employability service aiming to support a minimum of 38,000 people who want help to find and stay in work and for whom work is a reasonable objective. Fair Start Scotland, will have respect and fairness at its core, supporting people to achieve their full potential.

Crucially, people’s participation in Fair Start Scotland will be voluntary. It will work with unemployed people to help and encourage them to see employment support as an opportunity, rather than being driven by the threat of financial sanctions.

¹⁵² National Audit Office (2016), [Benefit sanctions](#)

5. CONCLUSION

Since 2010, the UK Government has enacted a range of welfare reforms that have significantly reduced the generosity of the UK welfare system. Major spending reductions have already been felt from reforms such as capping benefit uprating at 1% from 2013. This was immediately followed by a four-year benefit freeze which will last until April 2020. Whilst the benefit freeze began in April 2016, when inflation was 0.3%, the value of benefits has eroded over the past 2 years due to inflation reaching 3% in 2017 and with 2 further years of forecast inflation at 2% benefit value is likely to reduce further.¹⁵³

The impacts of other cuts will continue to grow over the next few years, as more people move onto UC. The reduction in work allowances and complex rules such as the Minimum Income Floor and Surplus Earnings will affect working claimants and the self-employed. Claimants migrating from legacy benefits such as Tax Credits and Housing Benefit could also experience the conditionality and sanctions regime for the first time, especially if they are in work. According to the most recent data, claimants of UC were more than six times as likely as claimants of either Jobseeker's Allowance, Employment and Support Allowance (ESA) or Income Support to be sanctioned.

At the point of full transition to UC, the Resolution Foundation has estimated that the average working family will have £625 less benefit income compared to what they would have got under the legacy system.¹⁵⁴ Transitional protection will protect some families from experiencing a sudden income drop, but will erode over time. Policies like the Two Child Limit and removal of the family element will continue to affect an ever greater number of families across the country as more children are born who do not qualify for additional support and as more families make new claims to UC.

We estimate that the welfare reform policies of successive UK governments since 2010 mean that social security spending in Scotland in 2020/21 will be £3.7 billion lower than had they not been introduced. The Equalities and Human Rights Commission estimated that the combined effect of UK tax and welfare reforms since 2010 will bring an additional 80,000 Scottish children into relative poverty after housing costs by 2021/22.¹⁵⁵

The introduction of Personal Independence Payment brought in more stringent eligibility criteria to disability benefits. This year, DWP's policy to restrict the PIP enhanced mobility rate unless claimant's immobility was caused by "reasons other than psychological distress" was ruled unlawful by the UK High Court.¹⁵⁶ The DWP have now committed to reviewing affected claims at an estimated cost of £3.7 billion.¹⁵⁷

153 OBR (2018), [The Economy Forecast](#)

154 Resolution Foundation (2018), [Universal Remedy](#)

155 Equality and Human Rights Commission (2018), [The Effect of Tax and Welfare Reforms](#)

156 England and Wales High Court (2017), [Transcript of Resolution Foundation v Secretary of State for Work And Pensions court decision](#)

157 UK Parliament (2018), [PIP back payments](#)

Since 2011, 70,000 ESA claimants across Great Britain eligible for disability premiums have been underpaid due to DWP's errors and lost an estimated average of £5,000 by 2018/19, the year in which the DWP intend to repay affected claimants.¹⁵⁸ Following pressure and legal action, DWP recently reversed their decision to pay back underpayments dating back to 2014 only and will now repay underpayments incurred as far back as 2011.^{159,160} The department expects to pay out up to £500 million of underpayments by April 2019, but do not plan to pay any compensation to reflect the value of lost passported benefits, like NHS prescriptions, dentistry treatment and free school meals.

In 2018/19, the Scottish Government will spend over £125 million on policies to mitigate the impacts of welfare reform and support people on low incomes. Over £350 million has been allocated to Council Tax Reduction for 2018/19, which reduced Council Tax liabilities for around 485,000 people with lower incomes. It has put an ambitious range of targets in place to reduce child poverty.

Of the legacy benefits, households affected by the benefit cap, 89% included children in May 2018.¹⁶¹ Most are lone parent households. 25% of lone parent households will move into poverty due to UK tax and welfare reforms according to EHRC estimates.¹⁶² Other policies, like the Two Child Limit and removal of the family element, specifically reduce social security spending on families with children. UC conditionality has demonstrably negative impacts on the risk of destitution, food insecurity and poor mental health. Within its limited powers, the Scottish Government has taken action to reduce the impact of UK Government welfare reforms. However the enduring effects of reductions in benefit generosity make Scotland's child poverty targets more challenging than they would otherwise be.

158 National Audit Office (2018), [Investigation into errors in Employment and Support Allowance](#)

159 Child Poverty Action Group (2018), [Charity takes legal action against DWP for disabled claimants' arrears](#)

160 Child Poverty Action Group (2018), [CPAG legal action leads to full arrears for disabled claimants](#)

161 [Stat Xplore](#)

162 Equality and Human Rights Commission (2018), [The Effect of Tax and Welfare Reforms](#)

6. ANNEX I

Glossary

2CL - The Two Child Limit, which removed the ability for most families to claim Universal Credit or Tax Credits for more than two children if the child was born after 6 April 2017.

AHC - After Housing Costs

APA - Alternative Payment Arrangements

CTB - Council Tax Benefit

CTR - Council Tax Reduction

DHP - Discretionary Housing Payments

DLA - Disability Living Allowance

DWP - Department for Work and Pensions

EHRC - Equality and Human Rights Commission

ESA - Employment and Support Allowance. May be income-related or contributory.

GDP - Gross Domestic Product

HB - Housing Benefit

HMRC - Her Majesty's Revenue and Customs

IS - Income Support

JSA - Jobseeker's allowance. May be income-based (IB) or contributions-based (CB).

LHA - Local Housing Allowance

MIF - Minimum Income Floor

OBR - Office for Budget Responsibility

PIP - Personal Independence Payment

RF - Resolution Foundation

SDP - Severe Disability Premium

SE - Surplus Earnings

SSAC - Social Security Advisory Committee

SWF - Scottish Welfare Fund

TC - Tax Credits. May be Child Tax Credits (CTC) or Working Tax Credits (WTC).

TP - Transitional Protection

UC - Universal Credit

WRAG - Work-Related Activity Group

7. ANNEX II

Methodology and supplementary tables

The financial impact of UK Government welfare reforms since 2010 has been estimated following the approach used in last year's Welfare Reform Report, with revisions made where new data has become available.¹⁶³ Our estimate of the total financial impact of welfare reforms is comprised of 2010-2015 Coalition Government reforms and post-2015 Conservative Government reforms.

Coalition Government reforms

The financial impact of Coalition Government reforms was costed by OBR (2016) at Great Britain (GB) level.¹⁶⁴ These estimates are available for 2015/16 and 2020/21. Scottish Government analysts have estimated the impact of these welfare reforms on Scotland using Scottish shares of GB benefit expenditure and benefit caseload. This report uses estimates from last year's report of the Scottish share of the 2015/16 impact of Coalition reforms, which were based on 2015/16 data. However, it revises the Scotland share of the OBR's 2020/21 estimates using the most recently available data. To estimate the financial impact of welfare reforms between 2015/16 and 2020/21, we scale the difference between the 2015/16 and 2020/21 estimates so that the additional financial impacts gradually accumulate over the intervening period.

Table A1 presents Coalition Government welfare reforms which have an effect in 2020/21, alongside the method used to scale the financial impact of this reform to Scotland level.

Table A1 – Coalition Government welfare reforms

Welfare reform	Share of financial impact used	Share description	Source
Uprating reforms and other smaller reforms	8.85%	Scottish share of GB benefit expenditure	Benefit expenditure by country and region 2016/17
Disability benefit reforms	11.00%	Scottish share of GB PIP/DLA cases	Stat Xplore
Child Benefit changes	7.90%	Scottish share of GB families receiving Child Benefit	Child Benefit statistics geographical analysis 2017
Tax credit reforms	7.84%	Scottish share of GB families receiving Tax Credit	Tax Credits geographical statistics 2016 to 2017
State Pension reforms	8.73%	Scottish share of GB State Pension claimants	Benefit expenditure and caseload tables 2017
The Bedroom Tax	7.39%	Scottish share of GB Housing Benefit expenditure	Benefit expenditure by country and region 2016/17

¹⁶³ The Scottish Government (2017), [2017 Welfare Reform report](#)

¹⁶⁴ The OBR (2016), [Welfare Trends report](#)

These reforms use a Scottish share of GB benefit expenditure or caseload, to match the spatial level of the OBR's analysis, which was conducted at GB level. Notably, the fact that the OBR estimates were conducted at GB level means figure 3 in the main report underestimates the full financial impact of welfare reforms across the UK since 2010 by excluding the impact on Northern Ireland. This approach was taken because the financial impact of Conservative Government reforms is reported at UK-level in HM Treasury policy costings. Reporting the aggregate financial impact of both Governments reforms as UK-level therefore represents a conservative approach which does not overstate the impact of reforms. However, because we use policy-by-policy Scottish shares which consider the spatial scale of the original estimate, this does not affect our estimate of the financial impact of Coalition Government welfare reforms on Scotland.

Conservative Government reforms

The 2015 – present Conservative Government reforms are based on UK-level estimates from HM Treasury Budget Policy Costings. These estimates present the financial impact of each policy between 2016/17 and 2020/21.¹⁶⁵ The UK-level impact of the benefit freeze has been revised based on Resolution Foundation estimates.¹⁶⁶ The UK-level impact of the Benefit cap is based on the estimated financial impact calculated in DWP's impact assessment for the policy.¹⁶⁷

Since last year's report, several planned UK Government welfare reforms have been cancelled. These are the removal of Housing Benefit from 18-21 year olds, the capping of social housing rents to Local Housing Allowance rates and the ending of Pay to stay. In addition, two new reforms which did not feature last year are now included. These are the removal of the seven day waiting period for UC payments and improvement of UC advance payments, and the decision to give new UC claimants who were receiving HB two additional weeks of HB entitlement.

Our analysis scales UK-level costings using the most recently available data from UK Government sources to find the Scotland-level impact. Table A2 presents the Conservative Government welfare reforms since 2015 alongside the method used to scale the financial impact of this reform to Scotland level.

¹⁶⁵ The OBR (2017), [Policy costings](#)

¹⁶⁶ The Resolution Foundation (2017), [Are we nearly there yet?](#), p. 31

¹⁶⁷ DWP (2016), [Impact Assessment for the Benefit Cap](#)

Table A2 - Conservative Government measures

Welfare reform	Share of financial impact used	Share description	Source
Benefit freeze	8.19%	Scottish share of UK means-tested benefit expenditure	See table A3
UC WA reduction	7.38%	Scottish share of UK in-work Tax Credit claims	Tax Credits geographical statistics 2016 to 2017
TC and UC 2 child limit	5.91%	Scottish share of UK Tax Credit claims with 3 or more children	Tax Credits geographical statistics 2016 to 2017
TC and UC family element removal	7.38%	Scottish share of UK Tax Credit claims with children	Tax Credits geographical statistics 2016 to 2017
Support for Mortgage interest loan	8.75%	Scottish share of UK home ownership	Home ownership & renting demographics 2017
ESA WRAG reduction	12.73%	Scottish share of UK ESA WRAG claimants	Stat Xplore
Pension credit saving credit freeze	10.09%	Scottish share of UK Pension Credit Savings Credit claimants	NOMIS
Benefit cap	5.33%	Scottish share of benefit-capped Housing Benefit claimants	Stat Xplore
TC income rise disregard	8.60%	Scottish share of UK benefit expenditure	Benefit expenditure and caseload tables 2017
UC conditionality	8.60%	Scottish share of UK benefit expenditure	Benefit expenditure and caseload tables 2017
UC taper	7.38%	Scottish share of UK in-work Tax Credit claims	Tax Credits geographical statistics 2016 to 2017
Universal Credit: remove 7 day wait and extend advances to 100%	8.19%	Scottish share of UK means-tested welfare spending	See table A3
Universal Credit: run on payment for housing benefit recipients	7.18%	Scottish share of UK Housing Benefit expenditure	Benefit expenditure and caseload tables 2017

We primarily use 2016/17 outturn data from UK Benefit expenditure and caseload tables to estimate the Scottish share of UK means-tested welfare spending. We then use this to assign a Scottish share of UK expenditure changes to the benefit freeze and changes to the seven day waiting period and advances in UC. Our analysis estimates the Scottish share of UK spending on Child Benefit, Tax Credits, Housing Benefit, Income Support, Jobseeker's Allowance, Employment and Support Allowance and Universal Credit. The components of our Scottish means-tested benefit expenditure share are shown in table A3.

Table A3 – Scottish shares of mean-tested benefits spending

Means-tested benefit	UK expenditure	Scottish share of UK expenditure	Scottish expenditure	Source
Child Benefit	£11,640m	7.63% ¹⁶⁸	£894m	Child Benefit statistics geographical analysis tables/ Benefit expenditure and caseload tables 2018
Tax Credits	£27,429m	7.54% ¹⁶⁹	£2,067m	Tax Credits geographical statistics 2016 to 2017/ Benefit expenditure and caseload tables 2018
Housing Benefit ¹⁷⁰	£24,124m	7.18%	£1,733m	Benefit expenditure by country and region 2016/17
Income Support	£2,297m	8.40%	£193m	Benefit expenditure by country and region 2016/17
Jobseeker's Allowance	£1,930m	10.14%	£196m	Benefit expenditure by country and region 2016/17
Employment and Support Allowance	£15,263m	10.90%	£1,664m	Benefit expenditure by country and region 2016/17
Universal Credit	£1,632m	9.99%	£163m	Benefit expenditure by country and region 2016/17
Total	£84,314	8.19%	£6,904m	

168 Child Benefit (CB) caseload in August 2017 is available at UK and Scottish level from geographical analysis tables. The Scottish share of CB caseload is applied to UK outturn CB expenditure data to arrive at an estimate of Scottish CB spending.

169 Tax Credits (TC) caseload in August 2017 is available at UK and Scottish level from personal Tax Credits geographic statistics. The Scottish share of TC caseload is applied to UK 2016/17 outturn TC expenditure data to arrive at an estimate of Scottish TC spending.

170 Our estimates of the Scottish share of UK HB, IS, JSA, ESA and UC spending are based on the DWP's 2017 benefit expenditure and caseload tables, which are the most recent to include a breakdown of benefit expenditure by country and region. Scottish costs here are as reported in 2016/17 outturn data, while UK costs represent GB 2016/17 outturns scaled by 1.029 to represent the population increase when going from GB-scale to UK scale. Population estimates are derived from ONS (2018), [Estimates of the population for the UK, England and Wales, Scotland and Northern Ireland](#)

Table A4 presents the estimated financial impact of Conservative Government welfare reforms at the UK-level.

Table A4 - The financial impact of welfare reforms introduced by the Conservative Government since 2015 at UK level

All costs in £ millions	2016/17	2017/18	2018/19	2019/20	2020/21
Reduce SRS rents by 1% (England only)	£590	£1,180	£2,140	£3,185	£3,165
Benefit freeze		£805	£2,355	£4,370	£4,480
UC WA reduction	£120	£1,225	£2,225	£2,850	£3,190
TC and UC 2 child limit		£305	£750	£1,170	£1,560
TC and UC family element removal	£110	£230	£405	£540	£645
Support for Mortgage interest loan	-£30	-£35	£265	£245	£245
ESA WRAG reduction		£30	£110	£165	£205
Pension credit saving credit freeze	£140	£140	£140	£135	£130
Benefit cap	£65	£155	£110	£100	£110
TC income rise disregard	£90	£145	£155	£95	£55
UC conditionality		-£5		£35	£35
UC taper		-£35	-£175	-£400	-£570
Universal Credit: remove 7 day wait and extend advances to 100%		-£20	-£170	-£205	-£195
Universal Credit: run on payment for housing benefit recipients			-£130	-£125	-£135
Total	£495m	£4,120m	£8,180m	£12,160m	£12,920m

Green boxes indicate welfare reforms that increased benefit generosity rather than reduced it. The most significant negative impacts at UK level are the benefit freeze, the reduction in the Work Allowance and the two child limit policy. The latter two are discussed in sections 4.6.3 and 3.2.2 of the main report respectively. These estimates were scaled down to a Scotland level using the Scottish shares in Table A3. Table A5 presents our estimate of the Scotland level financial impact of Conservative Government welfare reforms.

Table A5 – The financial impact of welfare reforms introduced by the Conservative Government since 2015 at a Scotland level

All costings in £ millions	2016/17	2017/18	2018/19	2019/20	2020/21
Benefit freeze		£66	£193	£358	£367
UC WA reduction	£9	£90	£164	£210	£236
TC and UC 2 child limit		£18	£44	£69	£92
TC and UC family element removal	£8	£17	£30	£40	£48
Support for Mortgage interest loan	-£3	-£3	£23	£21	£21
ESA WRAG reduction		£4	£14	£21	£26
Pension credit saving credit freeze	£14	£14	£14	£14	£13
Benefit cap	£3	£8	£6	£5	£6
TC income rise disregard	£8	£12	£13	£8	£5
UC conditionality				£3	£3
UC taper		-£3	-£13	-£30	-£42
Universal Credit: remove 7 day wait and extend advances to 100%		-£2	-£14	-£17	-£16
Universal Credit: run on payment for housing benefit recipients			-£9	-£9	-£10
Total	£40m	£222m	£466m	£695m	£749m

As in table A4, green boxes indicate welfare reforms that increased benefit generosity rather than reduced it. The most impactful policies are broadly the same as those at Great Britain level. Although already large by 2018/19, the impact of many reforms only increases over time – between 2018/19 and 2019/20, the cuts increase by almost 50%. The size of some cuts, notably the 2CL and removal of the family element, will increase long past the 2020/21 cut-off of this table.



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