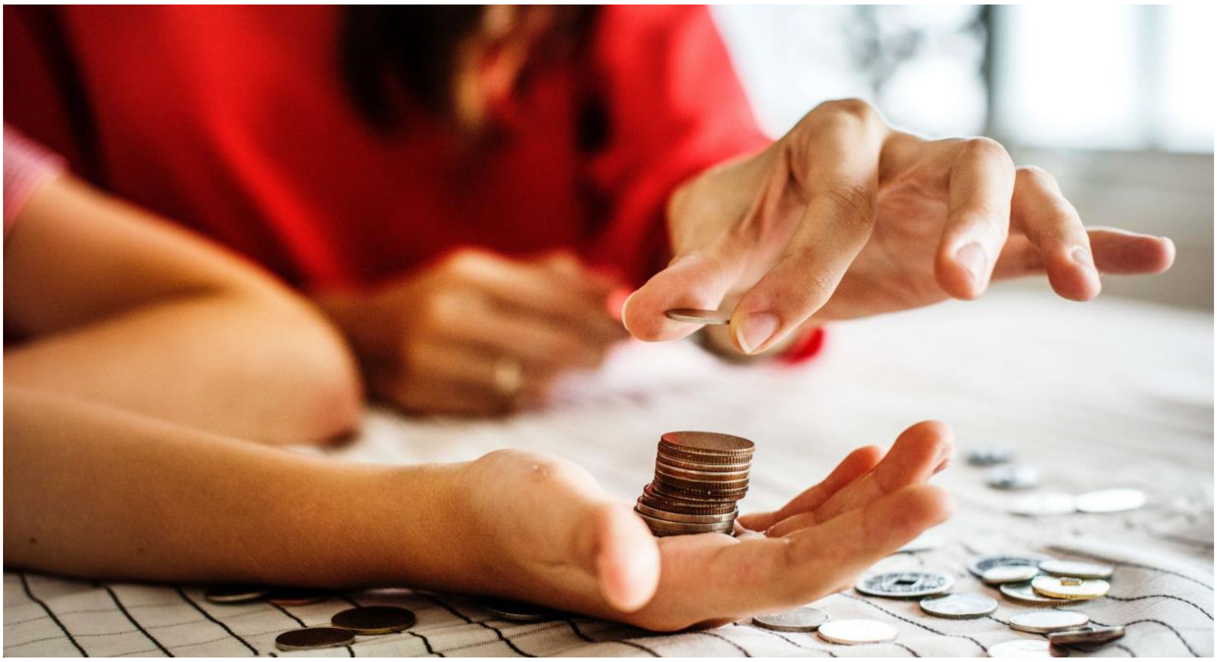
AUTUMN 2018 BUDGET: WHAT IS THE IMPACT OF THE CHANGES TO UNIVERSAL CREDIT ON LOW-INCOME HOUSEHOLDS?



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INTRODUCTION

In the lead up to the 2018 Autumn Budget, there has been a growing interest in the impact of Universal Credit. This renewed focus is due to a number of factors: the visibility of impact on household income as more households receive the new benefit; a focusing of minds as managed migration looms; and the opportunity to influence the government response to concerns through provisions in the 2018 Autumn Budget.

The Autumn Budget provided a £1.7bn boost to benefit support under Universal Credit plus an additional £1bn to assist the transition for households migrating to the new benefit. Increased funding of Universal Credit will be welcomed by all stakeholders and will ease the transition to the new benefit for many households. However, many households, including households in receipt of disability or sickness benefits, and non-working households, will not see any of this additional funding and many are still set to lose significant sums under Universal Credit.

Additional funding to ease the migration to Universal Credit will be welcome by the households moving to the new benefit as well as the agencies supporting them in this transition. In particular, the run-on of Jobseeker's Allowance, Employment and Support Allowance and Income Support should mean that those migrating to the new benefit will see their initial waiting time cut from 5 weeks to 3 weeks.

The implementation dates for the new provisions are staggered; increased work allowances are to be introduced in 2019 and transitional measures from 2020 onwards. This delay to the introduction of new funding and transitional support measures will result in many households that could have benefited from these provisions missing out. The reason for the delay in the introduction of new provisions is not clear but there are obvious benefits to the Government. Firstly, no new burdens are immediately placed on the DWP who are already stretched with the introduction and roll-out of Universal Credit. Secondly, the Autumn Budget provisions require regulatory change for which parliamentary time is required. Finally, by delaying implementation the DWP reduces the cost of these new provisions and, as more households continue to migrate over to the new benefit, fewer will be eligible for the additional transitional measures.

This paper provides an analysis of the impact of the budget provisions and sets out to see how far the provisions in the Autumn Budget support low-income households.

BACKGROUND

Provisions in the Autumn Budget 2018

Chancellor Philip Hammond delivered the Autumn Budget on the 29th October 2018. The budget contained specific provision for amendments to the current regulations and administration of Universal Credit, namely:

- Universal Credit work allowances for households with children and those in which the claimant or partner has limited capability for work will increase in April 2019 by £1,000 per year. The Chancellor stated in the budget that this affects 2.4 million households. Analysis by Policy in Practice shows that this provision affects 2.5 million households (1.9m households with children plus 0.6m households that have limited capability for work).

- There will be additional assistance for those migrating to Universal Credit. From July 2020, households in receipt of means-tested Jobseekers Allowance, Employment and Support Allowance and Income Support will receive a further two weeks payment during the transition to Universal Credit. The Government estimates that this will benefit 1.1 million claimants. This is approximately 31% of the current number of claimants receiving these benefits.

- Additional transitional protection is to be offered to self-employed households. The 12-month grace period for self-employed households currently applies to those that started their business in the last 12 months. The Chancellor announced that this is to be extended to all self-employed households migrating to Universal Credit. These households will have income assessed on actual income for 12 months before the minimum income floor applies. This provision is to be introduced from July 2019.

- From October 2019, the government will reduce the maximum rate at which deductions can be made from a Universal Credit award from 40% to 30% of the standard allowance.

- From October 2021, the government will increase the period over which advances will be recovered, from 12 to 16 months.

- A slower roll-out of Universal Credit with the end now scheduled as December 2023.

- A delay to 2020 for reducing the earnings limit that triggers the surplus earnings policy.

In addition, the Government announced the increase in the minimum wage from April 2019 and changes in tax allowances from the same date.

BACKGROUND

Methodology and limitations

This analysis is based on data from the 2016/17 Family Resources Survey (FRS)[1], the most recent and detailed annual report on the incomes and living circumstances of households and families in the UK. The survey samples households to arrive at a composition that is representative of the UK as a whole, with each household weighted slightly differently depending on its prevalence.

This analysis focuses on only low-income households observed to be in receipt of either tax credits, DWP benefits or Housing Benefit in Great Britain.

The data was cleaned, arranged, and then processed through Policy in Practice's policy modelling engine, the Benefit & Budgeting Calculator[2]. This is the same tool used to model the impacts of welfare reform on individual households for local authorities. The Calculator used the FRS data as inputs from which to calculate benefits eligibility for each household as if they applied for legacy benefits, and compares this to entitlements if they were to apply for Universal Credit. For this analysis, all transitional protection mechanisms in both legacy benefits and those proposed for Universal Credit were excluded from modelling due to their transient nature and in order to provide a picture of Universal Credit once these mechanisms cease. Outside of this analysis, Policy in Practice is aware of the aggregate level of support through managed migration, and has carried out analysis for councils on the value of transitional protection to households likely to be subject to managed migration.

Using this methodology, Policy in Practice has modelled the impact of Universal Credit on individual families. This allows the impact of Universal Credit to be isolated, providing an understanding of those households that will see reductions or increases in household income. Benefit support and take-home income has been calculated based on the regulations that are expected to be in place in April 2019. This allows modelling of the new work allowances, and includes the increased minimum wage and tax thresholds also announced in the Budget. By using April 2019 as the date of comparison, modelling presumes that the transitional protection for children born before 6 April 2017 is no longer in place. In effect, this will be the situation from February 2019.

Comparisons are made to levels of benefit support and take-home income under Universal Credit as it currently stands (before the changes announced in the Budget), as well as to incomes under the legacy system of benefits that still in place. This enables the isolation of the impact of the Budget, whilst also providing a view of impacts relative to the benefit system that the majority of low-income households in Britain are still under.

[1] Family Resources Survey data can be accessed here: https://www.gov.uk/government/collections/family-resources-survey--2

[2] The Benefit & Budgeting Calculator: https://www.betteroffcalculator.co.uk/#/free

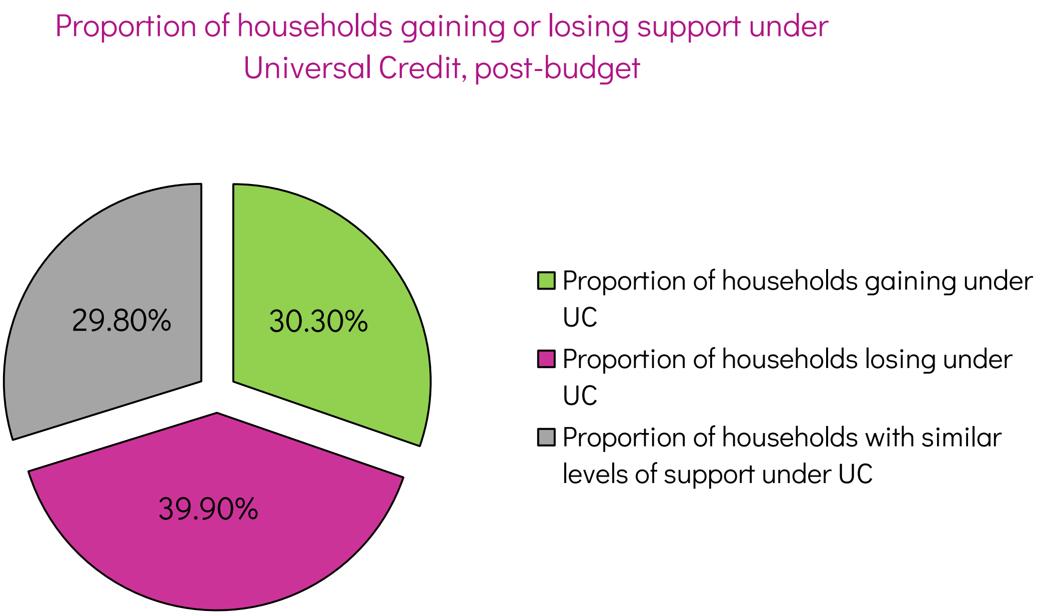
KEY IMPACTS OF THE AUTUMN BUDGET

Any new benefits system is expected to have at least some redistributive effect. Even with the Autumn Budget amendments, the imposition of welfare cuts alongside Universal Credit means that winners and losers are not balanced; more households will see household income reduced than will gain. Furthermore, average loss remains higher than average gain. This redistributive effect is not changed by the budget, as increases in support are targeted at employed households, many of whom would have gained support under pre-budget provision.

For some groups, the budget provision will have little impact:

- Households in receipt of disability benefits, such as PIP or DLA, who are not too ill to work, will see little change in support. Post-budget support levels for households with disability or illness are approximately the same as the level pre-budget.
- Non-working households will also see little change in support.

Overall, the proportion with support at similar levels, or gaining support, if they moved to Universal Credit is now 60%. Approximately 40% of households still lose support under Universal Credit following the budget.

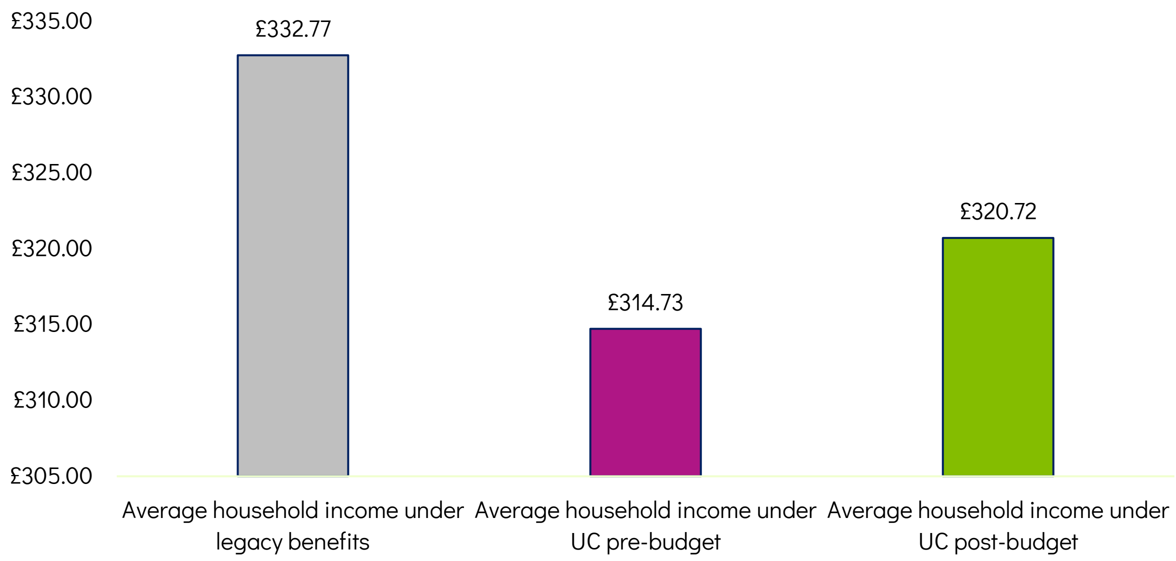


Proportion of households gaining and losing support post-budget.

The average working-age household will see their weekly income increase from the pre-budget scenario, from £314.73/week to £320.72/week. This is still lower than the average weekly income under legacy benefits, which stands at £332.77/week.

KEY IMPACTS OF THE AUTUMN BUDGET

Average household income of households in receipt of benefit support

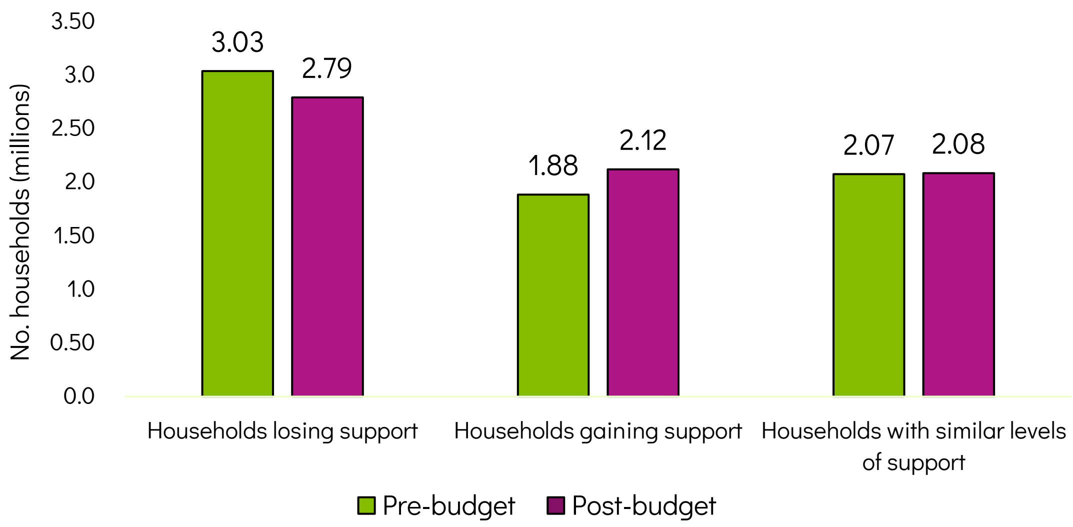


Average weekly income under legacy benefits and Universal Credit pre and post-Budget

Fewer households are expected to be worse off

As shown in the graph below, following the budget the number of households gaining support under Universal Credit increases by 240,000.

Number of households gaining or losing support under Universal Credit, pre-Budget vs. post-Budget



KEY IMPACTS OF THE AUTUMN BUDGET

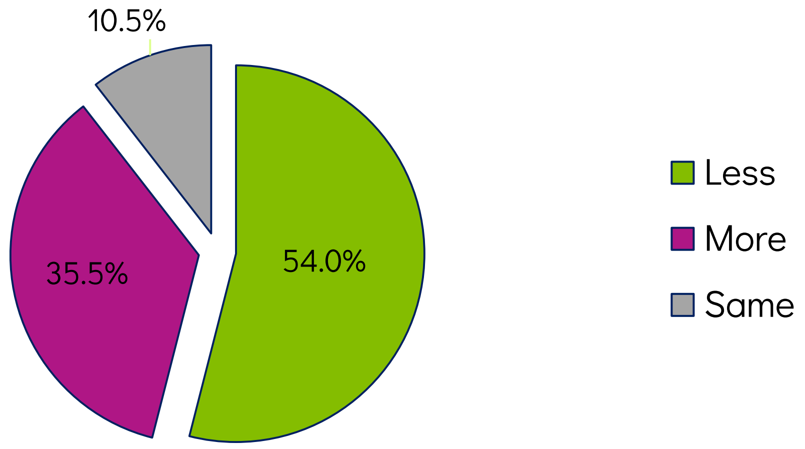
The average household will still see a reduction in support under Universal Credit, but this reduction is now less. The average reduction in support has fallen from £17.99/week to £12.02/week.

Comparison to current system take-home income, November 2018	UC (Pre-budget)	UC (Autumn 2018 Budget)	Difference
Number households (M) **worse off** *Average loss (£/week)*	3.03M *-£57.62*	2.79M *-£59.45*	-0.24M *-£1.83*
Number households (M) **better off** *Average gain (£/week)*	1.88M *£25.69*	2.12M *£44.30*	0.24M *£18.61*
Number households (M) with **similar income**	2.07	2.08	0.01M
Average change overall	**-£17.99**	**-£12.02**	**£5.97**

The average change in income across all low-income households as a result of the budget is an increase of £5.97/week. The average loss for those losing support stays at a similar level as pre-budget, but average gain for those gaining support increases by £18.61/weekly.

Many households that benefit from the budget were already better off under Universal Credit

Households better off post-Budget: percentage with more, less or the same income (compared to legacy benefits) in the pre-Budget scenario



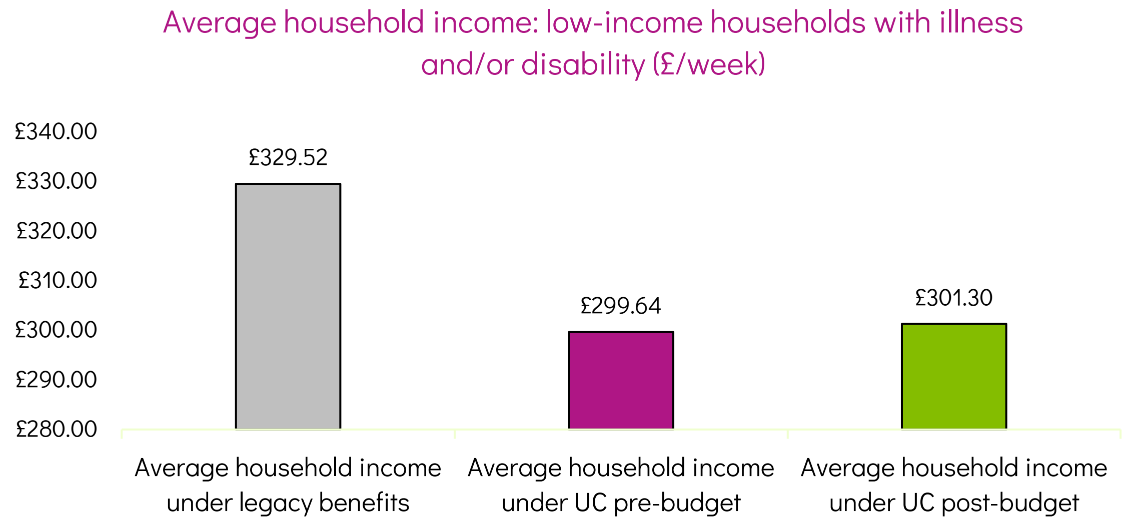
KEY IMPACTS OF THE AUTUMN BUDGET

Of the households that will have a higher take-home income post-budget, over one third (35.5%) are households that were already better off compared to legacy benefits (as shown in the pie chart above). Among employed households, 39.0% of those gaining as a result of the Budget were already households set to benefit under Universal Credit.

114,000 households will have a lower take-home income under post-Budget Universal Credit. This is due to the negative impact on self-employed households of increasing in the minimum wage, which leads to a corresponding increase in the minimum income floor applied to calculate their Universal Credit award. 80,000 of these households were already worse off under Universal Credit compared to legacy benefits, of which over 90% are self-employed households.

Disabled and ill households are not supported by Autumn 2018 Budget

Overall, income for households containing a person who is ill or disabled will be similar to their income pre-budget. Disabled and ill households will still be an average of £28.76/week worse off under Universal Credit compared to legacy benefits.



Average weekly take home income amongst low-income disabled and ill households

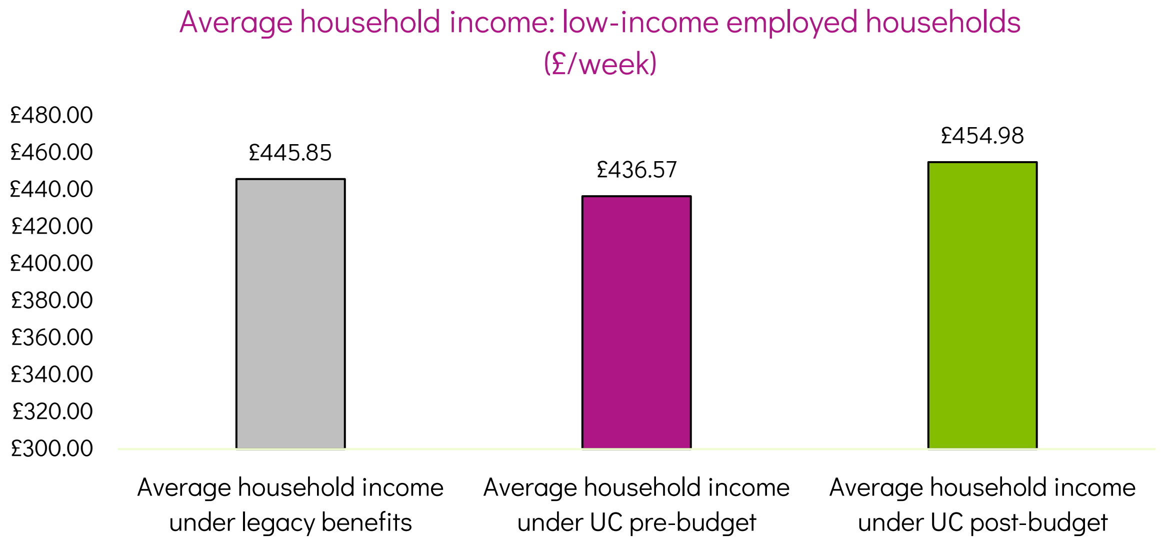
This is due to the limited impact of the increase in work allowances on disabled working households. The extension of these allowances will only affect those in receipt of PIP who are working, earn above the current work allowance, and have children (16% of low-income households in receipt of PIP and not ESA), or households in which a person is in receipt of ESA where earned income is already above the current work allowance (3% of low-income households in receipt of ESA). Taking both PIP and ESA recipients together, only 13% of all low-income and disabled/ill households will therefore benefit from the increased work allowances.[3]

[3] 118,447 households (out of 720,206) in receipt of PIP and no ESA have children and earn above current work allowances. This is 16% of households in receipt of low-income households in receipt of PIP and no ESA.

KEY IMPACTS OF THE AUTUMN BUDGET

Households that are employed see the biggest benefit from Budget

Employed households will be better off after this budget, and better off even than under legacy benefits. This reflects a combination of increased work allowances, the higher minimum wage and higher tax allowances.



Average weekly take home income amongst employed households

Employed households gain £18.41/week from the budget and will on average be £9.13/week better off compared to under legacy benefits.

Self-employed households face even bigger losses once MIF applies

Households affected by the Minimum Income Floor (MIF) will be a further £2.42/week worse off as a result of the Budget. This is because the National Living Wage sets the level of the minimum income floor. The increase in the National Living Wage from April 2019 results in a higher assumed income being used in the assessment of support for self-employed households, and so lower benefit support. This loss is higher than any gains in support as a result of increased work allowances.

Following the Budget, the average self-employed household will see household income reduced by £50.86 compared to legacy benefits.

37,183 low-income households in receipt of ESA (out of 1216246) earn above current work allowances. This is 3% of low-income households in receipt of ESA

KEY IMPACTS OF THE AUTUMN BUDGET

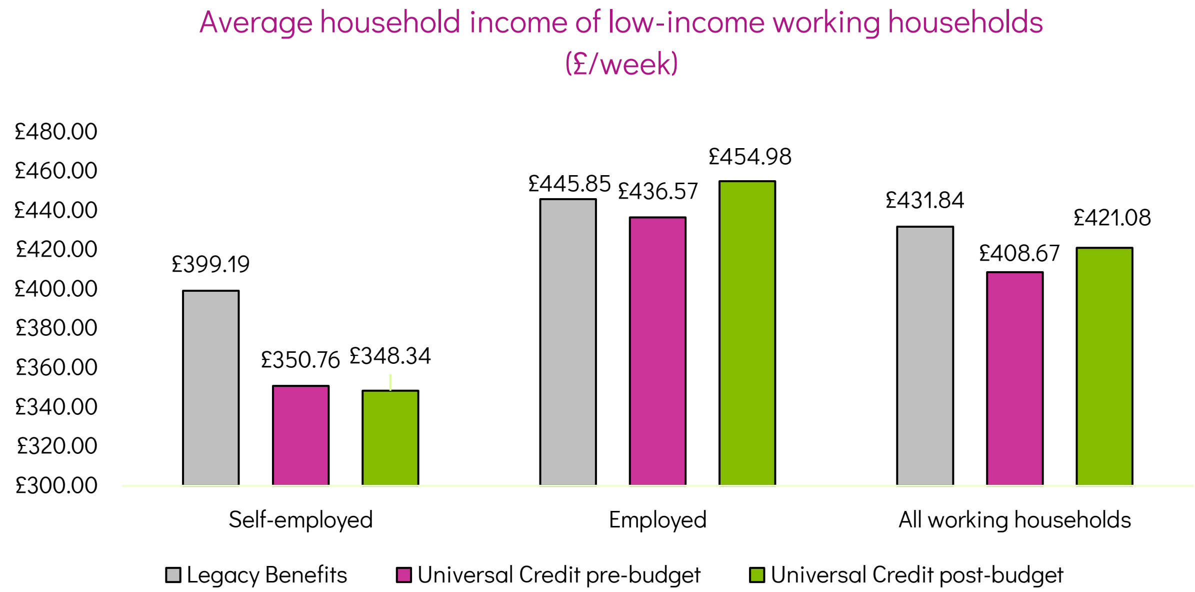
Average weekly take home income amongst self-employed households

The extension of the 12 month grace period before the minimum income floor is introduced for all households transitioning to Universal Credit will cushion this reduction in support for households moving to Universal Credit though managed migration. However, our data shows that only 9.6% of self-employed claims are in the first year of claim. Therefore, for households not protected by transitional arrangements, over 90% of self-employed households are likely to be affected by the minimum income floor if they continue with self-employment.

Overall, working households will see some benefit from Budget

The number of working households that will lose support under Universal Credit reduces from 1.9m to 1.7m. The average low-income working household will be £12.42/week better off after the Autumn 2018 Budget – but average household income for all working households is still less than income under legacy benefits, with a reduction in support of £10.75/week. This is largely a result of the high average losses in income that self-employed households are expected to see under Universal Credit.

KEY IMPACTS OF THE AUTUMN BUDGET



Average weekly take home income amongst low-income working households, by employment type

Households with children are more likely to be better off

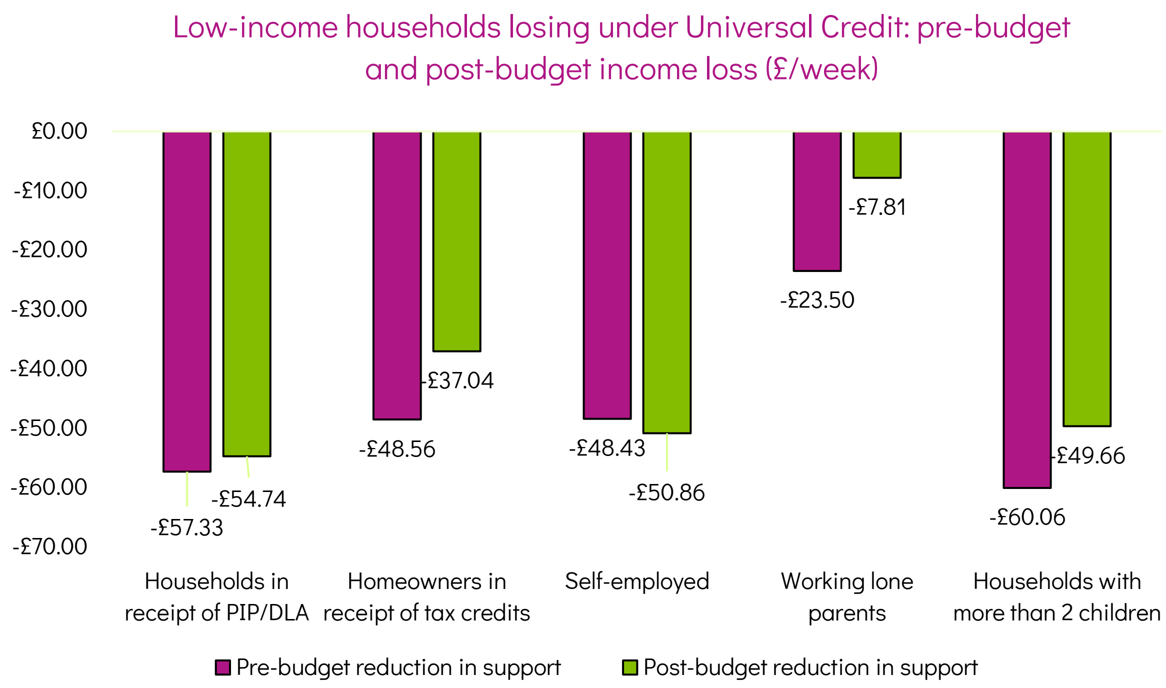
A further 0.25m low-income households with children will now be better off under Universal Credit compared to legacy benefits. On average, households with children will be £10.56/week better off compared to before the budget. However, 46% of households (1.6m) will still be worse off compared to legacy benefits and the average family will see household income reduced by £8.41/week compared to legacy benefits.

Average weekly take home income amongst households with children

1. THE IMPACT ON HOUSEHOLDS PREVIOUSLY WORSE OFF

This section examines the impact of the Autumn Budget on specific groups that lost significant benefit support under pre-budget Universal Credit provision. This provides an understanding of whether the new provisions are sufficient to mitigate expected losses as households migrate to Universal Credit.

Overall, the 2018 Autumn budget has mitigated some of the most severe impacts for groups that were expected to lose significant levels of support under Universal Credit. This is particularly the case for working lone parents, who gain significantly from the budget. However, this mitigation is concentrated on working households. Certain groups, particularly those in receipt of disability benefits, see little change in support. This is illustrated by the graph below, which compares pre-budget and post-budget change in income (compared to legacy benefits) for the most severely affected groups. Further analysis of the impacts on all these groups is given below.

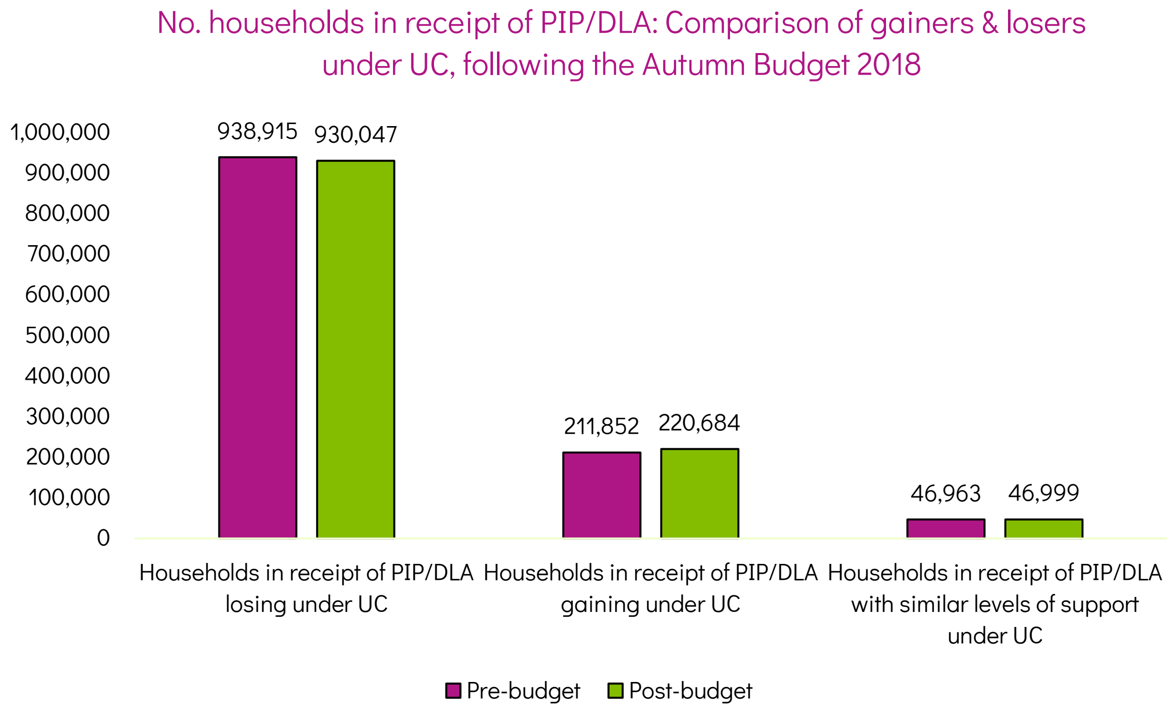


Cohorts losing income under Universal Credit: pre-budget and post-budget income loss (£/week)

Households in receipt of disability benefits (PIP or DLA)

Reduction in support for households in receipt of disability benefits is primarily due to the removal of additional support for disability (disability premiums) under Universal Credit. Those receiving PIP/DLA who are also in the Employment and Support Allowance (ESA) Support Group, will see some of this loss balanced out through the Limited Capability for Work-Related Activity (LCWRA) component of Universal Credit. However, households receiving PIP/DLA but not in the support group for Employment and Support Allowance will see significant reductions. In general, these will be individuals living with disability that require additional support for day-to-day living or mobility but are well enough to work.

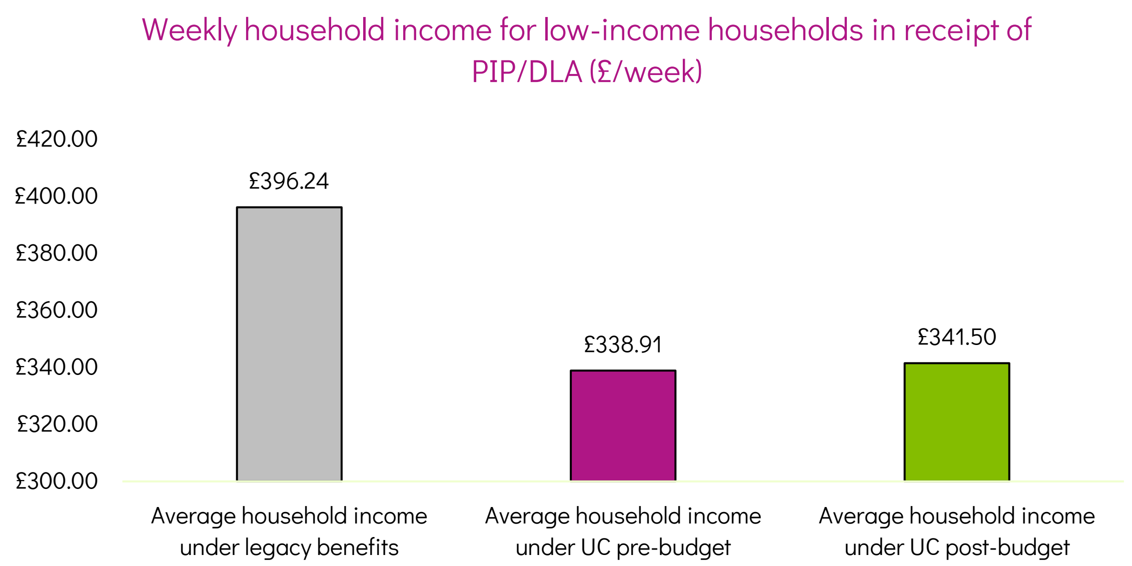
This analysis includes all households in receipt of PIP/DLA whether they are also in receipt of the ESA component or not. It therefore provides a picture of the average impact on disabled households.



Households in receipt of PIP/DLA: Number of households losing and gaining support pre-budget compared to post-budget

The increase in work allowances announced in the budget will have a positive impact on those with PIP/DLA where they, or their partner, are working. This is only 20% of all low-income households in receipt of PIP/DLA[4]. The budget amendments will not affect those that are not in work, the intention of these reforms is to primarily to restore work incentives. For households in receipt of PIP/DLA without ESA, the budget changes will only have an impact if they are both in work *and* have children, as only households with children or ESA are eligible for work allowances. In addition, the extension of work allowances will only have an impact on those earning above current work allowance levels. Taking all this into account, only 16% of households in receipt of PIP/DLA will be affected by the budget changes[5]. This means that there is only a slight average increase in support for this group following the budget.

- 9,000 fewer households in receipt of PIP/DLA and means-tested benefits will be worse off under Universal Credit following the Autumn Budget compared to before.
- 0.9m households in receipt of PIP/DLA and means-tested benefits will still be worse off under Universal Credit.
- 78% of those in receipt of means-tested benefit and PIP/DLA will still be worse off under Universal Credit following the budget.
- For households in receipt of PIP/DLA and other means-tested benefits, the average reduction in support under Universal Credit following the budget is £55/week.



Weekly household income for households in receipt of PIP/DLA and means-tested benefit support (£/week)

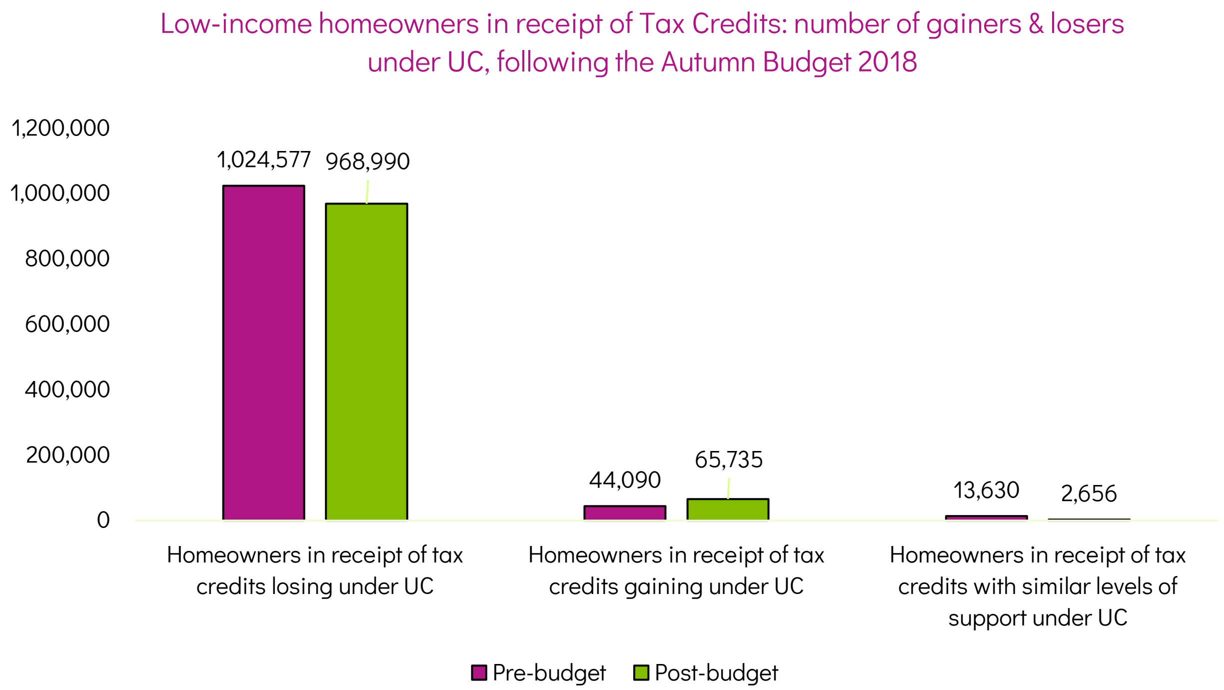
[4] 243,500 low-income households in receipt of PIP/DLA are in a household with earnings out of a total of 1197,730 low-income households in receipt of PIP/DLA.
[5] 118,447 households (out of 720,206) in receipt of PIP and no ESA have children and earn above current work allowances. This is 16% of households in receipt of low-income households in receipt of PIP and no ESA.

Homeowners currently in receipt of tax credits

Homeowners in receipt of tax credits and no other form of means-tested benefit support, excluding child benefit, were expected to see an average reduction in support under pre-budget provision.

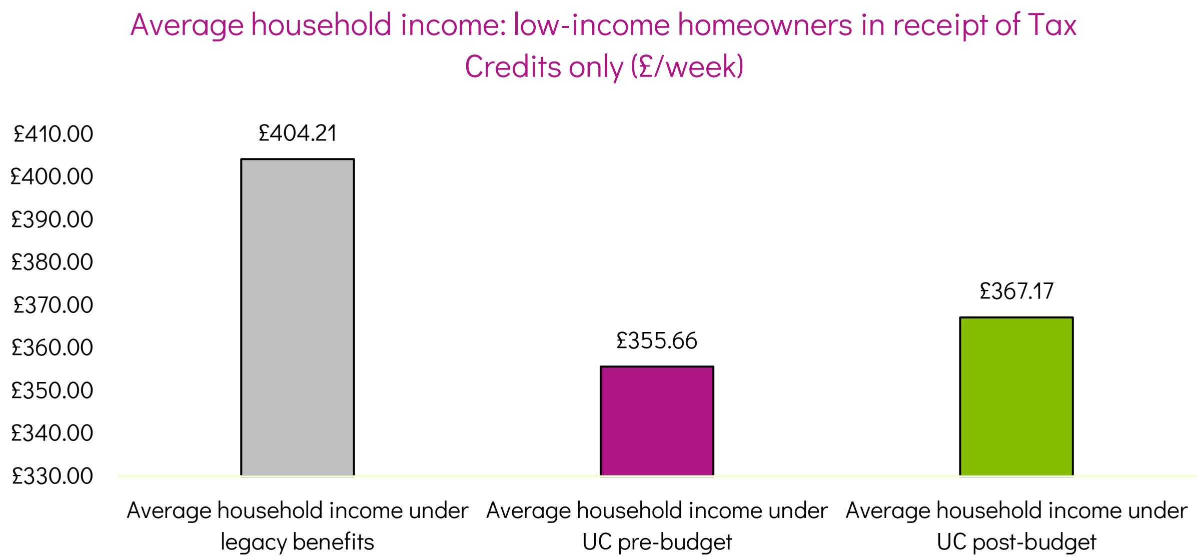
Tax credit and Universal Credit have very different methods of assessment and a direct comparison needs to take in a number of elements of the assessment to ascertain the reason for this reduction. Primarily the loss is due to the higher withdrawal taper of 63% of net income under Universal Credit (compared to 41% of gross income under tax credits). Even so, the tapers are not directly comparable as the starting point of withdrawal differs between the benefits. For tenants, the parallel withdrawal of Housing Benefits as earnings rise, means that differences in the level of withdrawal, and the related levels of support under the two systems, is not as stark.

The increase in work allowances specifically assists working households and this household type makes up the overwhelming majority of homeowners that currently receive tax credits only. The budget announcements will therefore have a positive impact on this group.



Homeowners in receipt of Tax Credits only: Number of households losing and gaining support pre-budget compared to post-budget

- 56,000 fewer homeowners currently in receipt of tax credits only will be worse off under Universal Credit following the Autumn Budget, compared to before.
- 1m homeowners currently in receipt of tax credits only will still be worse off under Universal Credit.
- 90% of homeowners currently in receipt of tax credits only will still be worse off under Universal Credit following the budget.
- Low-income homeowners in receipt of tax credits only see an average gain of £11.52/week as a result of the budget.
- For homeowners currently in receipt of tax credits only, the average reduction in support under Universal Credit following the budget is £37 per week.



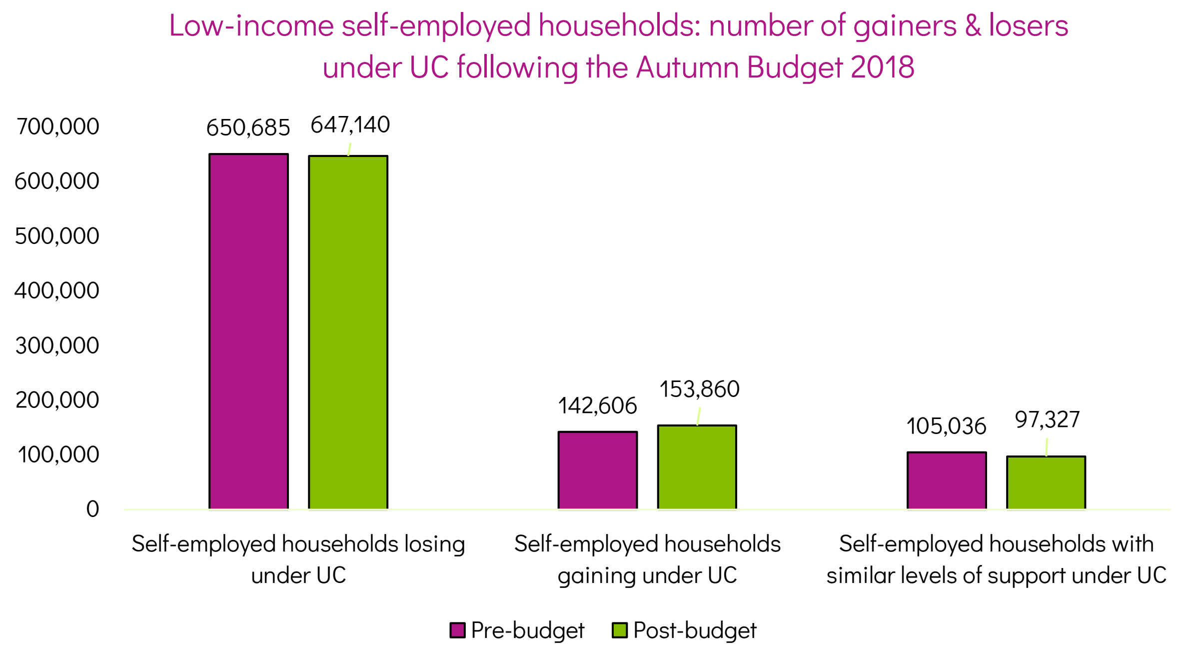
Weekly household income for homeowners in receipt of Tax Credits only (£/week)

Self-employed households

Self-employed households will see a reduction in support due to the imposition of a notional level of earnings (the minimum income floor) under Universal Credit. Under legacy benefits, income declared for tax purposes is used to assess support. For the majority of self-employed claimants in receipt of benefit, this notional level of income is higher than declared self-employed earnings and so results in a reduction in support under Universal Credit.

Pre-budget provision allowed for a grace period of 12 months during which actual earnings are used in the assessment of Universal Credit. After this period, the minimum income floor applies. The Autumn Budget provides transitional protection to households migrating to Universal Credit and extends this grace period to all self-employed households.

For households making a new claim for Universal Credit, the minimum income floor will still be applied unless the business is in its first year. Data from the Department for Business, Innovation and Skills[6] provided in the Self-employed Evidence Base 2014, indicate 11% of self-employed have been in self-employment for under 1 year. Policy in Practice's own research[7] across 19 London boroughs found that 78% of low income self-employed people have earnings such that they would be affected by the minimum income floor. This suggests that the vast majority of self-employed households will eventually be affected by the minimum income floor.



Self-employed households: Number of households losing and gaining support pre-budget compared to post-budget

Households affected by the Minimum Income Floor (MIF) will be a further £2.42/week worse off as a result of the Budget. This is because the National Living Wage sets the level of the Minimum Income Floor. The increase in the National Living Wage from April 2019 results in a higher assumed income being used in the assessment of support for self-employed households, and so lower benefit support. This loss is higher than any gains in support as a result of increased work allowances.

Following the Budget, the average self-employed household will see household income reduced by £51/week compared to legacy benefits.

[6] Self-employment in the UK: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/400793/Self_employment_in_the_UK.ppt

[7] Low Income Londoners – Phase II findings: http://policyinpractice.co.uk/wp-content/uploads/Low-Income-Londoners-phase-two-summary-report-080518.pdf

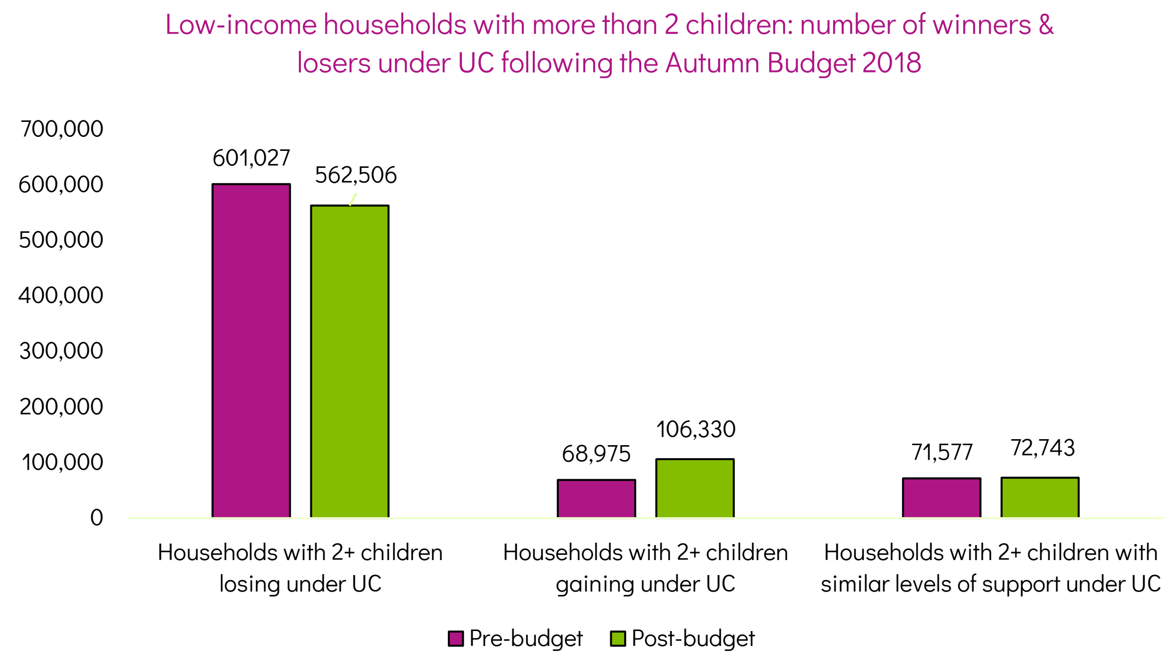
- 3,400 fewer self-employed households will be worse off under Universal Credit following the Autumn Budget compared to pre-budget provision.
- 0.64m self-employed households will still be worse off under Universal Credit.
- 72.4% of self-employed households will still be worse off under Universal Credit following the budget.
- For self-employed households the average reduction in support from legacy benefits to Universal Credit, following the budget, is £50.86/week.

Weekly household income for self-employed in receipt of benefit support (£/week)

Households with more than two children

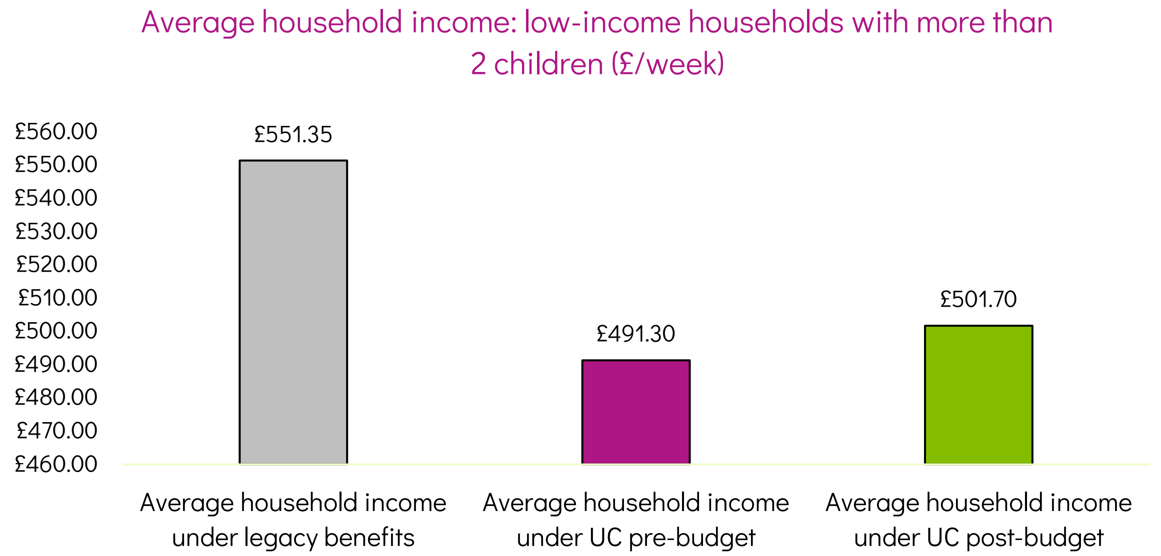
From 6 April 2017, benefit rules were changed so that the majority of children born after this date would not receive support if the child being claimed for is the third or subsequent child. In other words, benefit support is only available for two children. Transitional arrangements were put in place to protect those moving to Universal Credit who had a third or subsequent child born before this date. However, this transitionary protection ends for new claims, or claimants with significant changes of circumstances, once managed migration starts (currently scheduled for July 2019). After this, there will be no support for a third or subsequent child for new Universal Claims, irrespective of that child's date of birth. This analysis looks at the impact of Universal Credit excluding any transitionary support.

Low-income households with children are more likely to be employed than those without children. The extension of work allowance therefore has an overall positive impact on the average support level for these families. However, the increase in support is limited to working families and will not affect those households with more than two children who are not working.



Households with more than 2 children: Number of households losing and gaining support pre-budget compared to post-budget

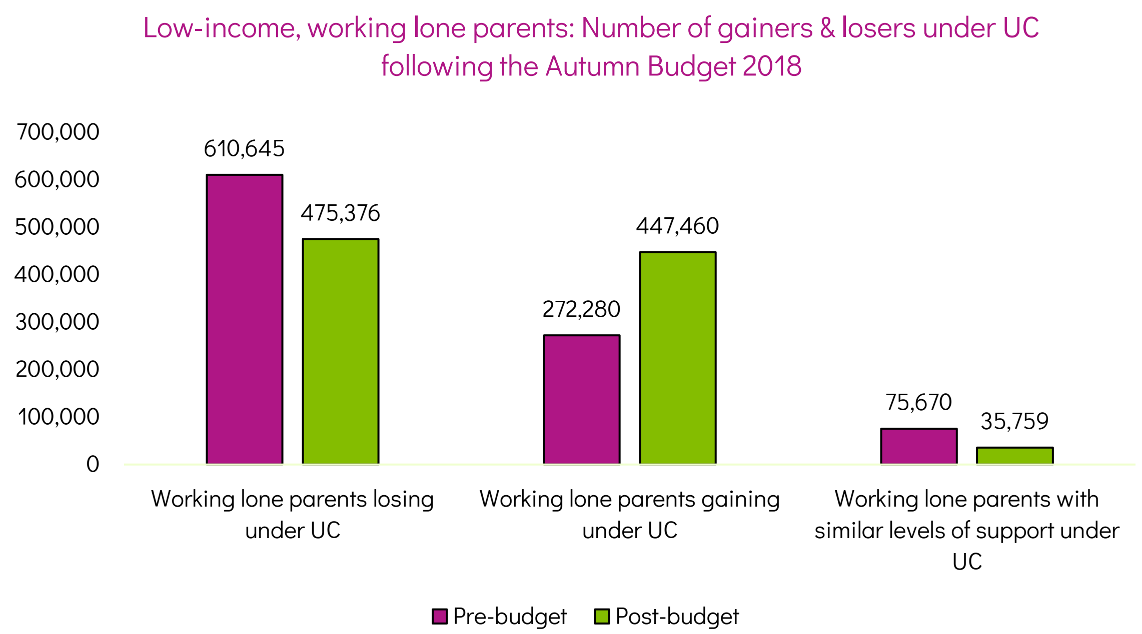
- 38,000 fewer households with more than two children will be worse off under Universal Credit following the Autumn Budget compared to pre-budget provision.
- The average gain from the Budget for households with more than 2 children who are better off is £10.40/week.
- 0.56m households with more than two children will still be worse off under Universal Credit.
- 76% of households with more than two children will still be worse off under Universal Credit following the budget.
- For households with more than two children the average reduction in support from legacy benefits to Universal Credit, following the budget, is just under £50/week.



Weekly household income for households with more than 2 children in receipt of benefit support (£/week)

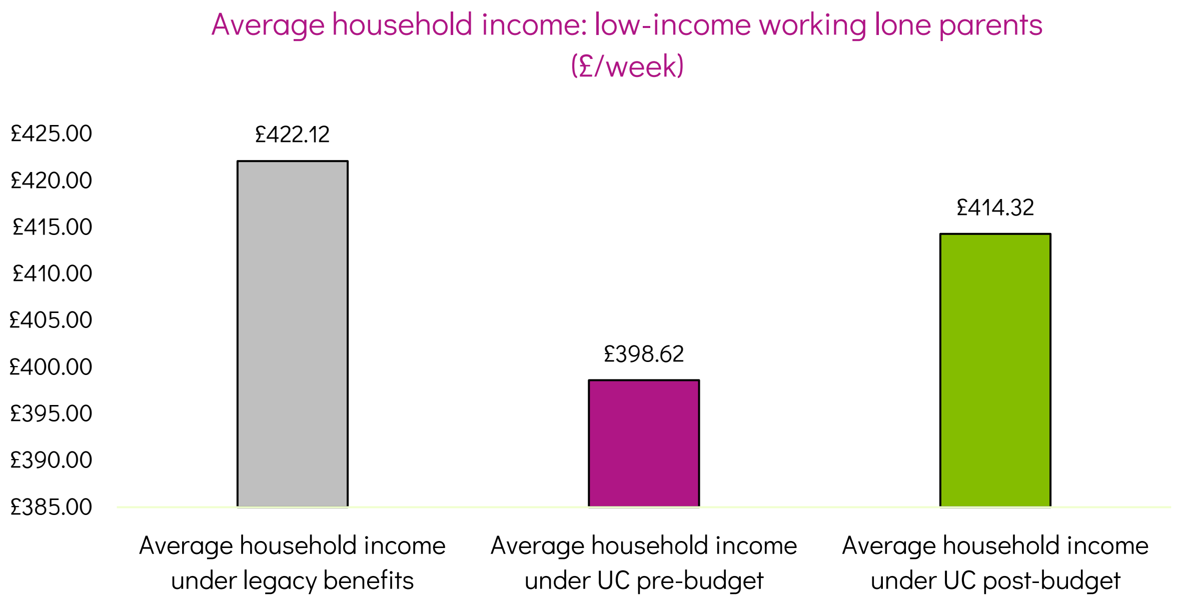
Working lone parents

Working lone parents generally lose support under Universal Credit. This is due to a number of differences in assessment between the treatment of lone parents under the two systems. Lone parents receive additional in work support under tax credits relative to couples, but under Universal Credit, they have the same work allowance as couples, meaning they lose out.



Working lone parents: Number of households losing and gaining support pre-budget compared to post-budget

The increase in work allowances has a significant impact on this cohort resulting in fewer households losing support as they move to Universal Credit. Where households do lose support, any loss is reduced.



Weekly household income of low-income working lone parents in receipt of benefit support (£/week)

- 135,000 fewer working lone parents will be worse off under Universal Credit following the Autumn budget compared to pre-budget provision.
- The average budget gain for working lone parents is £15.69/week.
- Following the Autumn Budget, 0.5m low-income working lone parents will still be worse off under Universal Credit. This is 50% of low-income working lone parents eligible for Universal Credit.
- For working lone parents, the average reduction in support from legacy benefits to Universal Credit, following the budget, is £7.81/week.

2. THE IMPACT ON HOUSEHOLDS ALREADY BETTER OFF

The migration to Universal Credit has a redistributive effect on household-level support and so certain cohorts were set to see an average gain in household income pre-budget. Most groups gaining support do so due to a higher proportion of employment within those groups (such as private tenants).

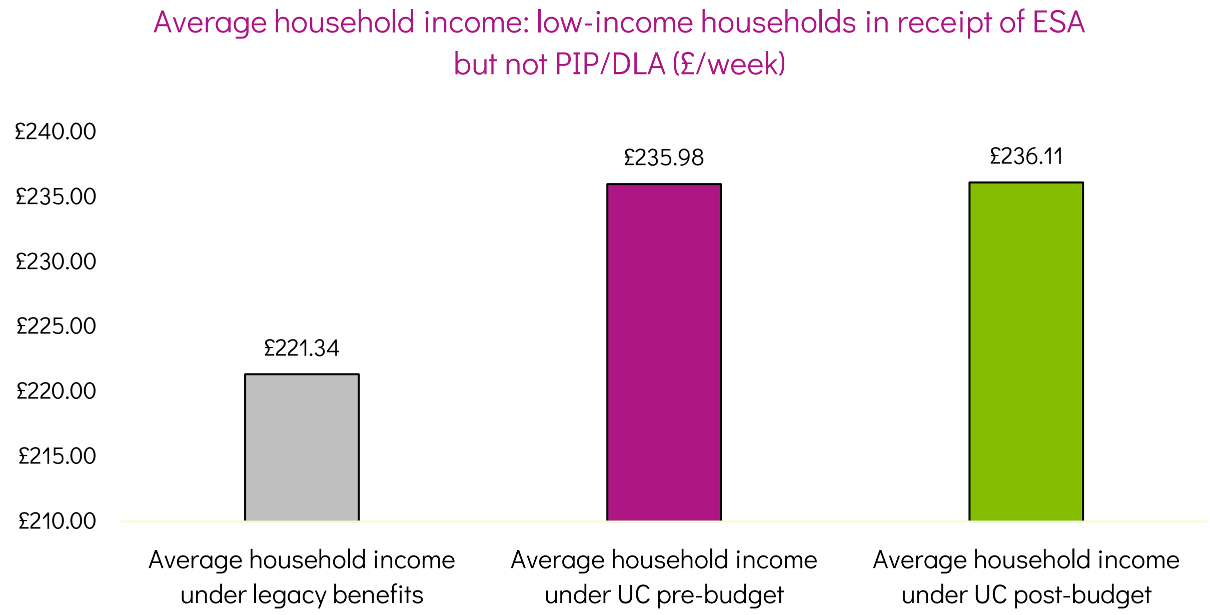
The Autumn Budget 2018 provides additional support to working households through the increase in work allowances. This results in employed households, who gained support pre-budget, gaining even further support post-budget. However, the other main group that was seen to benefit from Universal Credit, those in receipt of Employment and Support Allowance, do not see a similar increase in support as a result of the budget. Further information on the budget impact on these two groups is given below.

Households in receipt of Employment and Support Allowance (ESA)

Universal Credit offers increased support to those who are too ill to work and too ill to prepare for work. Those assessed as having Limited Capability for Work Related Activity (LCWRA), currently classes as in the ESA Support Group, are likely to be better off, or receive similar levels of support, under Universal Credit. The majority of households receiving ESA are in the support group and so would be better off under Universal Credit. The analysis looks at the average level of support for all households in receipt of ESA (Support and WRAG) but excludes those that also receive DLA or PIP alongside their ESA award. Households receiving both ESA and PIP/DLA are more likely to be worse off under Universal Credit and are included within the DLA/PIP analysis above.

The Autumn Budget increases the work allowances for those in receipt of ESA. However, it will only have an impact on those that earn above the current work allowance. The average earned income for ESA claimants that work is £84/week – significantly below the current work allowance additional support for those in work. Provisions in the budget are therefore unlikely to have a significant impact on the support levels for those in receipt of ESA.

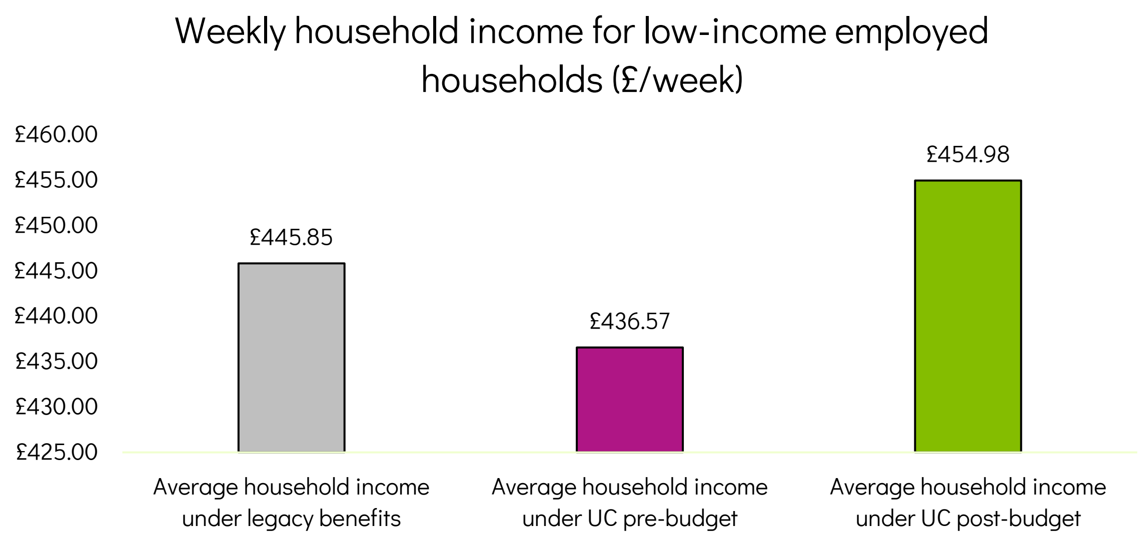
- The number of ESA claimants that will be worse off or better off under Universal Credit is similar post-budget as pre-budget, with 77% of ESA claimants better off under Universal Credit.
- Support levels for households in receipt of ESA do not change significantly due to the budget.
- Following the Autumn Budget, the average household in receipt of ESA will see their weekly household income increase by £14.77/week (relative to legacy benefits) under Universal Credit.



Weekly household income for households for ESA claimants (who do not claim PIP or DLA), (£/week)

Employed households

Under pre-budget Universal Credit provisions, a similar proportion of low-income employed households were set to be better off under Universal Credit as those that were expected to be worse off. The change in income following transfer to Universal Credit is dependant on tenancy, number of children, whether the claimant is single or part of a couple, and whether there is disability in the household.



Average weekly change in support for groups gaining support under Universal Credit (£/week)

The increase in work allowance will positively affect employed households. Following the budget, the majority of employed households will be better off under Universal Credit.

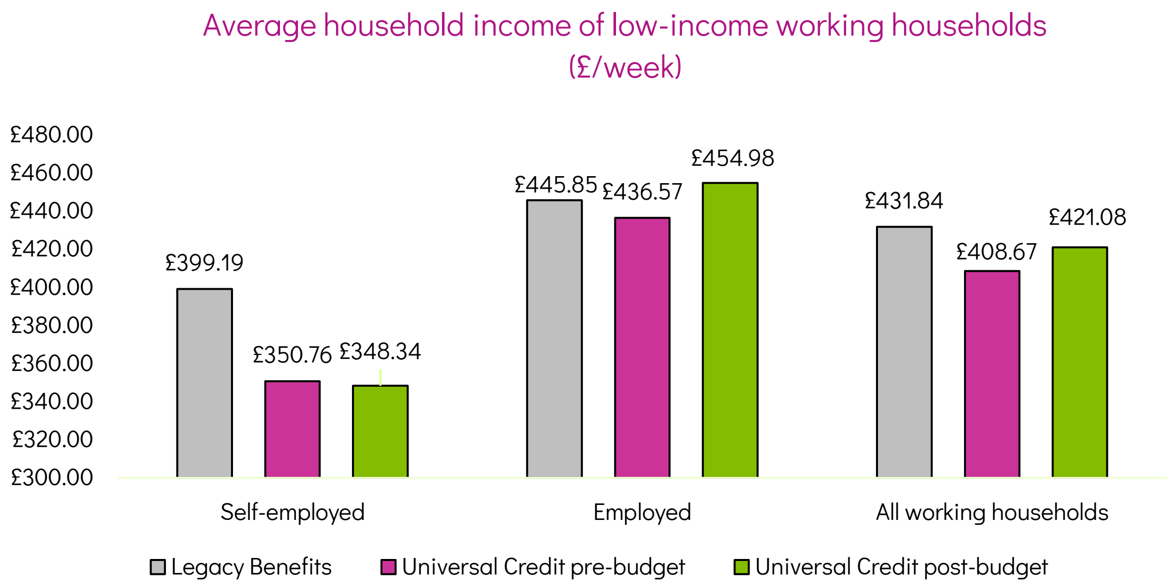
- 0.22m employed households will be better off due to the Autumn Budget.
- Employed households see an average gain in support of £18.41/week due to the Autumn Budget.
- Following the Autumn Budget, 1.2m employed claimants will be better off under Universal Credit compared to legacy benefits. This is 49% of low-income employed claimants. 39% of employed households will still be worse off following the budget.
- Following the Autumn Budget, the average employed household will see their weekly household income increase by £9.13/week under Universal Credit compared to legacy benefits.

3. THE IMPACT ON WORKING HOUSEHOLDS

The Universal Credit provisions stated in the Autumn Budget will have a positive impact on working households.

Following the Autumn Budget, 0.24m fewer working households will see a reduction in support under Universal Credit compared to legacy benefits. However, 1.7m households will still lose support under Universal Credit. This equates to 49% of working households in receipt of benefits.

The Autumn Budget increases the number of households gaining support under Universal Credit from the pre-budget figure of 1.1m households (32% of working households in receipt of benefits) to 1.3m households (39% of working households in receipt of benefits).



Household income for working households: legacy benefits compared to Universal Credit pre Autumn Budget 2018, and Universal Credit post Autumn Budget 2018

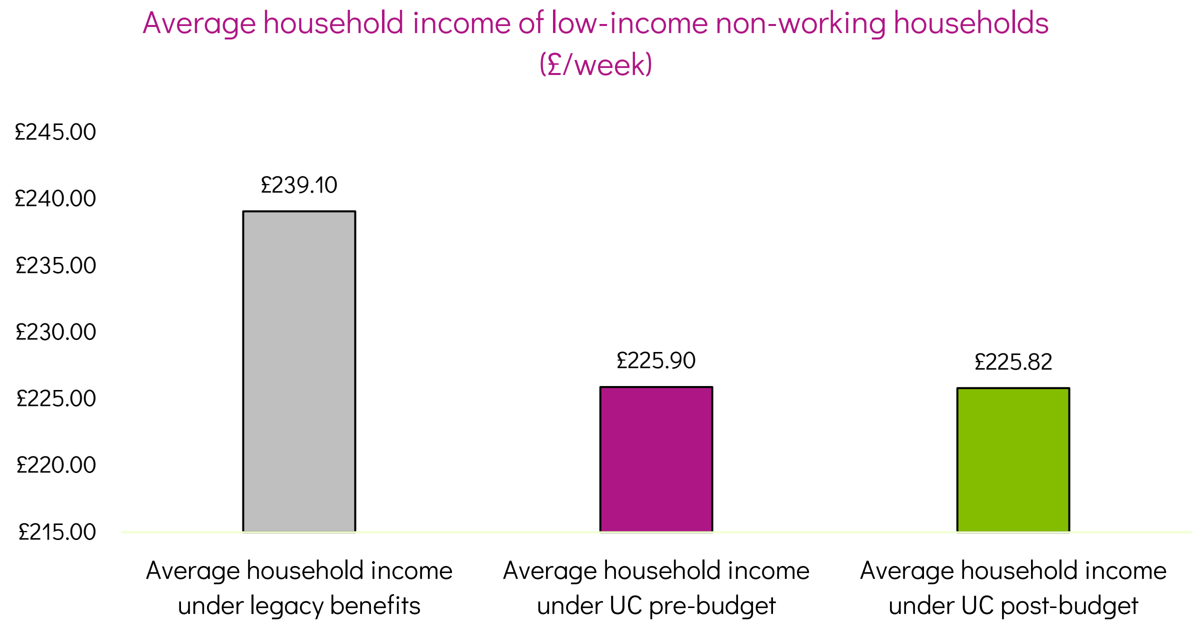
The impact of Universal Credit on working households differs with employment type:

- For employed households, more households gain support than lose support under Universal Credit with 1.4m households (61% of employed households) either gaining support or seeing support at similar levels to legacy benefits, and 39% of households (0.9m households) losing support. Average gain in support across all low-income employed households is £9.13/ week.
- Self-employed households are amongst the groups most affected by the move to Universal Credit. The increase in the Minimum Income Floor from April 2019 due to the rise in the National Living Wage minimum wage results in a small average reduction in support from April 2019. Of 0.9m self-employed households in Britain, 72.0% are expected to be worse-off under Universal Credit from April 2019.

4. THE IMPACT ON HOUSEHOLDS OUT OF WORK

The Autumn Budget contains no provision that will have an impact on the income of non-working households under Universal Credit.

Just under half of all non-working households will see support stay at levels that are the same, or similar, to current levels. However, 30% of non-working households (1.1m households) will see support reduce. This cohort includes those in receipt of PIP/DLA, who see substantial reductions in support due to the loss of disability premiums.



Average household income for non-working households: legacy benefits compared to Universal Credit pre Autumn Budget 2018, and Universal Credit post Autumn Budget 2018

5. THE IMPACT ON HOUSEHOLDS WITH A DISABILITY OR ILLNESS

The Autumn Budget does not have a discernible effect on low-income households in which a person receives sickness or disability benefits. These households remain set to lose significant levels of support under Universal Credit.

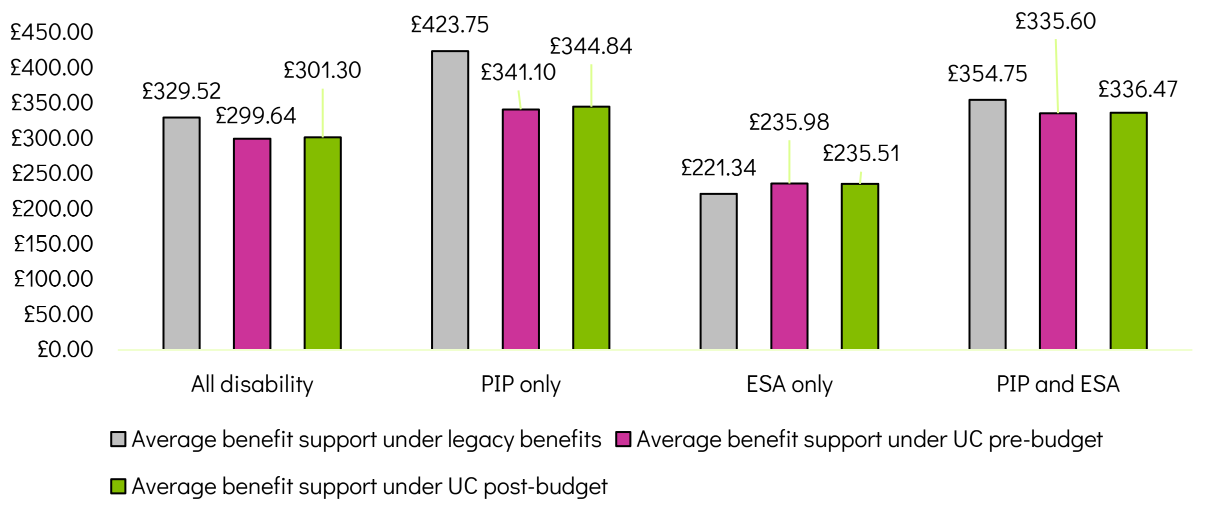
This loss of support is because those living with disability receive additional premiums under legacy benefits which increase levels of support. There is no equivalent of these under Universal Credit.

For some of those that are too ill to work, both the current benefit system and Universal Credit provide additional support. Under both systems, this additional support is limited to those that are both too ill to work and too ill to undertake work-related activity. Under the current benefit system, this is the ESA Support component, under Universal Credit it is the Limited Capability for Work related Activity (LCWRA) element. This additional amount is higher under Universal Credit than under legacy benefits.

The resulting impact is:

- Those that are living with disability and are in receipt of PIP/DLA, but are not too ill to work, will overwhelmingly be worse off under Universal Credit.
- Those that are ill and unable to undertake work-related activity, but not in receipt of PIP/DLA may be better off under Universal Credit.
- Those that are in receipt of both PIP/DLA and ESA are divided between those that are better off and those that are worse off. Slightly more households in this category are worse off than better off.

Average household income: households with illness and/or disability (£/week)



Household income for low-income households with illness and/or disability: legacy benefits compared to Universal Credit pre Autumn Budget 2018, and Universal Credit post Autumn Budget 2018

The Autumn Budget provides further support to working households. 0.2m households (8% of households in which a person is ill or disabled) are in receipt of PIP/DLA and are working. This group will benefit from the changes in the budget. However, as those in receipt of ESA are only permitted to work a set number of hours (16 hours at the National Minimum Wage) before being deemed fit for work, the increase in work allowance will only have a minimal impact on support levels across all households in which a person is ill or living with disability. For many households in this group, particularly those with PIP/DLA and no ESA, the reduction in support remains significant.

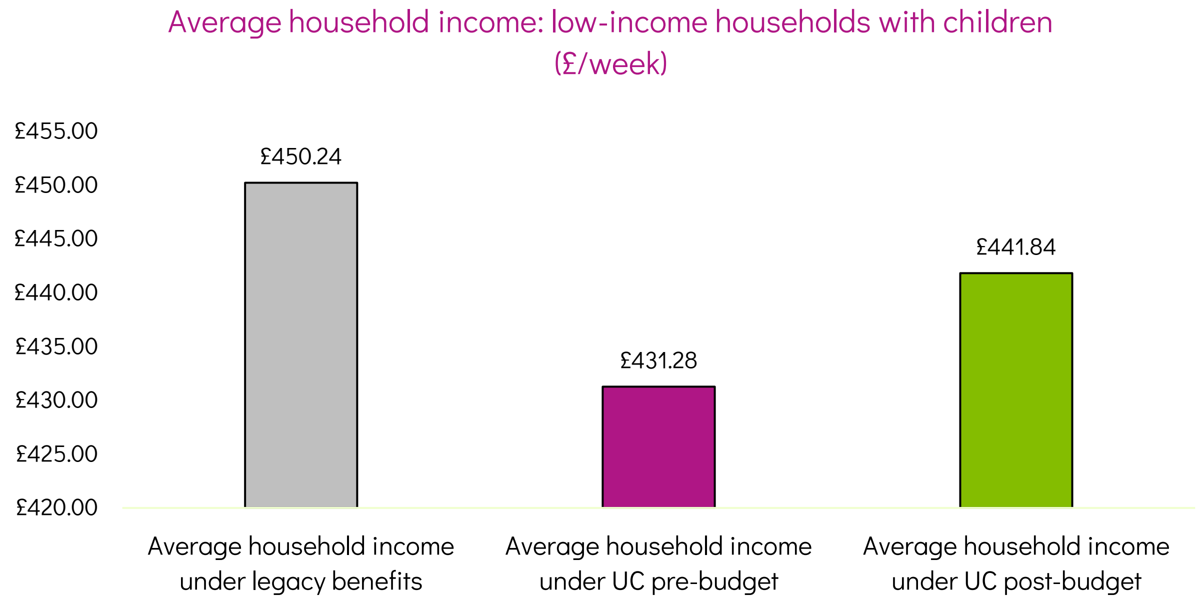
6. THE IMPACT ON HOUSEHOLDS WITH CHILDREN

The impact of Universal Credit on families with children will depend on whether the household is working, the number of children, whether there is illness or disability in the household and the number of adult relatives living in the household. Prior to the budget, slightly more households with children lost support as gained support under Universal Credit.

The increase in work allowances has an impact on employed households and, amongst low-income households, there is a greater propensity of employment amongst households with children. The increase in work allowances will therefore have a positive impact on families.

0.25m households with children will be better off due to the Autumn Budget. Overall, households with children see an average gain in support of £10.56/week due to budget amendments.

Following the Autumn Budget, 37% of households with children will see an increase in support under Universal Credit. 46% will see a reduction in support, and the remainder will see similar levels of support to that received under legacy benefits. On average, households with children will see weekly household income decrease by £8.41/week under Universal Credit compared to legacy benefits.



Household income for households with children: legacy benefits compared to Universal Credit pre Autumn Budget 2018, and Universal Credit post Autumn Budget 2018

Policy in Practice

CONCLUSIONS

Universal Credit is an ambitious reform to a flawed legacy system

Universal Credit is an ambitious social policy reform that seeks to tackle many of the failings of the legacy benefits system. By combining six different benefits into a single monthly payment that is administered centrally by the Department for Work and Pensions, Universal Credit removes the need for claimants to liaise with many different departments. The legacy benefits system has also been criticised for its permitted work rules, which can remove the incentive for certain people to work more than a set amount of hours (typically 16 hours per week). Universal Credit does away with some of these rules, and introduces a lower taper rate for most people, so that working people lose less of their benefit income for every pound they earn.

There are legitimate concerns about its design and implementation

Despite this ambition, the implementation and design of Universal Credit has been repeatedly criticised. A host of administrative changes, notably the five week wait before which a claimant receives their first payment, or the fact that Universal Credit is paid monthly (whereas many low-income people may be paid weekly or fortnightly), among others, are factors that have caused confusion and in some cases unnecessary hardship.

The benefit freeze, which has been in place since 2016, is expected to cost around 7m low income families a further £1.5bn in 2019/20. It is against this backdrop that cuts to support within Universal Credit were introduced, exacerbating the impact on certain groups. Major changes to welfare systems are typically always re-distributive. Lone parents, self-employed people on low incomes and certain disabled people are among the low-income groups that Policy in Practice had previously identified as being most at risk.

The Budget and other recent changes address some of these concerns

In response to these criticisms, changes have been announced over the past year to make Universal Credit more generous and ease the transition from legacy benefits. This includes reducing the initial wait from six weeks to five, boosting the availability of advances in Universal Credit payments, and allowing Housing Benefit to run on for the first two weeks of a Universal Credit claim being made. The Autumn Budget builds on this by committing £1.7bn to Universal Credit, aimed at mitigating some of the income losses certain types of households will face. Around £1bn will also be invested into support to help smooth the transition onto Universal Credit for around one-third of families.

Our analysis finds that the changes announced in the Budget will boost the incomes of many low-income people, however this falls short of making Universal Credit as generous a system as the legacy benefits it replaces. The average income change as a result of Universal Credit, compared to the legacy benefits system, was a loss of £17.99/week. The changes announced in the Budget, (when implemented in April 2019) will reduce this, but will still be an average loss of £12.02/week.

Policy in Practice

Some households benefit from the Budget, others do not

The Budget does not affect all different types of households uniformly. The winners from the Autumn 2018 Budget are largely working families, who will from April 2019 be able to keep more of their earnings before their Universal Credit income begins to be tapered away. Lone parents, who are currently more likely to lose income as a result of Universal Credit, are particularly likely to benefit from the Budget changes. The number of lone parents who will see their income increase under Universal Credit increases from 272,000 to 447,000 as a result of the Budget, this is closer to the 475,000 that are expected to lose income as of April 2019.

By comparison, people who claim Universal Credit and are out of work will see little to no change from the Budget. The same is true for households where somebody is receiving a disability or illness benefit, for whom average take-home income as a result of the Budget will stay much the same as before. These households will still be an average of £28.76/week worse off under Universal Credit compared to legacy benefits. Similarly, self-employed households who are affected by the minimum income floor will continue to see significant falls in income under Universal Credit. 72.0% of self-employed households that claim Universal Credit will, once the minimum income floor is applied after 12 months, face an income loss relative to their income under legacy benefits.

Success for managed migration hinges on identifying winners and losers

Policy in Practice welcomes the increased funding for Universal Credit, restoring support to levels nearer to the legacy system it replaces, particularly for people in work. However, certain low-income households, in many cases vulnerable people, will see no benefit from this Budget and could be worse off if transitional protection is eroded or does not apply. It is essential that they are identified and offered additional support.

With managed migration on the horizon, it is critical that the government accepts that prevention is better than cure. We hope that our analysis can help the DWP, local authorities and other stakeholders work more effectively in identifying households at financial risk early. Understanding who the winners and losers are (and why) at both a national and local level and ensure vulnerable people get tailored support, and drive sensible policy solutions.

We want to see investment into Universal Credit continue. Failing to have these measures at the outset has been a false economy for the millions of people that now rely on Universal Credit for their day to day needs, and for the government itself. The Department for Work and Pensions must build on this opportunity to improve the benefit so that it feels like a significant improvement on the legacy system for the people who rely upon it.

ABOUT US

Government policy is complex, confusing and difficult to navigate. It tends to focus on the impact of individual policies in isolation, rather than the overall impact it has on each individual citizen.

Policy in Practice is a policy-led software and analytics business founded by one of the architects of Universal Credit. We help people toward independence by making government policy and the benefit system easier to understand and navigate.

Our policy engine models over 4,000 pieces of legislation, updated in real-time, across four government departments. This helps people to understand the combined impact of policy changes on them, and they can identify the choices they can make to become better off, and to lead more fulfilling lives.

We help over 150 local organisations, and over 10,000 people each day to navigate the benefit system, to take control steps toward independence. We have built an analytics platform that tracks the living standards and the changing lives of over a million low-income households over the past two years.

Our analysis shows how each individual household is affected by all policy changes, now and in the future. Our work has had an impact on national policy, and is helping local authorities to target resources, meet their statutory obligations and spend money more effectively. A scientific approach to data visualisation drills down from national analysis to individual households, and links into engaging, tailored support to help people to take control and become better off.

We believe that administrative data is the future of social policy analysis, and can help the public sector to deliver more with less. We look forward to working with you to make this vision a reality.

FURTHER INFORMATION

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