Spending Review 2015: Welfare changes

Welfare spending will increase compared with plans announced at the Budget and the government will breach its self-imposed 'welfare cap'. The Spending Review announces that:

- **The tax credits cuts announced at Budget have been abandoned** – this is welcome news in the short term, but increases spending by £8.9 billion over the Parliament (and £3.4 billion in 20116/17 alone)

- **The equivalent cuts in Universal Credit – to 'work allowances' – will still go ahead**. This means that working households making new claims from 2017 (on current plans) will be on average £1,000 per year worse off than the current system. Existing tax credits claimants will have their claims protected at the point where they transfer over.

- **The government will breach its 'welfare cap'** – meaning that DWP will need to explain the reasons to Parliament (i.e. tax credits) and a vote will follow. The welfare cap will be breached for at least three consecutive years. Bizarrely, having introduced the cap as a political trap, we can now expect to see the Chancellor leading all of the parties through the 'Aye' lobby to vote to raise it. We explain the cap here.

- **Social sector Housing Benefit for new tenants will be capped at the rate paid for private sector tenants** (from April 2018, for tenancies starting from April 2016). Currently, non-working social tenants have their Housing Benefit paid in full, with 'affordable rent' policy meaning that rents can reach 85% of the average market rent. However, private rented tenants only receive Housing Benefit at 60% of the average rent (the 30th percentile overall). This change will reduce social rents to the private level. This will undoubtedly lead to rent arrears, and landlords having either to cut their rents, chase arrears, write off the debt or build fewer homes. Coming on top of the Budget announcement of a cap on social rents, this is yet more very bad news for landlords.

- **Further delays to Universal Credit rollout** – this will actually save the government money (£600 million over the Parliament) because UC has until now been *more costly* than the benefits that it replaces. However, the U-turn on tax credits means that Universal Credit is now *saving money* compared to the current system – so any further delays to UC will start to incur costs. For the first time, the Treasury is now locked into UC as a money-saving measure.

- The government **still expects UC to be rolled out in full by 2021**, with **UC applying to all new claims from April 2017**. This still looks very optimistic indeed.

- Updated forecasts of benefit expenditure include **a large increase in forecast spending on disability benefits**, due to administrative problems with Personal Independence Payment rollout. Spending will be £4.3 billion higher over the Parliament – wiping out a large part of the planned savings from this reform. Much the same happened in the last Parliament with Employment and Support Allowance, and the Office for Budget Responsibility has raised its concerns that these issues have repeated themselves.

Inclusion comment

We welcome the Chancellor's decision to reverse his planned cuts to tax credits – this is great news for low income working families. However the same cuts will effectively still apply to new claimants to Universal Credit, which on current plans could mean all new claimants from 2017.

We also welcome the decision not to seek to make up these savings elsewhere. However, the consequence of not doing so is that the government will breach its self-imposed welfare cap for most of the rest of the Parliament. As we have said before, the cap was always about politics rather than policy – and its shortcomings have now been shown up.

The government also nearly breached its cap due to the large increases in forecast spending on disability benefits. Combined with further delays to Universal Credit, welfare reforms are once again proving much harder to deliver than they are to announce.

Importantly, the changes announced yesterday mean that Universal Credit is now squarely a welfare reform that saves money (as the in-work support will now be far less generous than tax credits). So the Treasury now has a big vested interest in making sure that the reforms happen on time. This is a complete turnaround from the last five years where HMT were quite happy to see the extra costs of UC kicked down the road. In five years time, we may look back on this Spending Review as the point at which UC became irreversible.

The changes to social sector Housing Benefit are bad news for tenants and landlords. There now needs to be a full assessment of the likely impact of the changes on the supply of housing and on the incomes of claimants, and more detail on what funding will be available for discretionary housing support. Our research on the impacts of welfare reform suggests that these shortfalls will be hard to make up and that rent arrears will increase. DWP, landlords and advice and employment services will need to work closely together to support those affected.