Budget Briefing: summer 2015

July 2015

centre for economic & social Inclusion

Headlines: Welfare and Employment

- OBR forecast a continued decline in ILO unemployment and claimants, before rising again in 2017
- Freezing of all benefits, including DWP benefits, tax credits and Local Housing Allowance – saving £11.3 billion over this Parliament
- Cuts to tax credits for families with children, through removal of the family element for all new claims from 2017, and the child element for additional children where families have more than two children – saving £5.4 billion
- Significant cuts to in-work support through tax credits and Universal Credit, by increasing the rate at which benefits are withdrawn as earnings increase – saving £20.5 billion
- Changes to rent rules in social housing – reducing rents by 1% a year, and introducing new higher rents for higher-income residents – saving £5.3 billion
- The lowering of the 'benefit cap' from £26,000 to £23,000 in London and £20,000 in the rest of Great Britain – saving £1.7 billion
- The abolition of the work related component in Employment and Support Allowance, for new claimants from 2017 – saving £1.4 billion
- a new mandatory National Living Wage for over 25s
- a new Youth Obligation for out of work 18 to 21 year olds from April 2017
- Greater Manchester and DWP will explore "the scope to incorporate greater local flexibility in employment programmes"
- Devolution deals to be offered to other cities and widened out to towns and counties
- Birmingham will be trialling a new Jobcentre Plus Employment Advisor role for 14-17 year olds
- An Apprentice Levy on large companies

Inclusion comment on welfare

"The scale of today's cuts is not surprising, but nonetheless deeply concerning. Large families, private renters and those with health conditions have been hit hard, as they were in the last Parliament. And as with the last Parliament, the majority of cuts appear to be falling on working families on low incomes – the very groups that the government says that it wants to do more to support.

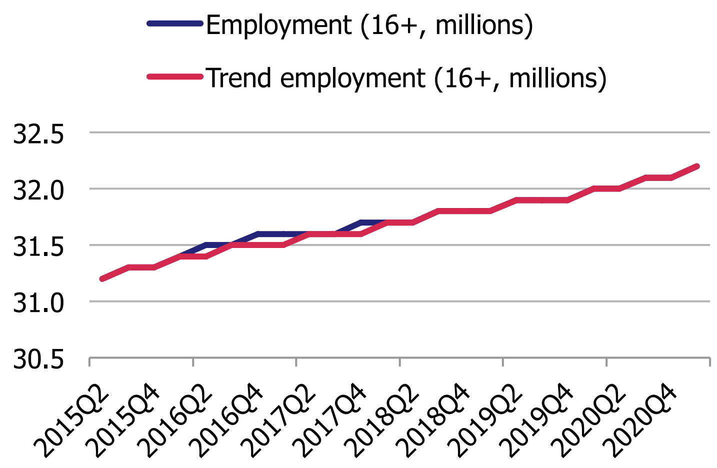
Local authorities, charities and their partners will need to deal with these impacts, which we expect will be greater in the next Parliament than they were in the last. As we have said before, it is imperative that government matches its rhetoric on cuts with actions to support people and local areas to deal with the consequences."

Forecasts for unemployment and claimant numbers

The Office for Budget Responsibility's forecasts show they see the economy as close to 'full employment', with the current trends of falling unemployment being reversed over the forecast period to 2021. This is much the same as their March 2015 Budget forecast.

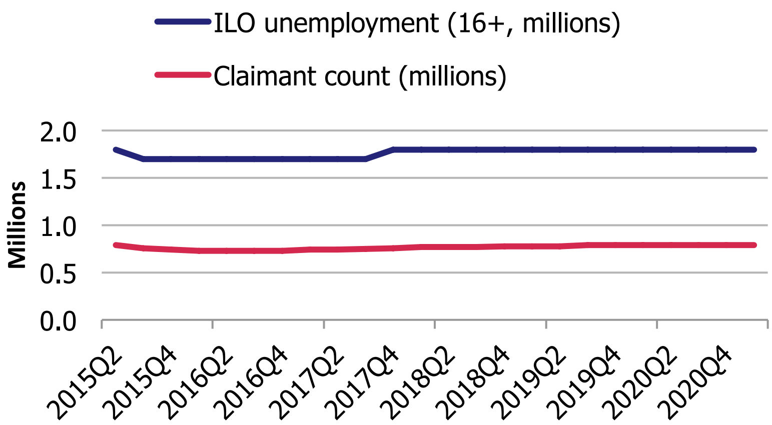
Employment growth of 1 million to 2021 is more or less in line with their estimate of the trend (due to population growth). Employment is expected to be a little above trend in 2016 and falling back to trend in 2018 on. The OBR's longer term forecasts are, as usual, an estimate of what they see as the long-term trend.

Figure 1: OBR forecasts for employment



Claimant count numbers (counting the relevant Universal Credit claimants as well) are expected to fall a little further, to 730,000 (now 791,800) in 2016 before rising back to current levels. OBR expects the same pattern for ILO unemployment, with the unemployment rate falling from the current 5.4% to 5.1% in 2016 and then rising back to 5.4% in 2020/21.

Figure 2: OBR forecasts for unemployment and the claimant count (including Universal Credit full conditionality)



Welfare cuts

"We will find £12 billion from welfare savings, on top of the £21 billion of savings delivered in this Parliament."

Conservative manifesto

As expected, the Summer Budget announces extensive further cuts to welfare. Over the lifetime of this Parliament, the government forecasts that £46.5 billion of savings will be achieved, with £12 billion of this falling over the next two years – in line with the Conservatives' manifesto commitments.

There are six main sets of changes announced today:

- Freezing of all benefits, including DWP benefits, tax credits and Local Housing Allowance – saving £11.3 billion over this Parliament
- Cuts to tax credits for families with children, through removal of the family element for all new claims from 2017, and the child element for additional children where families have more than two children – saving £5.4 billion
- Significant cuts to in-work support through tax credits and Universal Credit, by increasing the rate at which benefits are withdrawn as earnings increase – saving £20.5 billion
- Changes to rent rules in social housing – reducing rents by 1% a year, and introducing new higher rents for higher-income residents – saving £5.3 billion

- The lowering of the 'benefit cap' from £26,000 to £23,000 in London and £20,000 in the rest of Great Britain – saving £1.7 billion

- The abolition of the work related component in Employment and Support Allowance, for new claimants from 2017 – saving £1.4 billion

These are taken in turn below.

Freezing of benefits

Benefit rates for all of the main benefits will be frozen in cash terms from April 2016 through to March 2020. This will affect the rates for Jobseeker's Allowance, Employment and Support Allowance, Income Support, Child Benefit, Child Tax Credit, Working Tax Credit, the Local Housing Allowance in Housing Benefit and all equivalent rates in Universal Credit. Pensioner benefits, Maternity Allowance, Disability Living Allowance and the Personal Independence Payment will all be exempted.

The previous Coalition government had capped benefit increases at 1%, so the freeze in rates represents a further tightening in incomes for those on benefits. This will affect the majority of households with adults of 'working age', with cash impacts highest for those households with higher entitlement to benefit (in particular families and those living in the private rented sector).

Cuts to tax credits for families with children

The Budget announces the removal of the Family element in Child Tax Credit for all new claims after April 2017 (and specifically, where the first child was born after this point). This reduces financial support by £545 a year compared with current rules.

For larger families, the 'Child element' will in future only be paid for the first two children in a family – with any third or subsequent children born after April 2017 receiving no additional tax credits. The Child element is currently worth £2,780, so this reduction will significantly impact on incomes of larger families, both in and out of work.

Taken together, then, these changes would lead to a family with three children and full Child Tax Credit entitlement being £3,325 a year worse off from April 2017 than the current system, rising to £6,105 for families with four children.

Cuts to in-work support

More than £20 billion of savings – nearly half of the total announced today – are accounted for by reductions in the support available to working families receiving tax credits or Universal Credit. These have had relatively little attention, in part due to the complexity of the rules for in-work benefits.

The Budget announces a number of measures that will make working households worse off – first by reducing the amount of earnings that are ignored in calculating benefit entitlement (both in tax credits and Universal Credit) and secondly by increasing the rate at which benefits are then withdrawn as earnings are increased (in tax credits).

Currently, a household only starts to see its tax credits reduce once household income has reached £6,420, after which the household loses 41p of tax credits for every £1 of earnings. With the Budget announcements, households will start to see their tax credits reduce once income reaches £3,850, and will then lose 48p for every £1 in earnings.

These changes will reduce incentives to work for those on tax credits, although the Treasury will likely consider that these impacts will be offset by the wider cuts to benefits outlined above.

Under Universal Credit, the changes are even more stark. Universal Credit has a system of 'work allowances' that determine the amount of income that is ignored where claimants are in work. These currently range from £111 to £734 per month. The Budget announces that these will be cut significantly – to £397 per month for those without housing costs, £192 for those with housing costs, and zero for non-disabled claimants without children.

Changes to rent rules in social housing

The Budget announces two main measures on social rents. First, the formula by which rent rises are calculated will be cut significantly. Currently, rents can increase by CPI plus 1% - so typically, a rise of between 2 and 4% a year. However from April 2016 to March 2020, rents will be downrated by 1% a year in cash terms (in real terms then, the reduction will be closer to 3%). This is forecast to save £4.2 billion over this Parliament.

Secondly, the Budget sets out a new 'Pay to Stay' system, where social rents will increase to market levels for households with incomes of £40,000 or higher in London, and £30,000 or higher in the rest of England.

A lower benefit cap

As expected, the Budget announces a lowering of the benefit cap to £23,000 in London and £20,000 in the rest of Great Britain.

So far, the most significant impacts of the benefit cap have been confined to areas with very high rents – particularly London authorities. Often, as Inclusion research has found http://cesi.org.uk/publications/impacts-welfare-reform-residents-brighton-hove , this has led to significant negative impacts on households and services. The substantial lowering of the cap will see these impacts spread to areas less well equipped to respond to these changes, and will place further pressure on areas with lower rents to re-house those having to move as a consequence of the cap.

Cutting the ESA (for WRAG claimants) to JSA level

The value of the work related component in ESA will be the same as JSA from April 2017 (for new claimants). This will mean that new ESA claimants in the Work Related Activity Group will be around £1,500 a year worse off than the current rules. These impacts will be in addition to the impacts set out above from lower up-rating and other changes to benefits.

Increasing support

Inclusion has set out previously our view that cuts to benefit need to be matched by increases in support for those affected http://cesi.org.uk/blog/2015/jun/welfare-reform-repeating-mistakes-past . However while the Budget includes welcome increases in funding for support, this will almost certainly fall short of the scale of the challenge over the coming Parliament.

The Budget announces £800 million in Discretionary Housing Payments over the next five years – broadly, maintaining pace with the increases since the last Parliament, at a time of likely rising demand.

It also announces around £1.3 billion in additional employment support over the next five years. However this needs both to meet the costs of a new 'Youth Obligation' and the demands for additional employment support for ESA claimants in the Work Related Activity Group.

National Living Wage

The Chancellor announced a new National Living Wage as a key part of the Government's approach to move Britain to a higher wage, lower tax, lower welfare economy. It is also presumably intended to counteract the negative reaction that will flow from the cuts to tax credits.

This is effectively the introduction of another age related rate to the National Minimum Wage (NMW). Currently the NMW has lower rates for young people aged under21, compared to the adult rate which applies to those 21 and over. Now a premium rate for those aged 25 and above is introduced and branded as the National Living Wage (NLW). Whilst to date the concept of a living wage has included that it is voluntary for employers to sign up to, this NLW will be a mandatory wage floor for employers.

From April 2016, the new NLW will be set at £7.20, 50p above the level of the NMW that comes into effect from October 2015. Additionally, the Low Pay Commission has been asked to set out how the NLW can be raised to reach 60% of median earnings by 2020, which based on the Office for Budget Responsibility (OBR) forecasts implies a National Living Wage of over £9 by 2020.

This is estimated to produce a direct boost in earnings for 2.7 million workers, and the OBR have indicated that knock-on effects further up the wage distribution could mean a further 3.25 million people also see an increase in wages as a result of the NLW.

The OBR assessment of the impact of the introduction of a National Living Wage is that employment will be 60,000 lower than it would otherwise have been by 2021, but that overall employment will increase by 1.1 million between 2015 and 2021. These estimates of the impact of the NLW will undoubtedly be much discussed by economists.

Employment and claimants

"We aim to achieve full employment in the UK, with the highest employment rate in the G7, and we will help businesses create two million jobs over the Parliament."

Conservative manifesto

"We will replace the Jobseeker's Allowance for 18-21 year-olds with a Youth Allowance that will be time-limited to six months .... we will ensure that they [18-21 year-olds] no longer have an automatic entitlement to Housing Benefit."

Conservative manifesto

In addition the Manifesto said:

- Aim to halve the disability employment gap
- tougher Day One Work Requirements for young people claiming out-of-work benefits
- review how best to support those suffering from long-term yet treatable conditions
- provide significant new support for mental health, benefiting thousands of people claiming out-of-work benefits or being supported by Fit for Work
- look to scale up in the future the use of social impact bonds and payment-by-results, focusing on youth unemployment, mental health and homelessness.

Halving the disability employment gap and supporting those suffering from long-term yet treatable conditions

The only mention of increasing employment amongst disabled people is in the context of the cut in benefit levels for new ESA WRAG claimants from 2017. Here additional support to help this group into work is mentioned.

The Budget Red Book includes figures for "Other welfare funding – including Youth Obligation and extra JCP support. This includes the additional spending on support available to not just this group, but also all other additional support announced. This amounts to £100m next financial year, £205 million (2017-18) to £325 million (2020-21). This additional support is not likely to make much of a noticeable contribution to halving the disability employment gap.

Youth Obligation

Today's Budget announces a new Youth Obligation for out of work 18 to 21 year olds. From April 2017, young people will be required to participate in "an intensive regime of support" from the first day of their benefit claim. After 6 months they will be expected to apply for an apprenticeship or traineeship, gain work-based skills, or otherwise go on a mandatory work placement.

However, it is very unclear of the extent to which this additional conditionality for young people will be matched with any significant additional support. As noted above, the Budget Red Book includes figures for additional support for out of work benefit claimants but the wide coverage of this and the small amounts involved suggest that this will amount to additional pressure on workless young people but with no or little extra support.

Support for people with mental health conditions

The Budget contained no announcements on additional support for people with mental health conditions.

Social impact bonds

The Budget Red Book states that the government intends to expand its support for social impact bonds in this Autumn's Spending Review and will consult with experts to identify suitable options.

Devolution and local growth

"We will devolve far-reaching powers over economic development, transport and social care to large cities which choose to have elected mayors."

Conservative manifesto

The Budget is more a summary of existing activity on devolution rather than any significant new announcements. Employment and skills are a consistent element of devolution deals. Whilst the Budget may not go as far as some would advocate, the Budget maintains the direction of the previous government by offering deals with combined authorities in return for elected mayors. The offer of deals is being widened out, and the direction of travel is clear, but maybe not at the pace many in local government would prefer.

The Budget confirmed the manifesto commitment to not only devolve more responsibilities to the **Northern Powerhouse** but also to other cities where there is a commitment to introduce an elected Mayor. Powers over skills and employment spending are included in the existing settlements which will be "open to other cities".

Greater Manchester is to get new powers and these include "inviting discussion of how central government and the city region might collaborate further on ... employment programmes" and "will explore with Greater Manchester the scope to incorporate greater local flexibility in employment programmes". This is on top of an existing commitment to explore co-commissioning with Greater Manchester the replacement to the Work Programme in 2017.

Further devolution deals are being planned with **Sheffield City Region, Liverpool City Region, and Leeds, West Yorkshire and partner authorities**. These are planned to be agreed at the same time as the Spending Review this autumn and these are likely to include employment and skills as part of the settlement.

Towns and counties are also being offered the opportunity to agree devolution deals and are "making good progress towards a deal with Cornwall." The government has set a deadline for other areas to approach them – "in time for conclusion ahead of the Spending Review" but devolution of powers must be accompanied by an agreement of a locally elected mayor.

In addition to devolving more powers over skills to London and Greater Manchester, in the Long Term Economic Plan for **the Midlands**, the Chancellor is committed to working with the Midlands LEPs to support a regional approach to skills and are looking to agree a clear and detailed delivery plan in autumn 2015.

Birmingham will be trialling a **new Jobcentre Plus Employment Advisor** role for 14-17 year olds, "working with schools and sixth-form colleges to improve young people's understanding of the local labour market, the skills local employers are looking for, and routes into work". This is acting on a manifesto commitment: "Jobcentre Plus advisers will work with schools and colleges to supplement careers advice and provide routes into work experience and apprenticeships."

There is continued commitment to the **Coastal Communities Fund**, extending "by at least £90 million until 2020-21."

To stimulate local growth the government will work with universities, LEPs, cities, and businesses to undertake **Regional science and innovation audits** – map science and innovation strengths and identify potential.

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