Cuts to welfare spending, take 2

Mike Brewer
### Changes to welfare benefits in SR 2010

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Child Benefit and Education Maintenance Allowance

- Child Benefit to be removed from families with a higher-rate taxpayer from January 2013
  - Saves £2.5bn, 1.5m families lose
- Not a well-designed means-test
  - Treats some (arguably) similar families very differently
  - Some parents will be made worse off by pay rise. HMT think will lose £280m a year through “tax planning”

- Child Benefit retained for 16-19s, but EMA to be scrapped
  - EMAs scrapped as “deadweight was 90%”. But deadweight of child benefit even higher!
  - Perhaps no need to incentivise young people to stay on if school-leaving age rising
Employment and Support Allowance

- Employment and Support Allowance (ESA), which is replacing Incapacity Benefit, is paid to people judged too ill to work
- Recipients need a low income or to have made NI contributions
- Contributory ESA will now last only a year unless judged very disabled
  - Losers (c1 million) will be the less-disabled ESA recipients with high savings or working partners.
  - Some will get ESA if have sufficiently low income and low assets
- Means welfare system will no longer support people who are too ill to work after 12 months if they have their own resources, or a partner who can support them
Tax credits: 4 take-aways, and 1 give-away

• Cuts to tax credits of £2.1bn
  – Freeze Working Tax Credit for 3 years from April 2011
  – Cut childcare subsidy in WTC from 80% to 70% from April 2011
  – Couples need to work 24, not 16, hours to get WTC from April 2012
  – Reduced fraud and overpayments with better earnings data from April 2014

• But spend more on per-child element of Child Tax Credit (up by £30 in 2011 and £50 in 2012 on top of indexation and June Budget changes)

• Overall, poorest families with children gain and some working families with children lose
The end of Council Tax Benefit

• CTB to be replaced by grants to local authorities in April 2013, who can choose best way of using money to rebate CT bills
• But grants lower than current spending on CTB. Saves £0.5bn/yr, but means losses amongst poor households
• Attraction is that it devolves power
• But many downsides
  – Goes directly against ideas behind Universal Credit
  – Creates “postcode lottery”
  – Local authorities might use CTB to persuade low-income households to live elsewhere
  – 100+ LAs designing policy
  – Two levels of government share control over tax and benefit redistribution
Other changes

• Freeze maximum savings credit award for 4 years from April 2011 (saves £0.3bn)
  – A cut in Pension Credit for 1.8m pensioners with small private incomes
• Benefit cap of £500/wk (or £350/wk if single no children) if no-one in work from April 2013 (saves £0.3bn)
  – Hits large families and/or families in high-rent areas
  – Lazy way to make policy. Why not cut, say, Child Tax Credit or Housing Benefit directly? Why not apply it to those in work?
• Cut Housing Benefit for single people aged 25-35 from April 2012 (saves £0.2bn)
• Cut DLA for people in care homes from April 2012 (saves £0.1bn)
• Maintain cold weather payments (costs £0.1bn)
• Also: accelerate rise in state pension age
Welfare cuts to date under coalition Government

- Not broken down (uprating change)
- Council Tax Benefit
- Housing Benefit
- Disability Living Allowance
- Employment and Support Allowance
- Other benefits for families with children
- Tax credits
- Child benefit
- State pension and pension credit

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Conclusions

- £7 billion of welfare cuts, on top of £11bn from June Budget
- Most changes focus resources on those who need it most, “so people on low incomes are not subsidising those who are better off” (Osborne’s speech). But
  - Low-income pensioners have lost some pension credit to fund high-income pensioners’ winter fuel payments
  - Young people in education with low-income parents have lost their EMAs to fund the continued child benefit of their wealthier peers
- Government has refocused benefit spending away from families with children and towards pensioners
- In short-run, SR has mixed effects on work incentives. In medium-run, much depends on Universal Credit...
- ...which will now be less effective given the complexity and opacity to come with Council Tax Benefit reform
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