THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Social Policies and Distributional Outcomes

in a Changing Britain

# The Conservative Goverments' Record on Social Security: Policies, Spending and Outcomes, May 2015 to pre-COVID 2020

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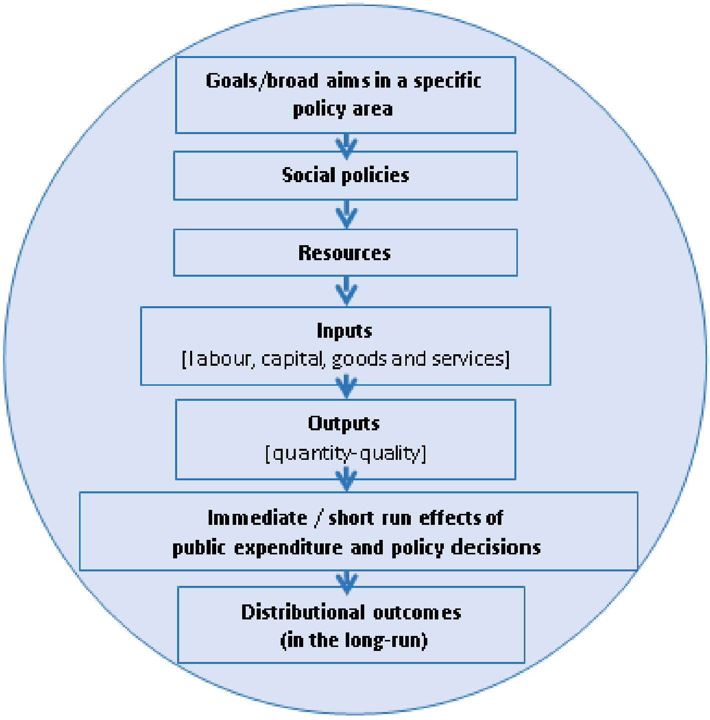
## Social Policies and Distributional Outcomes research programme

The central objective of the SPDO research programme is to provide an authoritative, independent, rigorous and in-depth evidence base on social policies and distributional outcomes in 21st century Britain. The central question to be addressed is: What progress has been made in addressing social inequalities through social policies? The research programme is ambitious and comprehensive in scope, combining in-depth quantitative analysis of trends in social inequalities and social divides with detailed and systematic public expenditure and social policy analysis across ten major social policy areas over the period 2015-2020, together with broader reflection on the changing nature of social policies and distributional outcomes over the 21st century.

The programme of research adds to (and will reflect on) the previous Social Policies in a Cold Climate (SPCC) research programme covering the period 1997-2015. The SPDO programme will update, extend and broaden our analysis of public expenditure, social policies and distributional outcomes using the most recent datasets available, resulting in a unique evidence base on trends in social inequalities and social policies going back to 1997. Innovative extensions included within the SPDO research programme include: coverage of additional areas of social policy (e.g. physical safety/security and complex needs/homelessness); emphasis on the new context for social policy making (e.g. devolution and BREXIT); assessment of a broader range of multidimensional outcomes within our quantitative analysis; and the inclusion of additional breakdowns (e.g. migration status). This programme will also have a forward looking component, identifying the key challenges for social policy in the 2020s.

The current paper is part of work-package 3 of the broader programme, which will provide in-depth and cross-cutting analysis of trends in social policies over the period 2010-2020. The work-package will include analysis within and across ten major social policy areas (social security and overall housing policy; health; social care; early years; compulsory school age education; higher education; employment; safety and security; social mobility; and homelessness / complex needs). The analytical schema for the social policy analysis undertaken within the programme is set out in Figure A below. The figure shows the structure of the analysis, which will address (1) broad policy goals for each policy area; (2) the actual policies and measures adopted in each area; (3) public expenditure trends (including where feasible and meaningful per capita and in relation to demand / need); (4) inputs and outputs (how resources were spent and what was produced from this); (5) overall outcomes achieved.

**Figure A: Analytical schema for public expenditure and social policy analysis**




Source: adapted from Lupton et al (2013). Note: Arrows denote steps in the analytic chain but not causality through the chain. The background circle denotes the broader universe of other policies, the economy and society, which shape all stages. More information and other publications in the series are available at the project webpage: http://sticerd.lse.ac.uk/case/_new/research/spdo/default.asp

## Foreword

On 11th March 2020 John and I presented findings from this paper at the CASE Social Exclusion seminar, as part of the *Social Policies and Distributional Outcomes in a Changing Britain* (SPDO) research programme. This seminar turned out to be our last SPDO seminar attended in person, before everything moved online due to the Covid-19 pandemic. Sadly it also turned out to be John's last presentation he gave at CASE before John fell ill the following summer and tragically passed away in December 2020, leaving a huge hole for social policy, for CASE and for all who knew and loved him.

There have been many tributes and condolences which are testament to how wonderful and inspirational a person John was. One such tribute 'On being more like John Hills' described how John never lost sight of the real lives behind the numbers used in poverty measurement, a quality which he very much brought to this paper in evaluating and highlighting the important impacts social security policies can have.

Typical of John's generosity and encouragement of more junior colleagues, John insisted on the authorship ordering presented here, but to be clear John was the driving force behind this paper and the main contribution of the paper comes from John's original analysis, including his analysis of the generosity of minimum income levels for different household types, and how this has changed over time.

Unfortunately, John did not get to see the final version of the paper. Some of the analysis included here was preliminary and John had intended to extend it. I have included it as John left it because of the important insights his analysis contributes.

It has been an honour to work with John on this paper and I hope that this, amongst his final work, will be useful for many others who share John's concern for a more equal society.

Kerris Cooper

February 2021

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## 1. Introduction

Social security policies and outcomes are central to many people's wellbeing, to national politics and to large parts of the economy. Spending on cash benefits and tax credits in 2019-20 was equivalent to a tenth of Britain's GDP and more than a quarter of public spending.[1] Changes in the way working-age benefits are set and the rules governing them were key parts of the austerity policies of both the Coalition government from 2010 to 2015 and the majority Conservative governments until the end of 2019. The last decade was marked by the implementation of substantial reforms to state pensions and the introduction of Universal Credit, which was eventually intended to have 7.5 million recipients.

Controversy was seldom far away – from media coverage of people alleged to be abusing the system to reports of hardship caused by delays in and lack of generosity of the system. From one direction, at the start of the decade the incoming Secretary of State for Work and Pensions, Iain Duncan Smith, wrote, "The welfare bill has become unsustainably expensive" and set out plans for the new Universal Credit as "the most far-reaching change that the welfare system has witnessed in generations" (Department for Work and Pensions, 2010, p. 1). From another, eight years later, in November 2018, the UN Special Rapporteur on Extreme Poverty and Human Rights concluded his visit to the UK with a memorandum describing projected levels of child poverty as, "not just a disgrace, but a social calamity and an economic disaster, all rolled into one" (Alston, 2018).

In this paper we bring together an account of how policies evolved, how public spending changed, the effects of these on the generosity of the system, and evidence of key outcomes in the areas that social security is intended to address.

Our main focus is on the period of the Conservative governments from 2015 until 2019, but we set this in the context of their legacies from the preceding Labour and Coalition governments, and conclude by looking at the challenges the system already faced in the 2020s before the Coronavirus crisis. Within 'social security' we cover spending on cash benefits run by the Department for Work and Pensions (DWP) and tax credits that have been run by HM Revenue and Customs (HMRC), including payments for those above as well as below pension age.[2] The spending analysis we present relates to Great Britain, as does most of the policy discussion, but we describe some of the differences in

[1] To this could be added the considerable amounts of revenue foregone through tax concessions and allowances which sometimes serve related ends (such as the favourable tax treatment of pension contributions) and private spending on related services. A separate paper in this series is examining the changing balance between public and private sectors in these areas (Burchardt and Reader, Forthcoming).

[2] We avoid the ambiguous term 'welfare', which is sometimes used to refer to cash benefits for people of working age who do not have income from work. While often thought of as the main activity of the system, these represented 15 per cent of total spending in 2019-20.

policy implemented by the Scottish Government for areas for which it has discretion. The evidence on outcomes has varying geographical coverage, with some relating to the UK, and other parts just to Great Britain.

An important backdrop to the story is the evolution of the labour market and policies towards employment over the period. These are discussed in a companion paper in the series (McKnight and Cooper, forthcoming), but key features include the rapid fall in unemployment after 2012-13, the overall stagnation in earnings between 2009 and 2019, and the real increases in the value of the national minimum wage rates.

Our analysis tells the story of why the social security system in place on the eve of the Covid-19 pandemic in March 2020 took the form that it did, and of how well-placed it was to cope with what turned out to be the greatest shock to British living standards since the Second World War.

## 2. The Conservative Government's Inheritance in 2015

Social security policies evolve over a long time: governments usually start with the cash levels of benefits set by their predecessors and adjust from there rather than making radical immediate changes, and structural reforms – especially those relating to pensions – can take many years to fully take effect.

In the case of the incoming majority Conservative government in 2015, part of its inheritance came from the decisions of the Labour governments from 1997 to 2010.[3] In structural terms these included the introduction from 1999 and development in 2003 of the tax credit system run through HMRC alongside cash benefits run by the Department for Work and Pensions (DWP), and the substantial reforms to state and private pensions introduced in response to the report of the Pensions Commission (2005). In terms of benefit levels the key legacy of the Labour governments had been increases in the generosity of the systems for pensioners and for working-age families with children, but benefits for working-age adults had not been increased in real terms, even as the economy grew rapidly before 2007.

The policies of the Conservative-Liberal Democrat Coalition from 2010 to 2015 were overlaid on this. These can be summarised as having five components:

- Increasing the annual income tax-free personal allowance by more than half to £10,000 by 2014-15 (from £6,475 in 2010-11). In the context of the Coalition's austerity policies, this had a major cost to the public finances that had to be offset by other cuts.
- Initial adjustment of working-age benefit levels in line with inflation (measured by the Retail Prices Index, up to 2010-11, but then by the

[3] For detail see Sefton, Hills and Sutherland (2009), Stewart (2009), Timmins (2017, chapters 21 and 24) and Hills, De Agostini and Sutherland (2016).

less generous Consumer Prices Index, CPI). As real earnings were falling at the time, this meant that benefits initially became more generous in relation to other incomes. However, for the three years from 2013-14 most working-age benefits were only increased by 1 per cent per year, so their real value fell back. By contrast, state pensions and pensioner benefits were 'triple-locked', increasing by the higher of earnings growth, CPI inflation, or 2.5 per cent each year. This meant their value increased in relation both to other incomes and to working-age benefits.

- A series of cuts to specific elements of the system for working-age households, including: to what had been Council Tax Benefit (now Council Tax support); to Housing Benefit (increasingly tight limits on the amount of private rents covered and the 'bedroom tax' for social tenants with 'extra' bedrooms); caps on the overall total of most kinds of benefits that households could receive (the benefit cap); less generous rules for tax credits; a series of reforms to disability and incapacity benefits (including the introduction of Personal Independence Payments, PIP), making assessments for eligibility much stricter; and changes to the administration of out-of-work benefits in general, leading to many more people being 'sanctioned' with periods when benefit payments were suspended because conditions for receipt had been breached (see Section 6.2). One major change in principle was the ending of Child Benefit being a fully universal benefit, with 'affluence testing' meaning its value tapered away through a tax charge for those where one partner has an income over £50,000.
- Reforms to state pensions which rolled out and accelerated those in train under Labour, including the move to earnings (or more generous) uprating of the state pension and the introduction of 'automatic enrolment' (with opt-outs possible) into workplace pensions or the new National Employment Savings Trust, NEST. In an early move the Coalition announced that State Pension Age for both men and women would be brought forward to reach 66 by 2020. This came on top of the increase in women's State Pension Age from 60 to 65 between 2010 and 2020 which had been announced in 1993. This meant a much more rapid increase with little notice for women born in the first half of the 1950s, the effects of which grew more apparent after 2015. The Coalition also simplified and consolidated contribution-based pensions into a 'Single Tier Pension' (STP), making it more generous for many including self-employed people, but less generous for some higher earners, affecting those retiring from 2016. At the end of the Coalition's period in government came a surprise announcement of 'pension freedom', that most of the resources accumulated through tax-privileged pension saving would no longer have to be used to provide a regular retirement income.
- The start of the major Universal Credit reforms. The Coalition's flagship reform, introduced by Work and Pensions Secretary Ian Duncan Smith, merges six of the (sometimes overlapping) means-tested working-age benefits and tax credits ('legacy benefits') into a single monthly payment

of Universal Credit (UC). The original intention was that transition to the new system would be complete by 2017, with 7.5 million households receiving it. In the event, the roll-out of the new benefit was slow, and existing recipients of legacy benefits remained on them. By the time of the May 2015 General Election only 65,000 people were receiving UC[4], so the impacts of the design decisions taken under the Coalition were still to come.

Some of the effects of these policy changes were immediate, but most had a delayed effect and are discussed below. In terms of one of the most prominent outcomes, trends in poverty rates, Figure 15 below shows that relative poverty rates were slightly higher in 2015-16 than they had been in 2010-11 (but slightly lower than they had been in 2009-10), while against a standard fixed in real terms, poverty rates had fallen, although much more slowly than they had in the decade running up to the crisis of 2007-2008.

One striking result of the policy legacy and other economic changes in the two decades up to 2015-16 was that typical incomes now vary much less by age than they did before – improvements in both state and private pensions for those currently in retirement mean that their living standards are now much closer to those of the working-age population, while younger adults have done badly, losing their previous advantage (see Figure 27).[5]

## 3. Goals and aims

In principle, social security systems have four core overlapping aims:

- Prevention and relief of poverty;
- Providing individual insurance, protecting incomes and accustomed living standards against unexpected events such as unemployment and illness (and so having a more general macroeconomic stabilisation effect);
- Smoothing incomes over the life cycle, notably between people's working careers and retirement, but also towards times when they have children or other caring responsibilities;
- As a mechanism for reducing horizontal inequalities between those with different needs because of their circumstances, such as disability.

Achieving each of those aims also contributes to the reduction of economic inequality in general.

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/435409/universal-credit-statistics-to-28-may-2015.pdf

[5] Hills, Cunliffe and Obolenskaya (2016), figure 12.5, and Obolenskaya and Hills (2019).

In the conclusion in Section 8.3 we come back to these aims when assessing the implications of the developments in the system over the past decade for its ability to cope with the Covid-19 pandemic.

While many would agree on those aims, there is more dispute over the constraints within which policy has to operate:

- Political and public support for the taxes and social insurance contributions needed to finance the public spending required, which varies between different beneficiaries and forms of social security;
- Potential adverse effects on the economy, such as through changing incentives to work (related to the relativities between incomes in and out of work) or work more (related in particular to combined marginal tax rates and withdrawal rates of means-tested benefits);
- Administrative costs of the system to government, but also the burdens imposed on beneficiaries.

For the governments since the 2010 General Election, but continuing after 2015, the emphasis in policy discussion has been on the constraints. The clearest statements of the aims of Conservative social security policies came in the 2015 and 2017 election manifestos[6], but also in the July 2015 Summer Budget speech that laid out how the further round of 'welfare cuts' which would dominate the following five years would be achieved, which we now discuss.

### 1.1 The 2015 Conservative Manifesto

For social security, the most important element of the Conservative's manifesto on which they won the 2015 General Election under Prime Minister David Cameron, was in its promises for further 'fiscal consolidation'. The manifesto's economic section said that, 'We will find £12 billion from welfare savings' on top of the £21 billion they said they had already achieved since 2010 (Conservative Party, 2015, p. 8). It seems likely that this figure was seen as a starting point for what was seen as probable post-election bargaining with their Liberal Democrat partners, without the Conservatives expecting to deliver it in full. But, with Cameron's overall majority, implementing the promised £12 billion (annual) cuts as a contribution to austerity became the centre of their social security policies.

However, only a few clues were given as to how this would be achieved. Pensioners would continue to be protected through the 'triple lock' and continuing concessions such as free bus passes, TV licences and Winter Fuel Payments (ibid, p.67). The manifesto pledged to create a welfare system that would be 'fair to those who need it, and fair to those who pay for it too' (ibid, p.27). The specific plans included a reduced cap on the maximum a household could receive in most benefits (the benefit cap), a two-year freeze in working

[6] We discuss the 2019 Conservative manifesto in Section 8.2.

age benefits from April 2016 and delivery of a simplified benefits system through Universal Credit (ibid, pp.26-27).

Simultaneously the manifesto promised to 'ease the burden of taxation' by increasing the tax-free personal allowance to £12,500 during the Parliament, justified as the right thing to do 'not only because it is your money, but also because cutting the taxes of the lowest paid and helping them stand on their own two feet is the most effective poverty-tackling measure there is' (Conservative Party, 2015, p. 25).[7] It also pledged to pass a law to ensure the personal allowance rose in line with the minimum wage (now renamed the 'National Living Wage' for those aged 25 or more). Other promised tax cuts included an increase in the threshold for paying higher rate tax to £50,000 to 'back aspiration', transferability of £1,060 of the tax-free allowance for lower-income married couples and civil partners, increasing free childcare for households where both parents are working, and taking 'the family home out of inheritance tax for all but the richest', with the threshold reaching a possible £1 million.

*Poverty measurement*

At the same time the manifesto promised to work to eliminate child poverty and 'introduce better measures to drive real change in children's lives, by recognising the root causes of poverty: entrenched worklessness, family breakdown, problem debt, and drug and alcohol dependency' (Conservative Party, 2015, p. 27).

This commitment led to the Government's announcement of changes to the measurement of child poverty, to remove income- and deprivation-based measures and targets and replace them with two 'life chances' indicators based on worklessness and educational attainment at age sixteen (McGuinness, 2017). The announcement followed a consultation during the Coalition period in 2012, which challenged what it described as the Labour government's 'simplistic approach' which focussed on income. It proposed instead a multidimensional approach to 'capture the reality of child poverty in the UK', and sought advice on how to design such a measure (HM Government, 2012). That consultation had received 257 responses from individuals and organisations. These responses were not published at the time, but 88 per cent of them had 'made it very clear that they thought income must remain part of poverty measurement, with just 1% - 2 respondents – saying no' (Stewart and Roberts, 2019). Further, the responses showed little support for a multidimensional approach to poverty and strong support for the original measures (ibid).

[7] Leventi, Sutherland and Tasseva (2019) suggest that in fact for the policy instruments they examine through modelling their effects using the tax-benefit model, EUROMOD, in seven countries, increasing income tax thresholds has the *lowest* impact in reducing poverty in relation to its costs, particularly in the UK.

Despite clear support for the existing measures and for income to remain a part of poverty measurement, in 2014 the Coalition government had published its child poverty strategy for 2014-17 based on an evidence review of the drivers of child poverty, which highlighted the importance of sufficient income from parental employment and identified educational attainment as a main driver of poor children becoming poor adults (HM Government, 2014).

The Child Poverty Act 2010 had legally bound the government to monitor progress annually against four child poverty targets based on reducing the proportion of children in (1) relative low income; (2) combined low income and material deprivation; (3) low income below a fixed threshold; and (4) persistent poverty, and to meet these targets by 2020/21 (McGuinness, 2017). These targets were removed by the Welfare Reform and Work Act 2016 which instead placed a new duty on the Government to report annually before parliament on life chances indicators related to worklessness and educational attainment (ibid). However, following opposition from the House of Lords an amendment was made so that the Government is still required to publish the four measures from the Child Poverty Act 2010, although unlike the life chances measures these do not have to be reported to parliament and the targets were removed (ibid). In Section 7 below we present some results from these continuing series.

### 1.2 The July 2015 Budget

Why and how the £12 billion per year further cuts in working-age social security would be achieved were set out more clearly in Chancellor George Osborne's post-election Budget. He argued that 'welfare spending is not sustainable and it crowds out spending on things like education and infrastructure' (Osborne, 2015). On top of measures foreshadowed in the Manifesto, the Budget extended the cash freeze in working-age benefits to four years (until 2019-20), passed the cost of free TV licences for older people to the BBC's budget, and announced a one percent per year cut in social housing rents to reduce the cost of Housing Benefit. For private tenants receiving Housing Benefit the freeze on the 'Local Housing Allowance' caps, already cut to cover only the lowest 30 per cent of local rents from April 2011, became tighter and tighter as rents rose, leaving an increasing proportion of tenants facing shortfalls between the Housing Benefit they received and the rent due.

But to achieve the overall savings two further cuts were announced. First, the income threshold above which both existing tax credits and Universal Credit are reduced ('tapered') for those with higher incomes would be cut from April 2016, and this would affect existing tax credit recipients, not just new ones. Second, Mr Osborne set as a principle that, 'the benefits system should not support lifestyles and rents that are not available to the taxpayers who pay for that system'. In particular, he argued that, 'It is important to be fair to the many working families who don't have their budget rise by anything like [the rise in tax credits] when they have more children'. A 'two child limit' would mean no additional benefits or tax credits for third or later children born from

April 2017, and new Universal Credit claims would be limited to support for a maximum of two children, whatever their ages.

### 1.3 The 2017 Conservative Manifesto

Theresa May's entry into Downing Street in 2016, following the Brexit referendum and David Cameron's resignation, brought a new focus on those who could 'just about manage', gender and ethnic inequalities, and some changes in housing policy, but little change in social security policy. The manifesto for the surprise general election the following year largely confirmed aims to continue with what had previously been announced, with 'no plans for further radical welfare reform' beyond continuing to deliver Universal Credit (Conservative Party, 2017, p. 54). There was also continuity in re-stating the party's belief that work is the best route out of poverty, that work should always pay and that the system should be fair 'both to the people in need of support and those who pay for it' (ibid, p.54). There was a stronger emphasis on equality of opportunity and help targeted towards those Theresa May had identified as 'JAMs' (just about managing families), as well as inequalities related to pay gaps by gender, ethnicity, mental health and disability.

The commitments to increase the annual income tax-free personal allowance to £12,500 and to increase the higher rate tax threshold to £50,000 were re-stated. The manifesto promised to continue to increase the National Living Wage to 60 per cent of median earnings by 2020 and then by the same rate as median earnings. It also re-stated the pledge to continue to protect pensions with the Triple Lock until 2020, but with plans to introduce a 'Double Lock' after that, so that pensions would rise with the higher of earnings or inflation (but with no 2.5 percent minimum). The 2017 manifesto also restated plans to increase the state pension age so that it reflected increases in life expectancy, though with a promise to 'protect each generation fairly' (Ibid, p.64).

After the 2017 election, as with many other social policy areas, the political and administrative focus on Brexit left no time for social security policy development beyond delivery of the cuts already decided on and continued roll-out of Universal Credit.

## 4. Policies

The timeline in the Appendix sets out the detailed sequence of social security and personal income tax policies and policy changes which the Conservatives implemented from 2015 to 2019 in fulfilment of their manifesto and 2015 Budget aims, but with a number of modifications along the way as the effects of the rapid cuts announced in July 2015 became apparent and issues related to the design of Universal Credit affected more people.

*Personal taxes*

Personal tax changes included implementing the promised increases in the tax-free income tax allowance to £12,500 and starting point for 40 per cent tax to £50,000 of taxable income (by 2019-20) and the new transferable marriage allowance.

*Working-age social security*[8]

Social security policies were characterised by less generous benefits in general: the benefits freeze; tighter benefit caps; the roll-out of Universal Credit to new claimants (which became less generous for most new claimants than the tax credits it replaces, as existing tax credit recipients were protected from some of the cuts announced in July 2015); and increased conditionality.

As well as reduced generosity in general, support for children in particular was cut, with the introduction of the two-child limit, removal of the 'family element' from child tax credits and removal of the first child premium from Universal Credit and of the family premium from Housing Benefit.

There was, however, a series of modifications and delays to the plans set out in the summer of 2015. First, the July Budget had planned to bring in the effects of less generous support for low earners quickly, affecting existing tax credit recipients from April 2016, not just people starting new Universal Credit claims. A backbench and House of Lords rebellion meant that this was rescinded. In the long run, however, the turnover of claims means that the savings will still eventually be achieved, as more and more cases count as 'new' claims. In addition, from 2019-20 there was a partial restoration of the value of the reduced Universal Credit 'work allowances' which set the threshold above which benefits are reduced as earnings increase.

There were also some amendments to the design of Universal Credit, particularly in the period when Amber Rudd was Secretary of State. Some of these were designed to moderate the delays in payment built into its design – with payments made in arrears at the end of a month, and additional delays because of administration and a one week 'waiting period'. These meant a six-week period without any payment, even once all the details of a claim had been completed successfully. One change was to abolish the seven 'waiting days' from February 2018, reducing the wait to five weeks – but still a major issue for people previously receiving incomes more frequently than the monthly cycle that had been built into the design of UC for a combination of administrative and ideological reasons. The response was to allow advance payments soon after a claim started, but made as a repayable loan, and so

[8] See McKnight and Cooper (forthcoming) for material on related employment policies. An important part of the context was the increase in what was renamed the 'National Living Wage' (for those aged 25 or more) from £5.93 per hour in October 2010 to £6.70 in October 2015 and £8.21 in April 2019, an increase of 14 per cent in real terms (compared to the CPI) since 2015. It rose again by 6.2 per cent in April 2020 to £8.72.

resulting in lower payments later on (over what was originally 6 months, extended to 12 months from 2019-20, and to become up to 16 months from October 2021).

The two-child limit was also modified in January 2019. The policy, which restricts payments for child tax credits and UC to the first two children was introduced on 6 April 2017 and initially only applied to new claims where subsequent children after the first two were born after this date. The second phase in February 2019 was due to expand this policy to all subsequent children born after the first two children, regardless of date of birth – so that it could apply to children who had been born before the policy was announced. However, in January 2019 Secretary of State Amber Rudd announced a number of changes to welfare reform to ensure that it was "fair and compassionate"[9] including that children born before the two-child limit policy came into effect would continue to remain exempt.

There was also a U-turn on housing entitlement for 18-21 year-olds. From 1 April 2017 single adults aged 18-21 were not entitled to housing support unless they met certain eligibility criteria, but in March 2018, following concern about youth homelessness and rough sleeping, it was announced that housing support would be reinstated from 31 December 2018 (Wilson, Keen and Barton, 2018).

*Disability benefits*

One of the main changes to disability benefits has been the roll out of Personal Independence Payments (PIP) to replace Disability Living Allowance (DLA). The stated aim was to provide more targeted support to those in most need, to be responsive to changes in claimants' circumstances, to use a fairer and more transparent assessment of need, and to reduce spending. PIP is a non-means tested benefit payable whether in or out of work to help with the additional costs that arise from having ill health or a disability and has replaced DLA for those of working age (16-64), requiring reassessment of all existing working age DLA recipients, whilst those aged 65+ will continue to receive DLA (Kennedy, 2015). The amount of benefit received depends on how the condition affects the person. This is evaluated in relation to two components – an individual's ability to get around (the mobility component) and an individual's ability to carry out key daily activities (the daily living component), with each paid at both a standard or enhanced rate. The main differences between DLA and PIP are greater use of fixed term awards, assessment that aimed to be 'more transparent and objective', and greater recognition of certain conditions including ones that fluctuate (Office for Budget Responsibility, 2019b).

PIP was introduced in April 2013 with plans for the switch from DLA to be complete by late 2017, but delays make it unlikely to be fully rolled out until 2021 (OBR, 2019a). The switch was expected to save money as it was

[9] https://www.bbc.co.uk/news/uk-politics-46827301

estimated that fewer people would receive PIP than would have received DLA. However, the volume of claims was higher for PIP than working-age DLA and the success rate of applications was also higher than expected, as well as higher average awards than were estimated and lower outflows, despite a higher proportion of short-term awards under PIP compared to DLA (Office for Budget Responsibility, 2019b). Successive government projections of spending on disability benefits have been increased, rather than achieving the savings aimed at (Ibid).

Since PIP was first introduced there have been amendments to it in the form of reductions in reassessments for those in receipt of the highest level awards (with a 'light touch' review at the end of a ten-year period) and no longer requiring reassessments for claimants at or above retirement age (Kennedy, 2019). DWP also attempted to make changes to 'descriptors' (used to award assessment points), which meant that those who have difficulty following journeys due to psychological distress could not be awarded any points under mobility criteria. However, on December 2017 the High Court ruled that these changes were illegal as they discriminated against people with disabilities and the changes were therefore reversed (Mackley *et al.*, 2019). Finally, in 2020 the Scottish government becomes responsible for DLA for children and PIP and Attendance Allowance with plans to reduce the number of reassessments claimants face.[10]

There were also changes to Employment and Support Allowance (ESA) in April 2017, some of which have given claimants more protection. The 52-week permitted work limit was removed, allowing claimants who earn up to £131.50 per week, working fewer than 16 hours, to continue to receive their ESA.[11] ESA sanctions were also reduced to ensure that claimants continue to receive 80 per cent of their payments (increased from 60 per cent) if they are sanctioned. However, those who continue to receive the work-related activity component will continue to be subject to the 60 per cent rate.[12] Finally, there were also some losses as new claimants of the ESA work-related activity component and payments for UC limited-capability-for-work cases were reduced, bringing them into line with the rate of Jobseekers' Allowance, equating to around £29 per week less (in 2017-18 prices).[13]

[10] https://www.gov.scot/news/delivery-of-disability-assistance-to-start-in-2020/
[11] https://www.gov.uk/government/publications/employment-and-support-allowance-changes-from-3-april-2017/employment-and-support-allowance-esa-changes-from-3-april-2017
https://www.gov.uk/government/publications/employment-and-support-allowance-permitted-work-form/permitted-work-factsheet
[12] Turn2us (2019).
[13] Ibid.

*Pensions*

State pension reform continued in the direction set in train by the Labour and Coalition governments. State pensions continued to be 'tripled locked'.[14] The single tier 'new State Pension' came in for new pensioners from April 2016, and State Pension Age continued to rise to reach 66 in 2020 as set down by George Osborne, despite court challenges from the 'WASPI women' who had been most affected by the accelerated rise for women. The roll-out of Automatic Enrolment for workplace pensions was completed in April 2019, with all sizes of employer brought in, and minimum contribution rates reaching the full amount planned, 3 per cent from the employer and 5 per cent from employees/tax relief. By April 2019, 87 per cent of employees were enrolled in a workplace pension, up from 55 per cent in 2012.[15] Given that real wages overall have stagnated since the economic crisis, it is striking that contributions were nonetheless increased to the full amounts.

*Universal Credit roll-out*

But the main policy 'change' of the period was repeated delays to the schedule for the full introduction of Universal Credit. This included its extension to those already receiving 'legacy benefits'[16] – what is known as 'managed migration' – as difficulties arose in piloting and rolling out. As Figure 1 shows, from most of the time since Universal Credit was announced in 2010, with roll-out between 2013 to 2017,[17] each successive projection has been that it would be fully rolled out within the subsequent 5 years. By January 2020, 2.8 million people were receiving Universal Credit,[18] still only a third of the projected long run caseload. By the middle of 2019 the forecast was for full migration of existing cases onto UC by 2023, but with only tentative moves to explore 'managed migration' for 10,000 cases in the year from July 2019. In February 2020, this timetable was further delayed, with completion of roll-out not expected until 2024.[19] Nonetheless, even if few existing claimants are moved onto UC, the numbers receiving it would continue to rise as new claims start (quite apart from the effects of the Coronavirus crisis) including people who have moved off legacy benefits such as Jobseeker's Allowance for a period, but then make a new claim.

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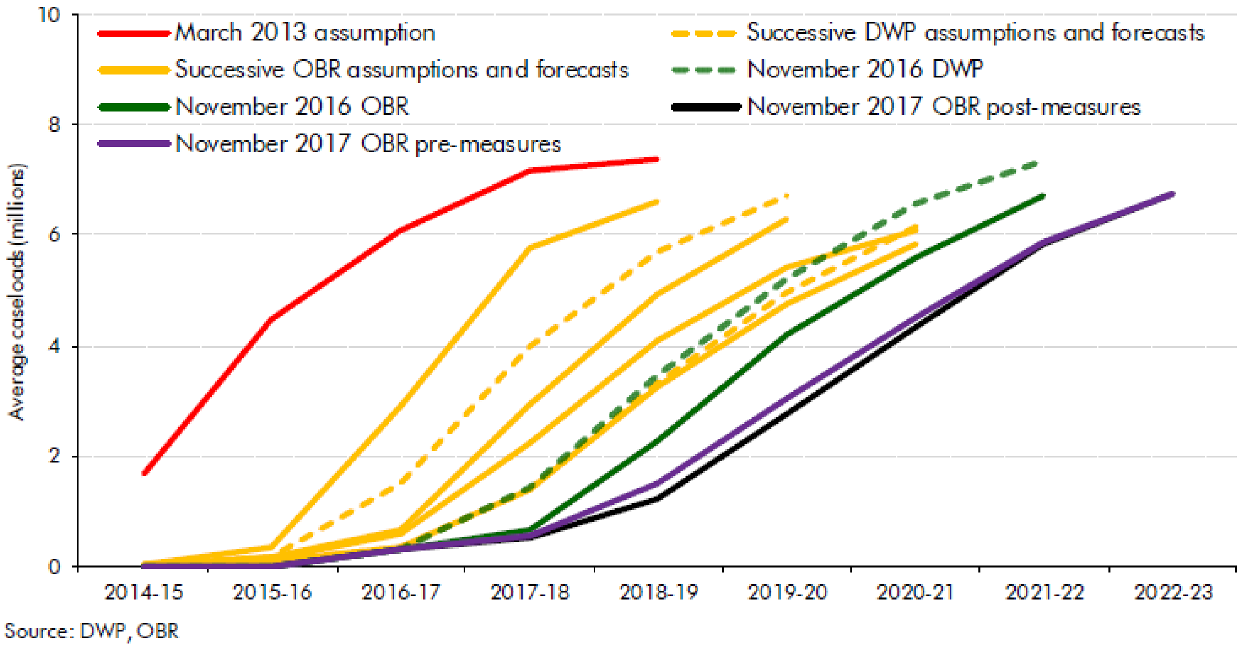
[14] And under the 2019 Conservative manifesto, this will now continue from 2020, rather than switching to a 'double lock' only, with no removal of the 2.5 per cent annual minimum as had been proposed in 2017.
[15] Pensions Regulator (2019).
[16] Universal Credit (UC) was first rolled out to new cases only (with the simplest cases first) and for those on existing benefits with a change in circumstances, before expanding through 'managed migration' moving claimants on legacy benefits over to UC.
[17] DWP (2010), chapter 4.
[18] DWP (2020e).
[19] Parliamentary Statement by Minister of State Will Quince, 4 February (2020)

**Figure 1 Successive forecasts of Universal Credit caseload, 2013 to 2017**




*Source:* Office for Budget Responsibility (2018), chart 6.1.

## Social security and devolution

### Scotland

A companion paper in this series, *Country level devolution: Scotland* (Stephens and Fitzpatrick, 2018) looks in detail at the way in which the Scottish Government has been able to use its devolved powers for certain aspects of social security to modify the system and the way in which it is delivered. Importantly, this includes the principles set out in the 2018 Social Security (Scotland) Act, which stresses the "dignity of individuals" as being at its heart and that "social security is in itself a human right".

While devolved powers only affected 16 per cent of benefits received in Scotland in 2016-17, there have been some significant changes. Stephens and Fitzpatrick discuss four variations in particular:

- **The Scottish Welfare Fund**: In England, what had been available from the Social Fund, giving additions to certain benefits as crisis loans (and some grants), had been passed to local authorities (with a reduced budget) in 2013. In Scotland a national system (run by local authorities) was retained, with the number of grants under it increasing between 2013 and 2017.

- **Council Tax Reduction**: While Council Tax Support in England has had a maximum of 80 per cent for working-age households in many areas since it replaced Council Tax Benefit, the Scottish Government topped up funding to allow local authorities to continue with 100 per cent rebates. It also made the means-test for families with children more generous by increasing the allowance for dependent children by 25% and exempting the system from the two-child limit.
- **Discretionary Housing Payments:** When the Coalition government made cuts to housing benefits for some working-age households in social housing through the 'Bedroom Tax' in 2013, it gave some funding to councils for temporary payments to moderate the impact. The Scottish government used its own funds to offset the effects of the 'Bedroom Tax', so that Scottish households were unaffected.
- **Universal Credit:** The way Universal Credit is administered in Scotland has also diverged from England, with tenants able to opt more easily for the rent element to be paid direct to landlords, and for payments to be made twice a month rather than monthly (although this means later payment, rather than earlier, if it is taken up). The Scottish Government is also exploring how to operate separate payments to each member of a couple.

## Northern Ireland

In Northern Ireland social security is fully devolved[20] though with a policy of 'parity plus', with 'Welfare Supplementary Payments' introduced in 2016 to mitigate against negative impacts of welfare reform including loss of income due to the benefit cap and the "bedroom tax" (Taylor-Collins and Bristow, 2020).

In order to help alleviate short-term financial hardship for Universal Credit claimants the Discretionary Support Scheme and Universal Credit Contingency Fund were introduced (Mackley and McInnes, 2020). Discretionary Support Awards are one-off payments made available for claimants in crisis situations. Payments from the Universal Credit Contingency Fund are paid as non-repayable grants (Ibid). UC claimants in Northern Ireland may also be entitled to 'administrative payments' if they were in receipt of Welfare Supplementary Payments because they were affected by welfare reforms before migrating onto UC or if they are subsequently affected by the benefit cap or "bedroom tax" (Ibid).

There is also flexibility in how UC is implemented in Northern Ireland to 'protect vulnerable claimants': these include twice monthly payments of UC as the default; payment of the housing element direct to the landlord as default; payments made into separate bank accounts ('split payments') upon request (Ibid, 33).

[20] Child Benefit, Guardian's Allowance, Working Tax Credit, and Child Tax Credit are 'excepted powers' (Mackley and McInnes, 2020).

**Wales**

All social security benefits in Wales are reserved to the UK,[21] though the Discretionary Assistance Fund, Council Tax Reduction Scheme and Discretionary Housing Payments are administered by the Welsh Government or local authorities in Wales (Taylor-Collins and Bristow, 2020).

The Discretionary Assistance Fund provides two types of grants (non-repayable) to help with essential costs for people in extreme financial hardship.

The Council Tax Reduction Scheme was set up to ensure nobody is worse off than they would have been with Council Tax Benefit, and ensures all local authorities in Wales offer the same reductions to council tax.

Discretionary Housing Payments provide additional help for those receiving Housing Benefit or Universal Credit with a housing element and who need additional help with rent or housing costs.

## 5. Spending

### 5.1 Real spending on benefits and tax credits by age group

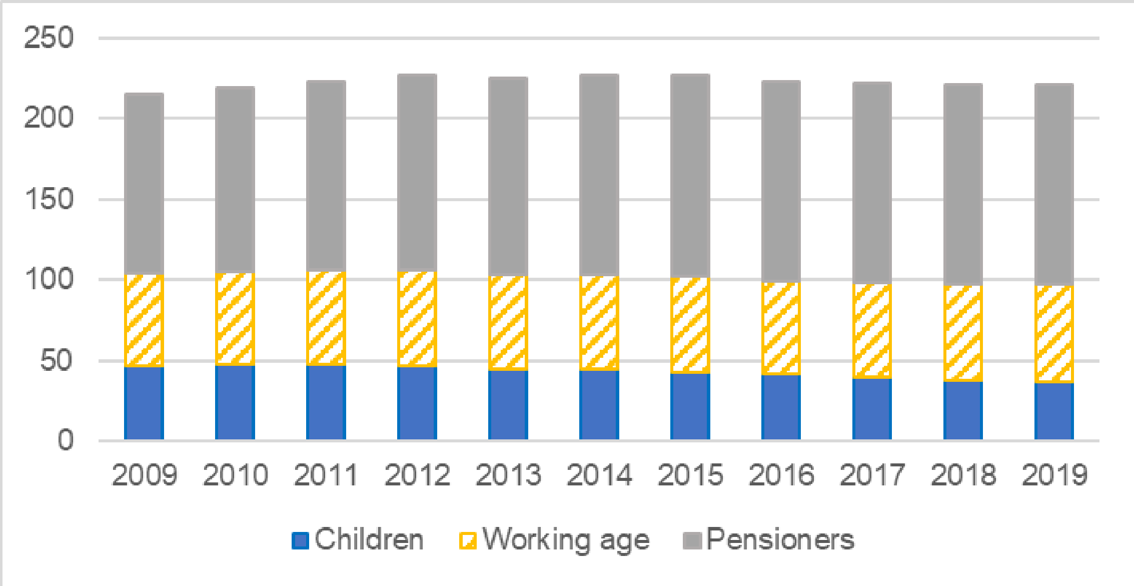
Figure 2 shows the results of policy changes as they interacted with the country's demography and economy over the last ten years.[22] In aggregate, the total of social security spending[23] and tax credits rose in real terms from £215 billion to £220 billion per year (at 2019-20 prices). One effect of this is that social security and tax credit spending represented almost exactly the same share of total public spending, 26 per cent, in 2019-20 as it had been in 2009-10, with a small rise in its relative importance (to a peak of 28 per cent in 2015-16) reversed by 2019-20. This also left its relative importance within public spending at the same level as it had been during the years of the Labour governments from 1997 to 2010 (see Appendix Table A1).

The figure allocates spending between three groups: pensioners; cash benefits and tax credits related to children; and other working-age benefits and tax credits. Notably, as Figure 3 draws out, spending on pensioners continued to rise over the period, ending £12.6 billion – more than a quarter – higher per year than at the start. By contrast, child-related spending (which includes Child Benefit and Child Tax Credits) fell throughout, ending £10 billion – more

[21] Though recommendations have been made to seek devolution in relation to a number of social security powers including payments flexibilities for Universal Credit (Mackley and McInnes, 2020).
[22] See Appendix Table A1 for the underlying figures, with comparison for selected years back to 1996-97.
[23] On current definitions, and so excluding Council Tax Benefit in the years to 2012-13 (and local authority Council Tax Support subsequently).

than a third – lower than at the start.  Spending on other working-age benefits changed comparatively little. The net effect over the period was a reduction in benefit spending related to children that allowed an increase in spending on pensioners without very much growth in the overall total.  Notably, nearly all the growth in spending on pensioners had occurred by 2014-15, while most of the fall in spending on children occurred after then.

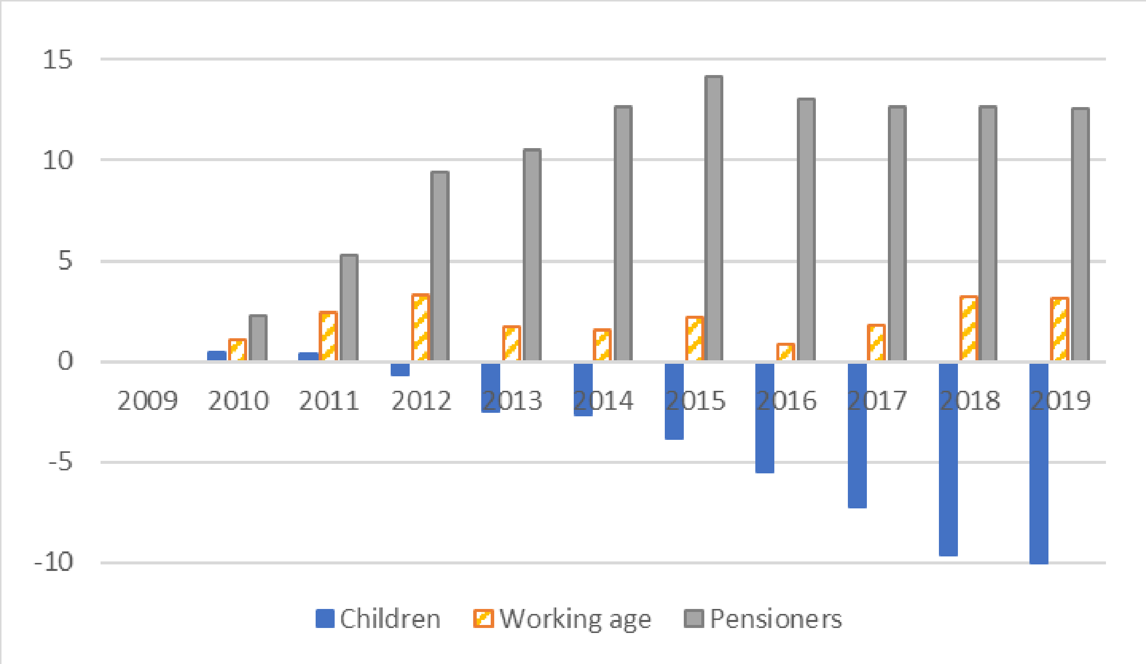
**Figure 2 Real social security and tax credit spending 2009-10 to 2019-18 (£ billion, 19-20 prices, GB)**




*Sources:* DWP (2019a) and HMRC (2019). For underlying figures, see Appendix Table A1.

*Note:* Spending on children represents benefits and tax credits received in respect of having children.  For consistency with earlier systems such as Family Credit and Working Families Tax Credit, Working Tax Credit for families with children is included as child-related. A proportion of reported Universal Credit spending between 2015-16 and 2018-19 is reallocated to tax credits to give consistency with the DWP's treatment in 2019-20 and systems before 2014-15 (see notes to Appendix Table A1).

**Figure 3 Cumulative change in social security and tax credit spending since 2009-10 (£ billion, 19-20 prices, GB)**

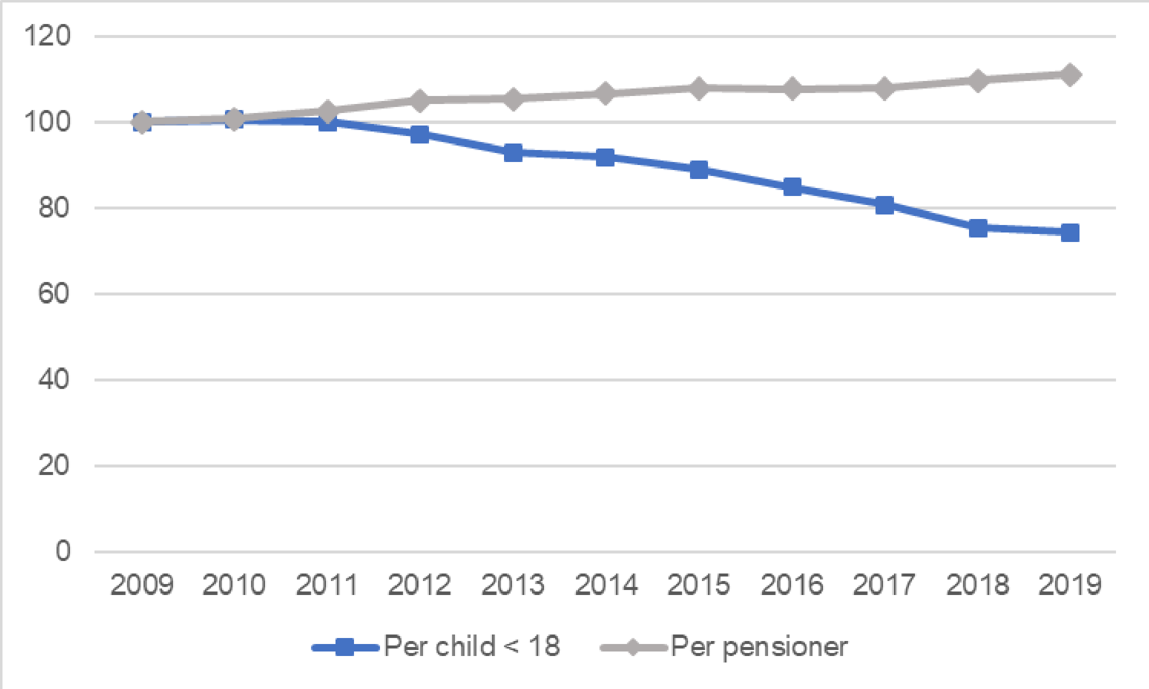



*Source:* DWP (2019a) and HMRC (2019). For underlying figures, see Appendix Table A1.

However, the changes shown in Figure 3 were accompanied by falls in both the numbers of children (taken here as those aged under 18) and of people receiving state pensions (as the state pension age rose). Figure 4 shows what this meant for per capita spending on the two groups. The stalling in overall spending on pensioners since 2014-15 can be seen to reflect the falling number of pensioners as the state pension age rose (predominantly for women, until the last two years, when men's pension age also rose). Real spending rose by 11 per cent per pensioner over the ten years to 2019-20, with steady growth over the period, including since the 2015 election. By contrast, spending per child under 18 had fallen by 25 per cent by 2018-19.[24]

[24] There are different ways of apportioning spending between child-related and other working age benefits and tax credits. Kelly et al. (2018) suggested a total expected real-terms cut of 17 per cent between 2009-10 and 2019-20 for cash benefits and some other spending related to children. However, that was based on the assumption that the share of benefits going to families with children and pensioners remained constant between 2015-16 and 2019-20. Figure 2 and Figure 3 above suggest that there was a further fall in the proportion of child-related spending after 2015-16, so that the actual drop in spending per child by 2019-20 was greater than they had projected.

**Figure 4 Social security spending related to children and on pensioners per capita, 2009-10 to 2019-20 (2009-10=100, 2019-20 prices, GB)**




*Source:* Spending as in Table A1. Number of children taken as numbers aged under 18 in Great Britain from ONS (2019c), table 6, with 2019 number projected using UK growth rates by age between 2018 and 2019 from ONS (2019b). Number of state pensioners from DWP (2019a), table 1c; this is for pensioners receiving pensions, and so excludes those who have, for instance, deferred claiming them.

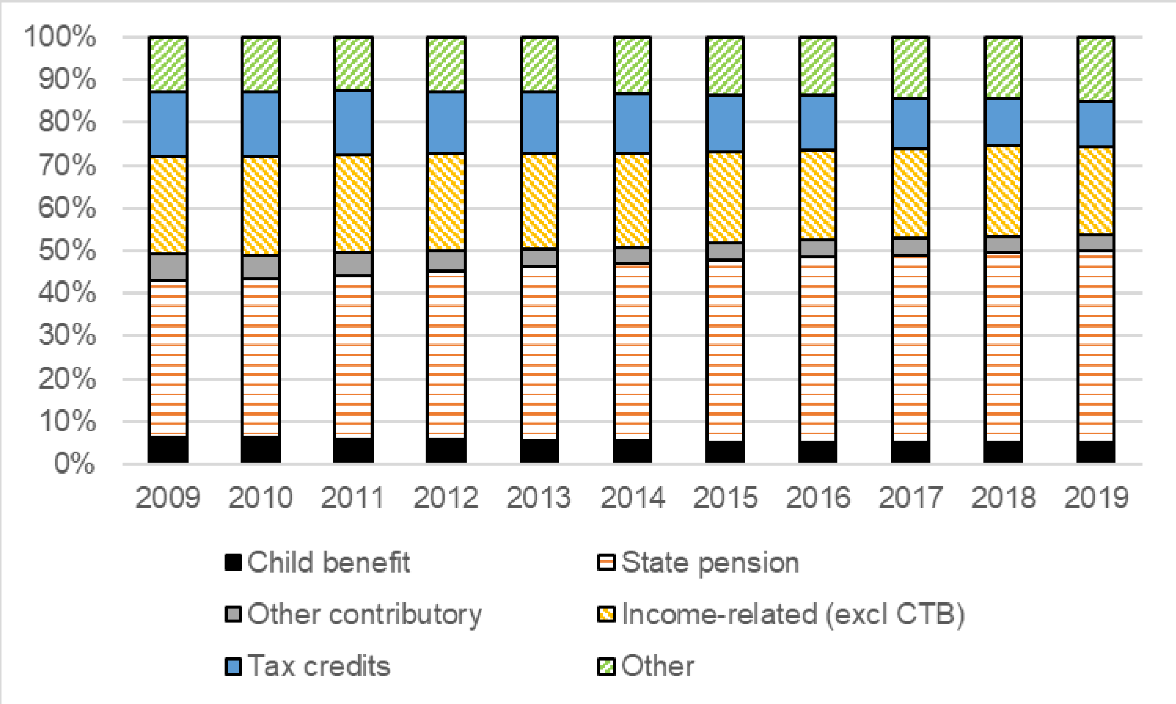
## 5.2 Spending by type of benefit

The emphasis of the policy debate over the period was mainly around the structure of means-tested support for working-age families, especially the reforms associated with introducing Universal Credit, combined with a continued reduction in the importance given to the 'contributory principle' for working-age benefits. That might have been expected to have resulted in a rise in the importance of means-tested benefits within overall spending. However, that shift was offset by the effects of changes that cut the values of working-age benefits, but increased those going to pensioners, with entitlement reflecting in part at least previous National Insurance Contributions.[25]

Figure 5 shows that contributory non-pension benefits did decline from 6 to 4 per cent of overall spending, but this was more than offset by the rise in contributory pensions from 37 to 45 per cent of the total. The total of means-tested benefits and tax credits, which had started at 38 per cent of the total, more than contributory pensions, fell to 31 per cent.

[25] Especially for older pensioners, who have rights under the former State Earnings Related Pension Scheme, and for some with rights to the former State Second Pension.

**Figure 5 Composition of social security and tax credit spending by type of benefit, 2009-10 to 2019-20 (%, GB)**




*Source:* DWP (2019a), table 1b and non-DWP welfare table.

*Note:* Income-related benefits exclude Council Tax Benefit in earlier years and double-counting of some Income Support child allowances. See notes to Table 1 and Appendix Table A1 for treatment of Universal Credit and tax credits.

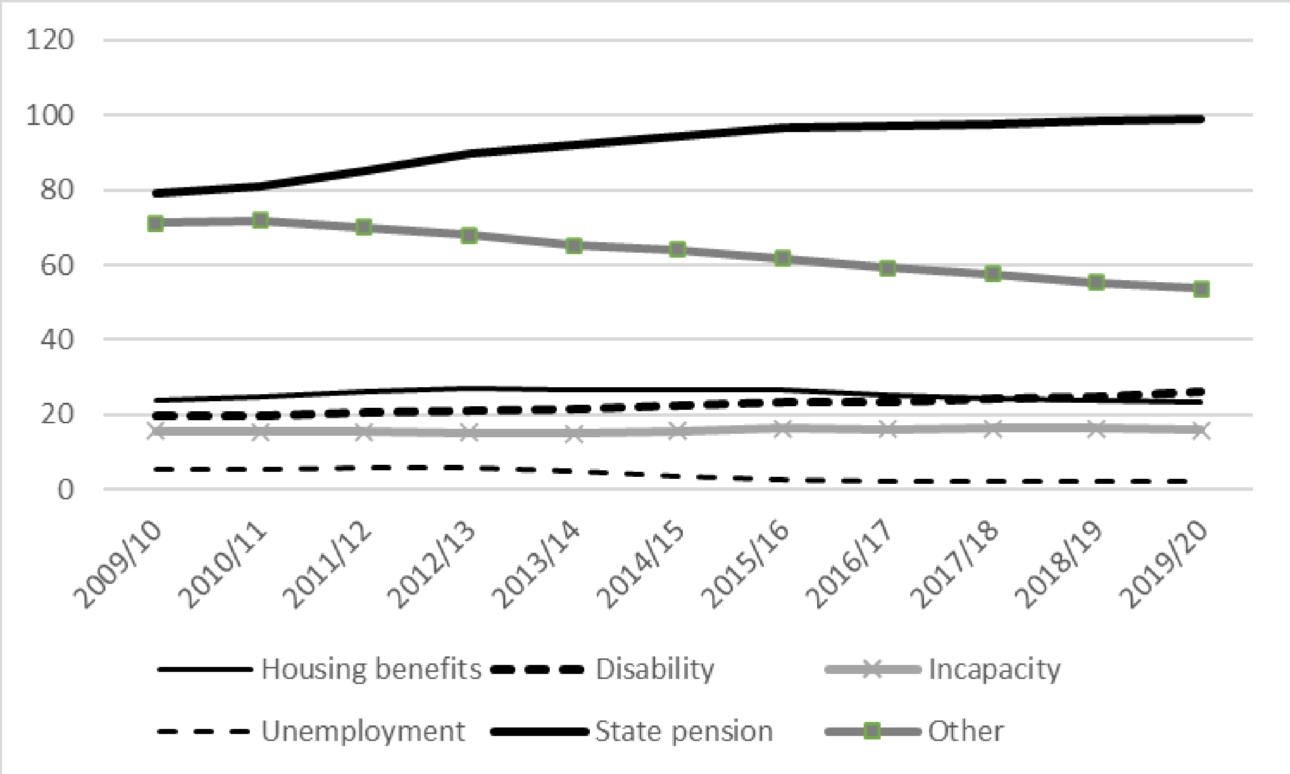
Figure 6 shows the patterns in more detail for selected benefits underlying those trends. The dominant feature is again the increase in state retirement pensions (the largest part of pensioner benefits) from £80 to £100 billion over the decade. Notably, despite substantial increases in both rents and the number of private tenants over the period, the ever-tighter limits on eligible rents meant that total spending on Housing Benefit fell by 12 per cent from its peak in 2012-13 to £23.4 billion in 2019-20, slightly lower than a decade before. Spending on incapacity benefits also ended the decade at the same level as at the start (after DWP's reallocation of UC spending in 2019 to legacy benefits). By contrast, unemployment benefits dwindled to only £2.4 billion by 2019-20, less than half the spending ten years earlier as the number receiving Jobseeker's Allowance fell from 1.54 to 0.66 million.[26] This was faster than the fall in GB unemployment according to the Labour Force Survey, from 2.40 to 1.29 million (October figures), with the proportion of unemployed people actually receiving JSA falling from 64 to 51 per cent.

Despite their prominence in the public debate, by the end of the period benefits for unemployed people (including associated Housing Benefits) were

[26] DWP (2019a), table 1c; 2019-20 figure includes UC recipients who would previously have been on JSA.

£4.2 billion, less than 2 per cent of all social security and tax credit spending. Total out-of-work benefits and tax credits, including those for sick and disabled people and lone parents were £33.5 billion, 15 per cent of the total.[27]

**Figure 6 Real spending on selected benefit types, 2009-10 to 2019-18 (£ billion, 19-20 prices, GB)**




*Source:* DWP (2019a), tables for specific benefits. Housing Benefit, unemployment benefits and incapacity benefit totals from 2015-16 to 2018-19 reflect reallocation of part of Universal Credit spending to legacy benefits (see notes to Appendix Table A1).

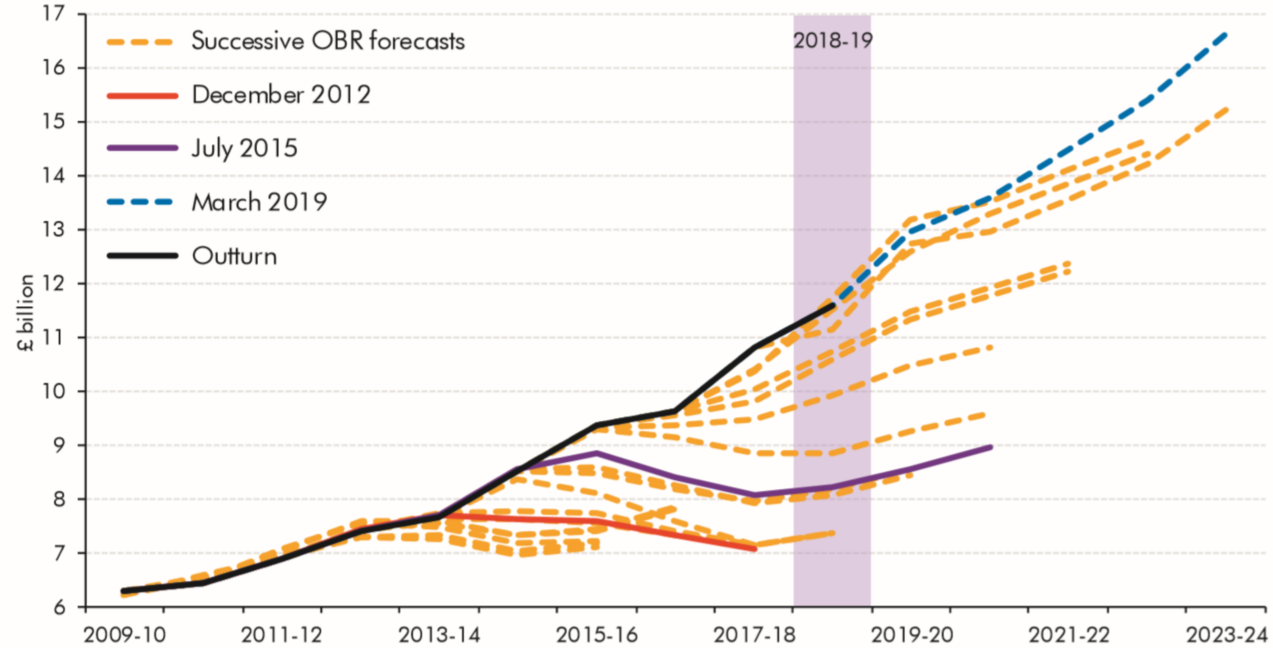
By contrast with static or falling spending on housing, incapacity and unemployment benefits (and on the 'other' category, which includes tax credits and other child-related benefits), spending on disability benefits rose – from £19.6 billion in 2009-10 to £26.3 billion in 2019-20, so that the total now exceeds that of housing benefits. This occurred despite the reforms described in Section 4 which aimed to slow the growth in spending.[28] As the OBR analysis in Figure 7 shows, growth in working-age disability benefits (in

[27] DWP (2019a), table 3a. The 2019-20 figures reflect DWP's reallocation of Universal Credit spending to legacy benefits. Out-of-work benefits include JSA, ESA and Income Support for sick and disabled people, IS for some lone parents and others of working age, and Housing Benefit for out-of-work people. The out-of-work total also includes 28.8 per cent of GB tax credit spending (including reallocated Universal Credit), based on the proportion of UK tax credits going to out-of-work families in 2017-18 (from HMRC *Child and Working Tax Credit Statistics* (2019)).

[28] Part of this reflects the effects of legal challenges to original regulations. For instance, OBR (2019b), para. 25, suggests that amendments to PIP as a result of legal challenges have increased its cost by £400m per year.

nominal terms) has continued to be much faster than had been projected at each year from 2010 to 2019, and is projected to continue to grow rapidly in the future.

**Figure 7 Successive government and OBR forecasts of working age disability benefits spending since 2010 (£ billion, nominal)**

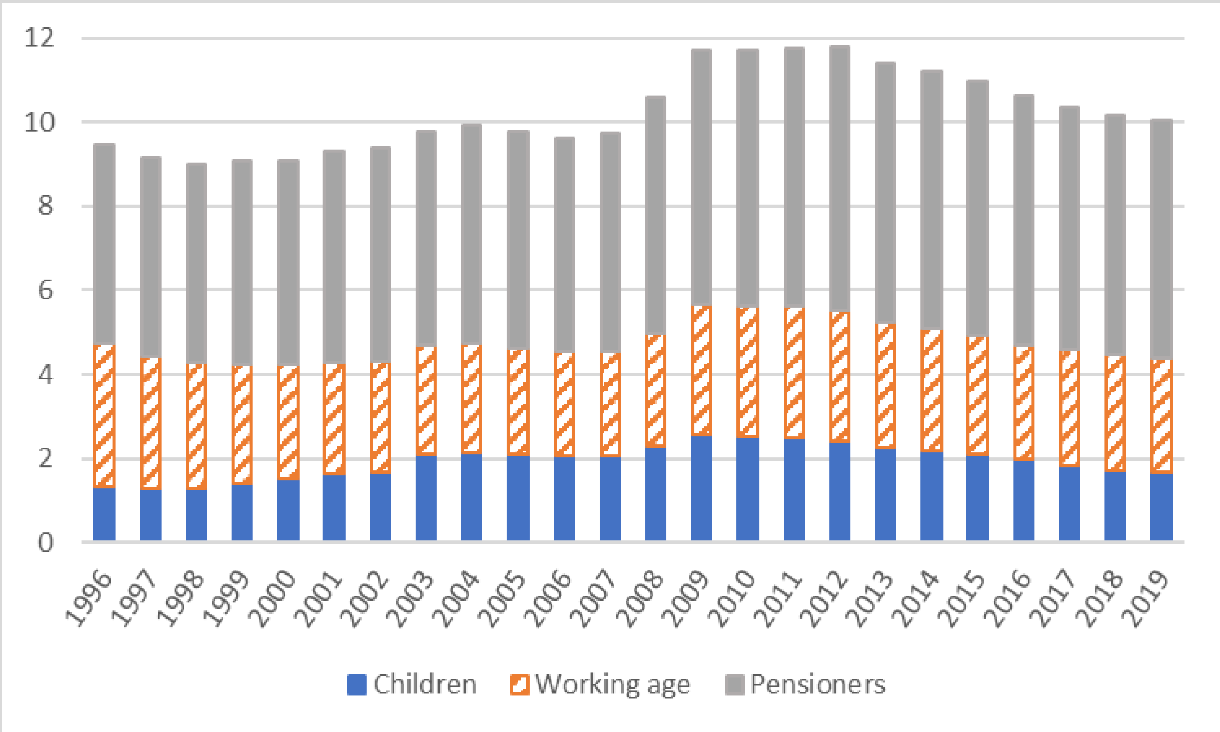



*Source:* OBR (2019a), chart 2.3.

### 5.3 Spending as a share of national income and the scale of 'cuts'

Figure 8 gives a longer-term perspective by looking at the totals of social security and tax credit spending as a percentage of national income since 1996-97. The overall pattern is clear. In the decade from 1996-97 until the economic crisis, spending remained much the same share, around 9.5 per cent, of national income. Labour's increases in spending on pensioners and children were offset by falling spending on other working-age benefits in relation to GDP. The total then rose rapidly through the crisis to approach 12 per cent of national income, as numbers of working-age benefit recipients grew and as the real value of pensions and benefits was protected but GDP fell. Since 2012-13 spending has steadily fallen as a share of GDP, returning to precisely 10 per cent of GDP by the end. Most of that fall happened after 2014-15, driven predominantly by a combination of the increase in state pension age and by reductions in the value of benefits for those of working-age and those for children.

**Figure 8 Social security and tax credit spending as percentage of GDP, 1996-97 to 2019-20 (GB)**




*Sources:* See Appendix Table A1.

This figure puts the scale of 'the cuts' since 2010 in perspective. The fall since the peak of 2012-13 of 1.8 per cent of GDP is equivalent to £40 billion at 2019-20 prices (or £37 billion from the Coalition's inherited share of GDP in 2010-11). Part of that fall would have occurred in any case within an unchanged system and unchanged demography, if benefit values were uprated by default in line with prices, while real GDP grew.

Gardiner (2019, fig. 15) puts the value of cuts in benefits as a result of policy changes announced under the 2010-2015 Coalition Government (see Section 2 above) as being equivalent to £19 billion by 2022-23, a major part of which was the switch from default indexation by the RPI (or variants) to the CPI.

This was followed by the July 2015 Budget, which aimed to make a further £12 billion per year in savings, as laid out in the 2015 Conservative manifesto. The Office for Budget Responsibility (2019a, table 2.6) shows that its original calculations suggested that the measures would have cut spending by £12.5 billion by 2019-20, rising to £13.3 billion by 2020-21. However, some of the July 2015 measures were delayed and others reversed or moderated (see Section 4). By December 2019, OBR calculated that the measures as later modified will have saved £8.4 billion by 2019-20, or £9.1 billion by 2020-21. The savings would – unless changed – continue to increase as the proportion of claimants on UC rather than legacy benefits continues to rise, and as more families are affected by the two-child limit for third or subsequent children born after April 2017.[29]

### 5.4 Spending on running costs

All of these figures relate to spending on benefit payments. The DWP's administration budget (within its 'Departmental Expenditure Limit' on allowed spending, DEL) fell from £8.8 billion in cash terms in 2010-11 to £6.3 billion in 2018-19, with a limit of £6.0 billion in 2019-20.[30] In real terms the 2019-20 limit represents a 41 per cent cut since 2010-11. Staff numbers fell from 98,000 FTEs in 2010 to 77,000 in 2018 (National Audit Office, 2019, fig. 5), but the bulk of the saving in administration came in non-staff costs (ibid, figure 6). As a proportion of benefits paid out (excluding non-DWP spending such as tax credits and Child Benefit), running costs nearly halved from 6.0 per cent in 2010-11 to 3.2 per cent in 2019-20.[31]

Achieving savings in administration costs at this rate has been one of the main drivers of the way in which Universal Credit has been designed. Such numbers only measure, of course, the savings to the government's budget. What is simpler for administrators may be much more complex for claimants.[32] In some cases they will have shifted administrative burdens to claimants and those who help them, for instance in the requirement for on-line claims for UC by default, or the need for social landlords to devote additional resources to help tenants through UC payments being in arrears and rents being included within them.

### 5.5 International context

Finally, Figure 9, drawn from Gardiner (2019), puts British social security spending in international perspective. On OECD definitions, just over 10 per cent of UK GDP was spent on cash benefits in 2015 (a little lower than the DWP figures for Great Britain shown in Figure 7). This was below the OECD average, and lower than 19 out of the other 21 members of the EU (at the time) shown. Part of this reflects the way in which a much larger proportion of retirement pensions in the UK is paid through private occupational pensions than in other continental European countries. Excluding old age and survivors' benefits, UK social security spending was slightly above the OECD average and above that of seven of the other EU countries shown. It had higher spending on family-related benefits than the OECD average, but much lower spending on unemployment benefits (reflecting both lower unemployment and the low generosity of working-age benefits, as discussed in the next section).

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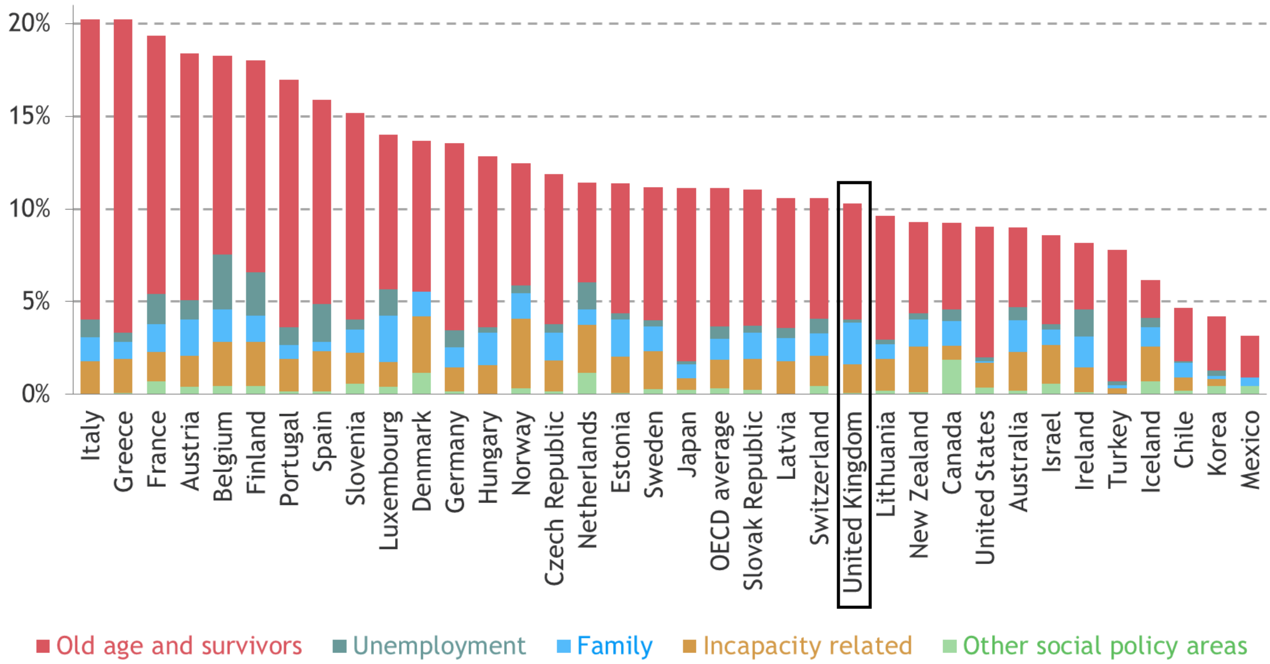
[29] Gardiner (2019), figure 15, suggests that the net value of the 2015-2019 Conservative government's measures would reach £9 billion by 2022-23.
[30] National Audit Office (2019), figure 4.
[31] Using GB benefit spending on current definitions from DWP (2019a) as the denominator.
[32] Bennett, Brewer and Shaw (2009); Summers and Young (2020).

**Figure 9 International comparison of public spending on cash benefits by programme, OECD countries, 2015 (% of GDP)**




*Source:* Gardiner (2019), figure 5. Figures are for gross spending on cash benefits, based on Resolution Foundation analysis of OECD social expenditure database.

# 6. Inputs and Outputs

## 6.1 Generosity of the state safety net

A central objective of the social security system is to avoid people falling into poverty, or at least to minimise the extent by which they do so. The level of the safety net offered by the state – social assistance in international terminology – is fundamental to this and is discussed in this sub-section. The following sub-section discusses coverage of, and holes in, this safety net.[33]

Historically, the UK had a comparatively generous safety net in international terms, contributing to its low level of relative poverty when measured against lines that were a comparatively low fraction of median incomes (Mitchell, 1991). However, in the last twenty years, the generosity of the safety net for working age people without children given by what most recently has been Income Support or Jobseeker's Allowance, now being replaced by Universal Credit, has fallen further behind the poverty line. By contrast the minimum for families with children became more generous under the Labour's tax credit reforms up to 2010-11, but has since fallen. The minima for pensioners rose towards fully reaching the poverty line by 2010-11.

[33] We do not look at the effectiveness of elements of the system designed to cover additional needs, such as those of disabled people.

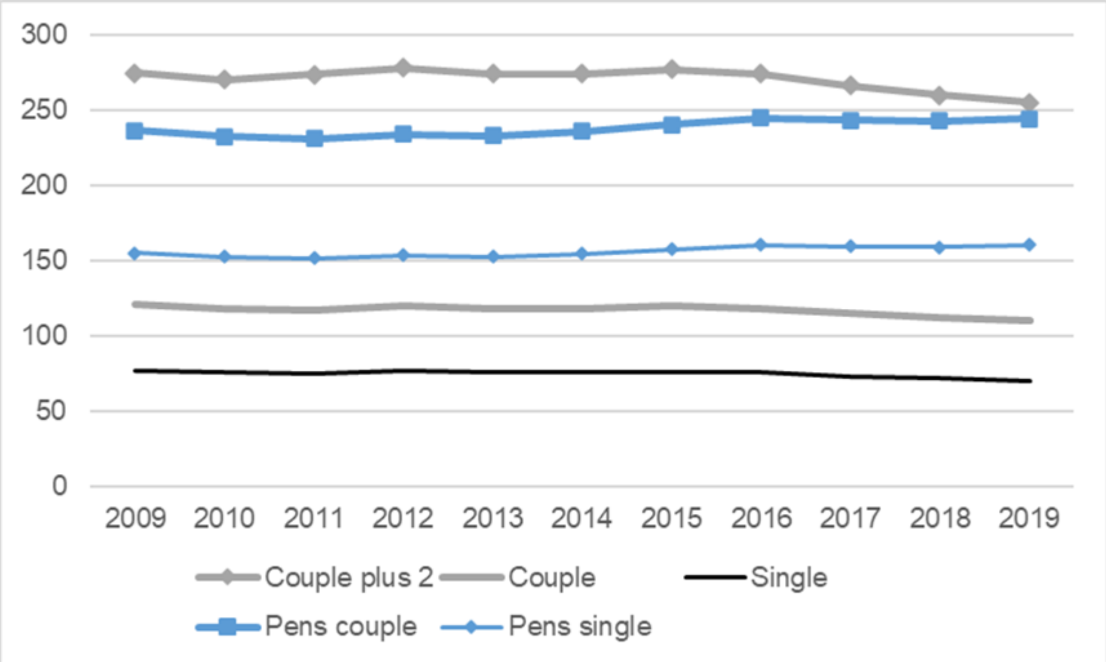
The most recent movements, directly reflecting the policy changes described in Section 4 above, especially those relating to uprating (or freezing) of benefit levels from year to year, are shown in Figure 10 and Figure 11.

Figure 10 shows starkly the contrasts in what has happened in the last decade to the real values of the minimums offered by the state safety nets for pensioners and non-pensioners (before allowing for the effects of gaps in coverage such as council tax and rent shortfalls discussed in Section 6.2). For pensioners, the real value of what is now Guarantee Credit was roughly constant for the first five years shown, but then rose, reaching £244.50 for couples and £160.20 for single pensioners (2017-18 prices), up by nearly 4 per cent over the five years to 2019-20. By contrast, the real values of Jobseeker's Allowance and child tax credits were roughly constant for the working-age cases shown until 2015-16, but then fell steeply as their cash values were frozen. For a working age couple with two children, the fall was from £277.30 in 2015-16 to £255.10 by 2019-20, a fall of 8 per cent over four years as a result of the benefit freeze.

By 2019-20 the minimum income the state thinks appropriate for a pensioner couple was almost the same as that for a working-age couple with two children. For single people and couples without children the real value of the state minimum had fallen to levels lower in 2019-20 than they had been at any time in the previous 25 years, despite overall median incomes having risen by 50 per cent in real terms over that period.[34]

[34] Authors' calculations based on data sources underlying Figure 10 and Figure 11.

**Figure 10 Value of the state safety net, 2009-10 to 2019-20 (£/week, 2017-18 prices)**




*Sources:* Authors' calculations based on IFS (2019a) *Income Support and Supplementary Benefit spreadsheet* and IFS (2019b) *Living standards, poverty and inequality spreadsheet*, downloaded 30 September 2019, with Resolution Foundation projections of change in prices from 2017-18 to 2019-20.

*Notes:* Presented in 2017-18 prices using index based on CPI, with inflation adjustment estimated for last two years.

The contrast can be seen even more starkly in Figure 11. This shows the proportion of the poverty line for each family type represented by the minimum incomes shown in Figure 10, using the conventional relative poverty line of 60 per cent of median income, adjusted for family size, and after allowing for housing costs.[35] Again, this is before allowing for any shortfalls in rent, Council Tax or other items. The minimum income has remained just above the poverty line for single pensioners and just below it for pensioner couples (with in each case a peak around 2012-13, with variations from year to year reflecting the lags in uprating by the 'triple lock').

But for non-pensioners the position is very different, and the state does much less to raise incomes towards the poverty line. For instance, in 2009-10 the minimum for a working-age couple was 48 per cent of the relative poverty line, but this had risen to nearly 50 per cent in 2012-13 (reflecting the price indexation of benefit levels to that point, while other incomes fell in real terms). But by 2019-20, it was only equivalent to 42 per cent of the poverty line.

[35] These calculations and those for incomes if in work at the national minimum wage in Section 6.3 give the information proposed by Cantillon, Marchal and Luigjes (2019) for 'input indicators' for European Union monitoring of national efforts in minimum income protection.

One effect of this is that there is a sharp cliff edge between the treatment of those below and above state pension age, with a guaranteed minimum that is twice as generous for pensioners as for non-pensioners, and with the gap widening over time. This has interacted with the increases in State Pension Age over the period, and explains why in other analysis we have found that – in contrast to the favourable fortunes of others aged over 50 in the decade from 2005-06 to 2015-16 – incomes of the poorest of those aged 60-64 fell: as women's State Pension Age rose after 2010, the safety net for women (and their partners) of this age was more likely to be at the much less generous working age level.[36]

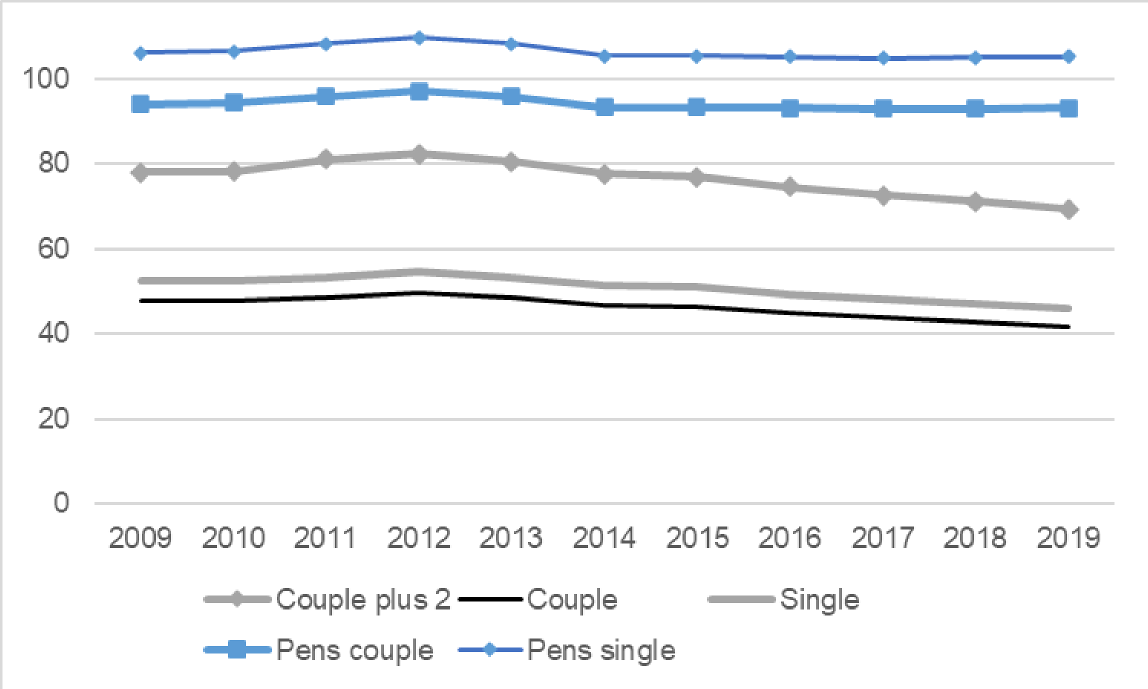
The treatment of those with children also became much less generous after 2012. By then, following Labour's increases in generosity towards children and the continued indexation during the Coalition's first two years, a couple with two children could have had a minimum of 82 per cent of the poverty line. By 2019-20, this had fallen to 69 per cent (again before allowing for any shortfalls).

It might be noted that from 2020-21, working-age benefits will return to being price-indexed (see Section 8.2), so their real values should not fall further (but will not be restored).[37] But if there were any future growth in typical incomes in real terms, the safety net given by benefits would continue to fall in relation to the poverty line.

[36] Obolenskaya and Hills (2019)*;* see also Cribb and Emmerson (2019).

[37] A temporary flat-rate addition of £20 per week was added to Universal Credit and tax credits in March 2020 as a response to the Coronavirus crisis. The addition would be equivalent to about 12 per cent of the 2019-20 poverty line for a single person, falling to 5 per cent for a couple with two children.

**Figure 11 Value of the state safety net as a percentage of the poverty line (After Housing Costs), 2009-10 to 2019-20**




*Sources:* Authors' calculations based on IFS (2019a)*Income Support and Supplementary Benefit spreadsheet* and IFS (2019b) *Living standards, poverty and inequality spreadsheet*, downloaded 30 September 2019, with Resolution Foundation projections of change in prices from 2017-18 to 2019-20.

## 6.2 Gaps in the safety net[38]

The preceding sub-section looked at the real value of the main weekly (or monthly) rates of social assistance (minimum incomes) for different family types, and their relation to the relevant poverty threshold on the assumption that, for instance, people would have no further housing costs. For most of the post-War period, that would have been a fair assumption. Those receiving Income Support or its predecessors would have had their rent and Council Tax (or domestic rates earlier) covered or rebated in full – by Housing Benefit and Council Tax Benefit in the period up to 2010.[39] In fact, for some people, there would have been *additional* entitlements beyond the weekly amounts to cope with exceptional needs or circumstances – up to 2010 given through the Social Fund run centrally by the DWP, for instance.

[38] We look here at the safety net for those whose citizenship formally entitles them to support. For discussion of others such as non-EEA citizens and asylum seekers, see for example (Pinter *et al.*, 2020).
[39] Maximum rebates had been capped at 80 per cent for the Poll Tax (Community Charge) levied between 1988-89 and 1992-93 before the introduction of Council Tax.

This idea of a comprehensive safety net is, however, one that has been eroded in the last decade, meaning that, for instance, the extent to which the social security system is protecting people from poverty as shown in Figure 11 represents a *maximum*, rather than measuring what many are actually entitled to. For many non-pensioners, the effective value of the state's safety net is much lower than the maximum amounts shown in Figure 11. We look at four aspects of this below, and summarise their effects for representative cases in Table 1. The results relate to the situation in England; the system in other UK countries is more generous in certain respects (see Section 4 above).

*The two-child limit*

As Section 4 explains, where a family has a third child born since April 2017, their tax credits or Universal Credit are only set on the basis of their first two children. By April 2019, 157,000 families (containing 592,000 children) had their entitlements reduced by this policy.[40] Over time increasing numbers of families will be affected (see Section 7).

To illustrate the effects of this, Table 1 shows the generosity over time of the system for a family with three children, including a baby aged under 1. Between 2003-04 and 2010-11 a family of this kind would have benefited from the 'baby tax credit'. The system was therefore more generous relative to the poverty line for this three-child family than for one with two children, with coverage reaching 88 per cent of the relevant poverty line in 2010-11. However, by 2017-18, not only had the baby tax credit been abolished, but three-child families with babies could be affected by the two-child limit. This has a dramatic effect on the support offered for such cases – falling to 61 per cent of their relative poverty line by 2019-20.

*Council Tax Support*

One of the early changes of the Coalition government had been to replace what had been Council Tax Benefit (CTB), with national rules and funding, and giving 100 per cent rebates, with Council Tax Support (CTS) with local authority funding rules, with effect from April 2013. Crucially, the adjustment in central grants to local government was based on the idea that while the poorest pensioners would continue to receive 100 per cent support, the funding for most non-pensioners was based only on a maximum of 80 per cent support. Some local authorities were able to use revenue from elsewhere (such as the ability to charge higher council tax on second homes) to provide more than 80 per cent support, in some cases retaining full support. However, by 2018-19 only a fifth of English councils did not require a minimum payment, and average minimum payments had risen to 19 per cent, with the most common amount being 20 per cent.[41] Table 1 therefore illustrates the effects

[40] HMRC and DWP (2019). Sefton et al. (2020) suggest that these numbers will have risen to at least 230,000 families and 860,000 children by April 2020.
[41] Adam, Joyce and Pope (2019).

of a 20 per cent shortfall on the proportion of the relative poverty line (after housing costs) covered by social assistance, using average council tax levels in England, showing that in 2019-20 it would be reduced by around 2 percentage points for most non-pensioner cases (before rounding).

*Payment of Universal Credit in arrears*

One of the features of Universal Credit is that even once a claim has been made successfully, actual payments are made monthly in arrears, meaning a wait of five weeks for them to arrive. Compared to the 'legacy' system this represents a cash flow loss to claimants and a cash flow gain to government. The wait for these payments has been identified as one of the causes of increasing hardship and rising use of foodbanks (see Section 7). In response, the Conservative government introduced a system of advance payments. These advances are, however, repayable, meaning that claimants receive less than their advertised entitlements until they have been repaid. Their receipts therefore cover a lower proportion of the poverty line than would otherwise be the case – giving a measure of the cost to claimants of the delay in payments.[42]

By October 2019 around 60 per cent of new UC claimants took up an advance. Of those, around three-quarters were in the range of 50-100 per cent of their entitlement (with a fifth taking a lower advance than that, and 5 per cent taking more).[43] Repayments can currently normally be made over up to 12 months. The penultimate column of Table 1 therefore adds in the effects of repayment of a typical UC advance of two-thirds of entitlement (excluding the element for rent) over 52 weeks. Depending on the family type, this would reduce the proportion of the poverty line covered for non-pensioners by a further 2-4 percentage points (before rounding).

*Housing Benefit shortfalls*

For private tenants (who form an increasing proportion of households with low incomes) the changes in the rules of Housing Benefit (HB) from 2011-12 have meant limits on the maximum rent used in HB calculations that have fallen further behind actual rents. Up to then, the 'local housing allowance' (LHA) was based on the median local rent for the appropriate-sized property.[44] But the limit was then cut to the 30th percentile of local rents, and then those limits were increased only by 1 per cent each year and then frozen for four years. As a result, fewer and fewer properties locally could be rented for an amount at or below the limit – even if those were only occupied by HB recipients.

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[42] As discussed by Timmins (2020), this is only one of the kinds of deduction that UC recipients can face.
[43] *House of Commons debates*, Written Answer 274559, 11 July 2019 (Sharma, 2019)
[44] This system with a cap of median local rent was introduced under the Labour government from April 2008.

Shelter[45] (using official data) reports that by 2017-18, 70 per cent of private tenants otherwise entitled to full HB had a shortfall between the limits imposed by the LHA and their actual rent, affecting 370,000 households (Weekes and Kleynhans, 2019). Across Great Britain as a whole, monthly shortfalls where they applied averaged £113, including up to £150 per month for couples without children. As this is an average, shortfalls will be considerably greater for some, especially in high rent areas, including an overall average shortfall of £212 in London (Ibid). One effect of this is that looking across Great Britain as a whole the proportion of all private tenants whose rent is covered in full by Housing Benefit fell from 40 per cent in 2009-10 to 21 per cent in 2017-18 (Pacitti and Tomlinson, 2020).

The final column of Table 1 adds in the effects of *average* HB shortfalls by family type to the other restrictions (using the conservative assumption of no further increase in their cash value between 2017-18 and 2019-20).[46] This leads to a further reduction in the proportion of the poverty line covered – ranging from 6 percentage points for the three child family to 16 percentage points for a single non-pensioner aged 35 or older. Pensioners who are private tenants could also see reductions in the proportion of the poverty line covered.

These reductions would not apply to social tenants – although some of those might be affected by the 'Bedroom Tax' reduction in Housing Benefit.[47]

The final column of the table shows the combined effects of the restrictions, including for cases that had received a UC advance payment. However, the difference between the final two columns would also represent the effect on recipients of legacy benefits alongside their Housing Benefit.

*Combined effects*

The reduction in the extent to which the state safety net contributes to helping people avoid poverty, given these restrictions, is striking. Not everyone will be affected by them all, of course: pensioners are protected from most of them (although not from the tighter caps on Housing Benefit for private tenants); social tenants are (generally) still entitled to full Housing Benefit; those still receiving 'legacy' benefits are not affected by the need to take repayable advance payments; and families with 3 or more children born before April 2017 are not affected by the two child limit (although an increasing proportion of larger families will be over time).

But a majority are affected by the reduced generosity of council tax support, a majority of private tenants are now affected by HB shortfalls, and a majority of UC recipients choose to take a repayable advance rather than wait for the full UC payment. In some cases, the restrictions will have larger effects.

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[45] With thanks to Shelter for sharing their unpublished report.
[46] This calculation is not applied to the single person aged under 25, as their HB entitlement would be based on the 'single room rent'. This may well be below what they actually have to pay in rent, but figures for this are not available on the same basis.
[47] Wilcox (2014).

For a single person or couple without children in private rented accommodation, the effective safety net can now be reduced from more than half of the poverty line in 2010-11 (and two-thirds of it in 1997-98) to only a quarter in 2019-20. For a couple in private renting with three children including a baby, the safety net can have fallen from nearly 90 per cent of the poverty line in 2010-11 to just over half of it in 2019-20 (or even less if they face other deductions).

**Table 1 Minimum income levels as % of poverty thresholds by family type, 1997 to 2019-20, after allowing for housing costs (England)**

| | **97-98** | **10-11** | **13-14** | **17-18** | **19-20**[1] | | | |
|---|---|---|---|---|---|---|---|---|
| | | | **Max** | **Max** | **Max** | ***less* Coun Tax**[4] | ***less* UC loan repay**[5] | ***less* HB short fall**[6] |
| Single, aged 18-24, no children | 52 | 42 | 42 | 38 | 36 | 34 | 32 | |
| Single aged 25+, no children | 65 | 53 | 53 | 48 | 46 | 44 | 41 | 25[7] |
| Couple, working age, no children | 60 | 48 | 49 | 44 | 42 | 40 | 37 | 25 |
| Couple, 1 child aged 3 | 67 | 69 | 70 | 63 | 61 | 59 | 55 | 47 |
| Couple, 2 children aged 4, 6 | 67 | 78 | 81 | 73 | 69 | 68 | 64 | 57 |
| Couple, 3 children inc. baby and 8, 11[2] | 71 | 88 | 88 | 67 | 64 | 62 | 59 | 53 |
| Single parent, 1 child aged 3 | 81 | 84 | 86 | 77 | 74 | 72 | 67 | 56 |
| Pensioner couple (up to 74)[3] | 83 | 96 | 98 | 94 | 94 | 94 | 94 | 82 |
| Single pensioner (up to 74)[3] | 93 | 110 | 111 | 107 | 107 | 107 | 107 | 91 |

*Source:* Authors' calculations, extending analysis from Hills, De Agostini and Sutherland (2016), table 2.1.

*Notes:*
1. Estimated using Resolution Foundation estimates of income growth and inflation from 2017-18 to 2019-20.
2. Includes 'baby tax credit' in 2010-11; subject to two-child limit in 2017-18 and 2019-20.
3. Includes weekly equivalent for Winter Fuel Payments from 2010-11.
4. Assumes Council Tax Support only covers 80% of average level in England, with Band A properties (single, with single person discount), Band B (couple and couple with one child) or Band C (couple with 2 or 3 children).
5. Assumes advance of 70 per cent of main entitlement (excluding rent element) repaid over one year.
6. Assumes monthly shortfall (at 2017-18 levels) of £111 for single without children and single pensioner, £150 for couple without children and pensioner couple, £103 for lone parent, and £115 for couples with children. For single people under 35 the shortfall would depend on the difference between the 'single room rent' rate and what they actually pay.
7. Assumes aged over 35.

One implication of the figures in Figure 10 is that the importance of *indexation* decisions on relative generosity has been as great as that of *structural* reforms. For the non-pensioner cases, minimum income levels were worth between 6 and 24 percentage points less in relation to the poverty line in 2019-20 than in 2010-11 before allowing for the structural changes in the final three columns. This was similar in scale to some of the other, more visible reductions in entitlements, depending on which of the other changes families were affected by.

*Sanctioning*

The gaps in the safety net described above result from the changing structure of the social security system, independently from any decisions by those administering the system. One of the features of the last ten years was the rise and then fall in the use of 'benefit sanctions' in situations where claimants were deemed to have breached the 'conditionality' regime under which they were paid benefits. Such sanctions result in the removal of some or all benefit payments for varying periods. The number of such sanctions had peaked at 1.1 million in 2013, but fell to 210,000 in the year to July 2019.[48] The fall followed the review of the sanctioning system by Matthew Oakley (2014), itself a reaction to accumulating evidence on the growth and effects of sanctioning.

The proportion of claimants subject to sanctions and so reduced benefits at any one time peaked at 1.78 per cent of Jobseeker's Allowance claimants in October 2013 and at 1.04 per cent for Employment and Support Allowance claimants in April 2014. As new claimants have moved to the Universal Credit regime, these figures are now each below 0.1 per cent for remaining recipients.[49] For Universal Credit itself, the proportion subject to sanctions was initially at a much higher rate – nearly 10 per cent in March 2017 – but this had fallen to 2.4 per cent (of those subject to conditionality) by August 2019.[50] Webster (2019) calculates that 3.1 per cent of Universal Credit recipients were subject to sanctions in the quarter to July 2019.

## 6.3 The effect of policy on minimum incomes in work

One of the favourable changes of the last twenty years has been the decline in the proportion of workless households of working-age. The position of low-income people who are in work has therefore become more important in driving overall poverty trends. Part of the rationale for policy changes since 2015 (and between 2010 and 2015) was to boost the position of low earners, both through the increased minimum wage and through reduced income tax

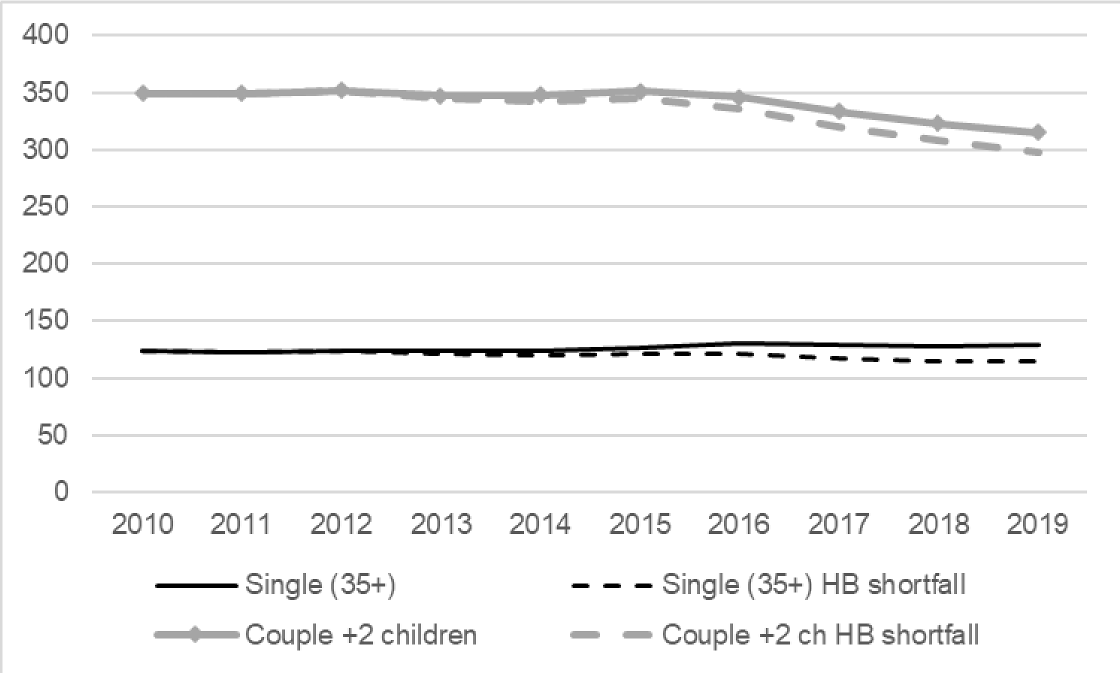
[48] Webster (2019), based on DWP sanctions statistics.
[49] DWP (2019c), charts 4.3 and 5.3.
[50] Ibid., chart 3.2. In addition, Work and Pensions Secretary Amber Rudd announced in May 2019 that the maximum length sanctions would be applied would be reduced from 3 years to six months.

from the larger tax-free allowance. But at the same time, in-work benefits – particularly Housing Benefit and tax credits – were made less generous.

Figure 12 illustrates the net effect of the combination of these changes for example single people and couples with two children, showing what has happened to the real value of the effective minimum income floor for them if they were working full-time at the minimum wages applying between 2009-10 and 2019-20. If the couple had a second earner, as is often the case, their income would be above this floor. Both cases are assumed to be tenants. The dashed lines allow for the effects of potential Housing Benefit shortfalls for private sector tenants, if they had rents at the 30th percentile of rents nationally.

For the couple with two children, the real value of income after housing costs was constant between 2010-11 and 2015-16. However, the result of changes in tax credits, including the cash freeze in working-age benefits (as well as continuing freeze of Child Benefit) was that the real value of the in-work income floor then fell for families like them, by 10 per cent by 2019-20 (or by 14 per cent, if affected by a Housing Benefit shortfall). This was despite the increases in the income tax personal allowance and the National Living Wage. For the single person example, income grew slowly over the period, by 4 per cent overall, if unaffected by a Housing Benefit shortfall. But if they were affected by a shortfall, it would have a larger effect and their income would be 7 per cent lower at the end of the period than at the start.

**Figure 12 Value of minimum income with one earner, 2010-11 to 2019-20 (£/week, 2017-18 prices)**



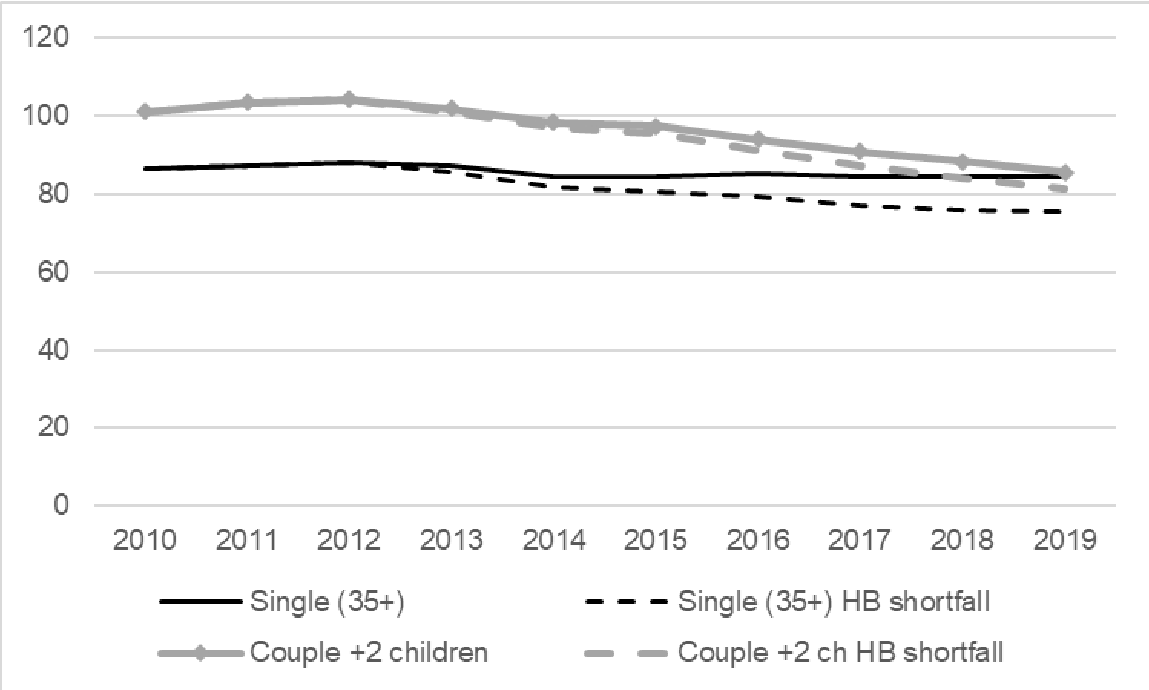

*Sources:* Authors' calculations based on calculations of in-work incomes and associated taxes and benefits using modelling kindly carried out by the Resolution Foundation.

*Notes:*

1. Both children of the couple are assumed to be born after April 2017.
2. Single person aged over 35, so unaffected by shared accommodation limit to Housing Benefit.
3. Cases with allowance for HB shortfall are private tenants paying rent at the 30$^{th}$ percentile of local rents for appropriate accommodation (based on data from Hometrack). Those paying higher rents would have lost larger amounts as a result of the reduction in Local Housing Allowances from median local rents under the Coalition government.
4. Council Tax as in Figures 10 and 11, allowing for limitations on Council Tax support.

Figure 13 shows how these incomes related to the relative poverty line (as in Figure 11 for out-of-work families). While the generosity of the tax credit and benefit systems at the start of the period was enough to ensure that the two-child couple was above the poverty line, the subsequent reductions in their generosity meant that this was no longer true in 2019-20, especially if they were affected by a Housing Benefit shortfall. For the latter case, the fall in their income relative to the poverty line, 20 percentage points, was only slightly less than that calculated for an equivalent out-of-work family in the final column of Table 1. For the single person in work, the 9 percentage point fall relative to the poverty line if affected by a Housing Benefit shortfall was, however, only half that for an out of work single person in a similar situation.

**Figure 13 Value of minimum income with one earner as percentage of poverty line (After Housing Costs), 2010-11 to 2019-20**




*Sources and notes:* As Figure 12. Poverty lines as used in Figure 11.

While families in other housing tenures would not have been affected by the changes in Housing Benefit, these examples, particularly as they affected families with children, illustrate some of the reasons for the increase in in-work poverty discussed below in Section 7.

## 6.4 The distributional effect of tax and social security reforms

The policy changes which have affected minimum incomes in and out of work described above and the broader changes in tax and benefits described in Section 3 affect people throughout the income distribution. The *actual* outcomes for poverty rates discussed in Section 7 depend on the interactions between these and changes in the wider economy and population structure. However, modelling can isolate the contribution of policy change to this.

The results of such modelling depend on the precise assumptions used to make comparisons of what tax-benefit systems would have looked like *without reform* (the 'counterfactual') and the actual *post-reform* systems. In earlier work, we looked in detail at three analyses of the effects of the reforms introduced by the Coalition Government between May 2010 and May 2015, the starting point for the Conservative reforms since then. We showed that seemingly technical choices could make a large difference to the findings, although the analyses agreed on the overall shape of the distributional effects.[51] In summary:

- Those with the lowest incomes did worse than all or nearly all other income groups.[52]
- Those around the top quartile (in the seventh and eight tenths of the income distribution) were the biggest beneficiaries, for instance from increased income tax allowances and more generous state pensions.[53]
- Those in the top tenth lost from changes in direct taxes affecting some of those with highest incomes. The scale of this depends on which changes are allowed for.[54]

The choice of reforms covered and assumptions made thus affected the distributional effects presented, but not the overall shape of their effects: the Coalition's reforms were regressive between the bottom of the income distribution and those in the middle of the top half, who were the biggest gainers, but tax reforms meant that some of those with the highest incomes lost out, which meant losses for the top tenth on average.

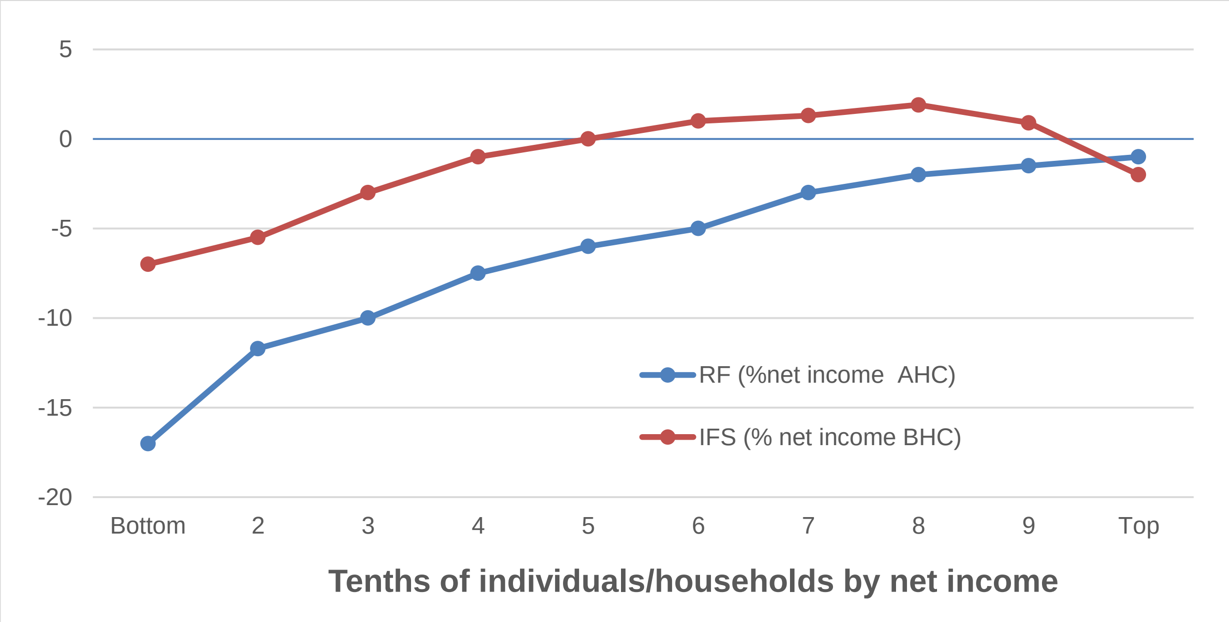
Two recent analyses extend these results, taking account of reforms for the whole period between 2010 and 2019, and looking at their effects when they are fully rolled out in the Institute for Fiscal Studies analysis (Bourquin, Norris Keiller and Waters, 2019), or up to 2023-24 (in the case of the Resolution Foundation results in Gardiner, (2019)), with Universal Credit fully in place and the two-child limit affecting more families. A summary of what they show is presented in Figure 14. They both suggest that the regressive effects of the reforms up to 2015 have been compounded by policy since then.

The IFS analysis assumes full take-up of benefits and takes account of direct and indirect tax changes. It shows the largest losses for households at the bottom, with the poorest tenth 7 per cent worse off from the reforms as a share of net income (before housing costs) on average. But tax changes since 2015 have favoured those in the top tenth, so their loss has been reduced to 2 per cent of net income, less than that from reforms from 2010 to 2015 by themselves.

[51] See De Agostini, Hills and Sutherland (2018), figures 2 and 3 and related discussion.
[52] Losses were equivalent to 0.5 per cent of income in the De Agostini et al. (2018) analysis of direct tax and benefit changes using the EUROMOD tax-benefit model, but as high as 4 per cent in IFS analysis, which also took into account indirect tax changes (such as the increase in VAT) and assumed that all benefits were fully taken-up, if people were entitled to them. Analysis by HM Treasury, which excluded cuts such as those in Housing Benefit and Council Tax support showed a small gain for the bottom tenth.
[53] With gains of 2 per cent in the EUROMOD analysis and 1.5 per cent in the Treasury analysis, but breaking even in IFS's analysis, which allows for higher indirect taxes.
[54] The top tenth broke-even in the EUROMOD analysis, lost 1.5 per cent of income according to the Treasury, but 2.5 per cent according to IFS (which adjusted for under-reporting of top incomes).

The Resolution Foundation analysis has a broadly similar shape, but because the results are presented as a share of net income *after* housing costs, the scale of losses is much larger at the bottom (because their housing costs are the greatest share of income). Because tax changes affecting those with high incomes before or since 2015 are not included in this analysis, the overall effects for individuals in the top tenth are much smaller, as benefits are less important within their incomes.

**Figure 14 Modelled effects of benefit and tax reforms from 2010 to 2019 (net gain or loss as percentage of net income)**




*Sources:* Gardiner (2019), figure 9; Bourquin, Norris Keiller and Waters (2019) figure 1. *Note:* The Resolution Foundation analysis is of benefit changes only projected to 2023-24 and presents results for *individuals* (as in HBAI analysis) as percentage of income *after* housing costs. The IFS analysis is of reforms from 2010 to 2019 when fully in effect and takes account of tax changes and is presented as a percentage of net income *before* housing costs for *households* (but with income adjusted for household size).

These results divide the population by income group only. Looking at specific groups using modelling of the impact of tax and benefit changes announced from 2010-2017,[55] Portes and Reed (2018) found a disproportionately negative impact on a number of protected groups including women, people from a Bangladeshi or Pakistani background and disabled people. For households with at least one disabled adult and one disabled child average annual losses of income are just over £6,500.

Such analyses show the results of changes to the *systems*, assuming reforms are fully in effect. Actual distributional changes will reflect the pace at which

[55] This is based on changes that have been announced from 2010 to 2017 but not necessarily come into effect yet.

some of those reforms are affecting people. For instance, the figures for poverty outcomes in 2017-18 presented in the next section are only affected to a very limited extent so far by the introduction of Universal Credit or by the two-child limit, as both these policy changes are slow to take effect.[56]

*Take-up*

One critical factor in the eventual impact of Universal Credit is whether it will increase or decrease take-up.[57] If take-up is improved, there are some households (not allowed for in analysis that assume full take-up) that will gain where they currently miss out on one of the benefits they are entitled to, but in future get everything through a single claim. This is one of the motivations for the reform. For instance, 'expenditure take-up' (the amount claimed of the amount available) for Housing Benefit for private tenants fell from 86 to 82 per cent between 2012-13 and 2017-18.[58] There is therefore scope to increase the incomes of some of the very poorest.

However, as Bangham and Corlett (2018) point out, it is going to be very hard to tell whether Universal Credit will indeed boost take-up. To start with, DWP has not published recent estimates of take up of either Jobseeker's Allowance or of initial take-up of Universal Credit. But also, where estimates for legacy benefits or tax credits have been published, they may be under-estimated because of incomplete reporting of benefit income to surveys. For instance, their estimates suggest that expenditure take up may be 69-83 per cent for Working Tax Credit and 93-100 per cent for Child Tax Credit, compared to HMRC's estimates of 62-68 per cent and 81-86 per cent respectively. This would mean that there is less scope for the reforms to boost take-up.

Further, in the other direction, the extension of the stigma of 'being on welfare' to financial support for children and housing costs may have the opposite effect on some of those who do claim tax credits and housing benefits in the 'legacy' system. And while some needs for double-claims are removed in the Universal Credit system, that is not true of Council Tax Support. In the legacy system, local authorities can run a system where income assessment for Housing Benefit can also generate assessment for Council Tax Support (CTS). Under Universal Credit, local authorities will no longer be running the Housing Benefit side of this and it will be much easier for tenants to fail to get CTS.

[56] The distributional effects of Universal Credit (UC) specifically have also been shown to be regressive with the poorest 10 per cent losing the most, though there is large variation in losses and gains and most changes are temporary, nevertheless UC particularly impacts those in persistent poverty (Brewer *et al.*, 2019).
[57] See Hills, De Agostini and Sutherland (2016).
[58] DWP (2020d).

# 7. Outcomes

As discussed in Section 3, the aims of social security policies include: prevention and relief of poverty; providing insurance against unexpected events such as illness and unemployment (and so having a macro-economic stabilising effect); smoothing incomes over the life cycle; and as a mechanism for reducing horizontal inequalities between those with different needs. Although it is not possible to evaluate causal effects of the social security policies within this period, in this section we consider the evidence on a range of outcomes related to such aims. We start by considering the conventional measures of income poverty, comparing trends for different types of households, and the changing composition of poverty, focusing in particular on the rise of in-work poverty. We then examine more severe measures of poverty, destitution and homelessness. Next we consider how well social security policies have fulfilled the aim of income smoothing. In the final section we consider evidence on a range of outcomes related to Universal Credit, including employment, food insecurity, domestic abuse, sex work and mental health. There are a number of caveats to the final exercise: first the introduction of Universal Credit involved structural changes to the way social security benefits are delivered as well as changes in the generosity of social security benefits simultaneously and it is therefore difficult not only to attribute causal relationships to evidence on outcomes, but also to disentangle what are the likely drivers of such outcomes, structural changes or changes in generosity. Efforts are made where possible to pinpoint which feature(s) of Universal Credit specifically are likely to be linked to particular outcomes and also where there are overlaps with features that were also part of legacy benefits these are highlighted.

## 7.1. Trends in income poverty

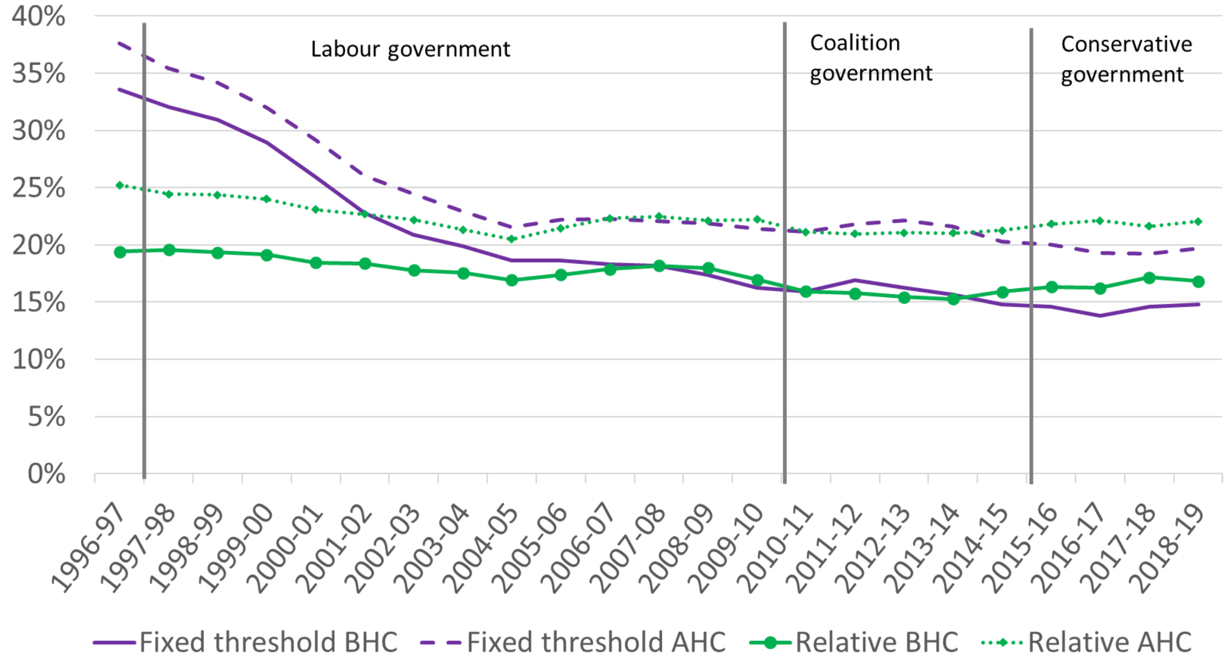
We first consider what has happened to trends in poverty using the conventional measures as used in the government's annual Households Below Average Income (HBAI) statistics based on the Family Resources Survey (FRS). As can be seen from Figure 15 poverty measured against a fixed threshold[59] has seen long-term decline, but with much slower progress since 2004-05. In 2018-19 poverty (against a fixed threshold) was at the same level it had been in 2014-15, whether measured before housing costs (BHC), 15 per cent, or after housing costs (AHC), 20 per cent (in both cases slightly higher than they had been in 2016-17). This suggests a stall in progress since 2012-13 as it had previously been falling (Bourquin *et al.*, 2019a, p. 37).

Relative poverty (below 60 per cent of median contemporary income) for the population as a whole in 2018-19 both before housing costs (17 per cent) and

[59] Set at 60 per cent of median income in 2010-11. It is fixed to 2010-11 because of the Child Poverty Act 2010 which set targets for reducing child poverty. This is sometimes referred to as measuring 'absolute poverty', but this can be confusing, given the use of that term in international literature to refer to incomes below minimal subsistence levels.

after housing costs (22 per cent) were at the same level they had been in 2009-10, but in both cases higher than they had been in 2013-14. Overall, the main progress in reducing poverty on either definition came before 2004-05, and progress has stalled since then.

**Figure 15 Overall trends in relative poverty and poverty measured against a fixed threshold, before housing costs (BHC) and after housing costs (AHC), 1996-97 to 2018-19**




*Notes:* Relative poverty uses threshold of 60 per cent of contemporary median income; fixed threshold is 60 per cent of median income in 2010-11. Figures refer to all individuals, including children.

*Source:* Institute for Fiscal Studies (IFS) (2020) *Living Standards, Inequality and Poverty Spreadsheet* 2020, based on Family Resources Survey data. Note: GB figures until 2001-02, UK from 2002-03.

Figure 16 shows poverty rates against a fixed threshold and in relative terms, focusing on incomes after housing costs, for children, pensioners and working age adults (without dependent children – rates for parents equal those for their dependent children) separately. Against a fixed threshold (panel a), a similar proportion of both pensioners and children were in poverty in 1996-97 – almost 50 per cent, whilst working age non-parents[60] had the lowest poverty rates. Although low income has fallen for all groups, it has decreased most for pensioners, so that by 2018-19 pensioners had the lowest poverty rates at around 13 per cent whilst the rate for children was double this at 26 per cent. Poverty for children (against a fixed threshold) was constant over the last two

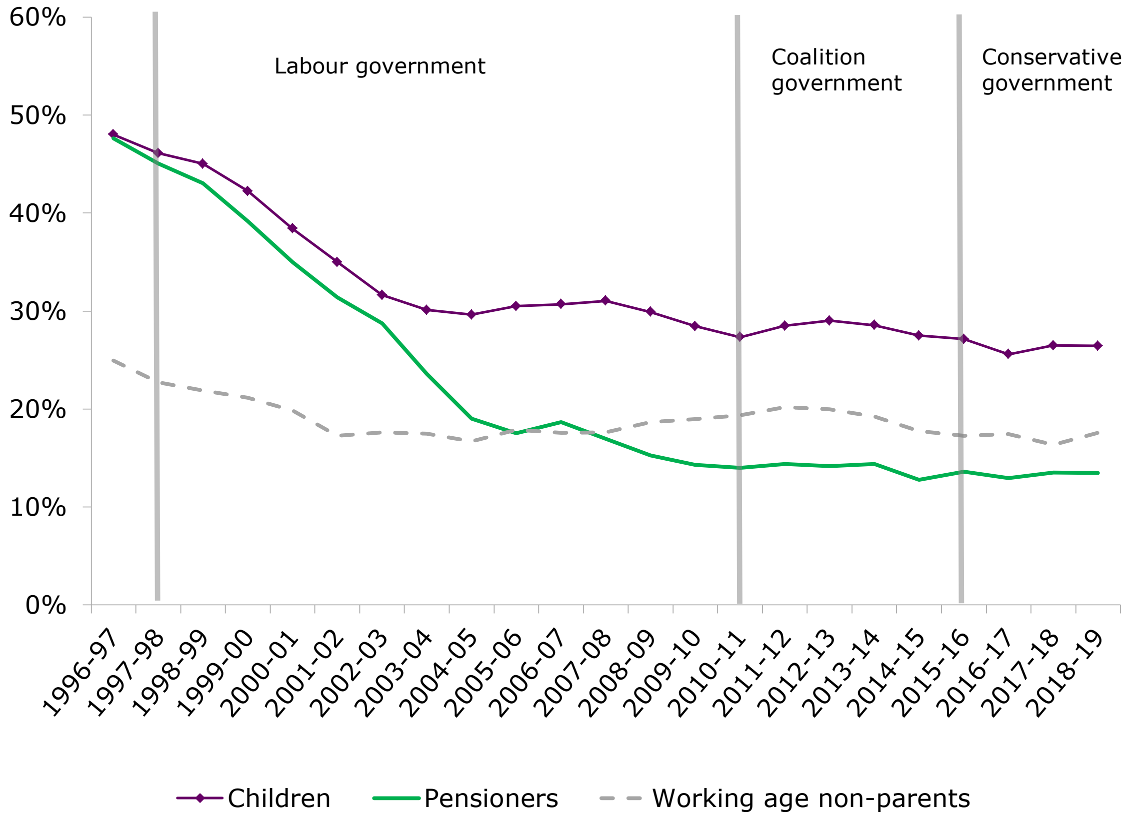
[60] By 'non-parents' we mean not parents of dependent children i.e. they could be parents of adult children.

years, lower than it had been in 2009-10, but the large falls had come in the period up to 2003-04.

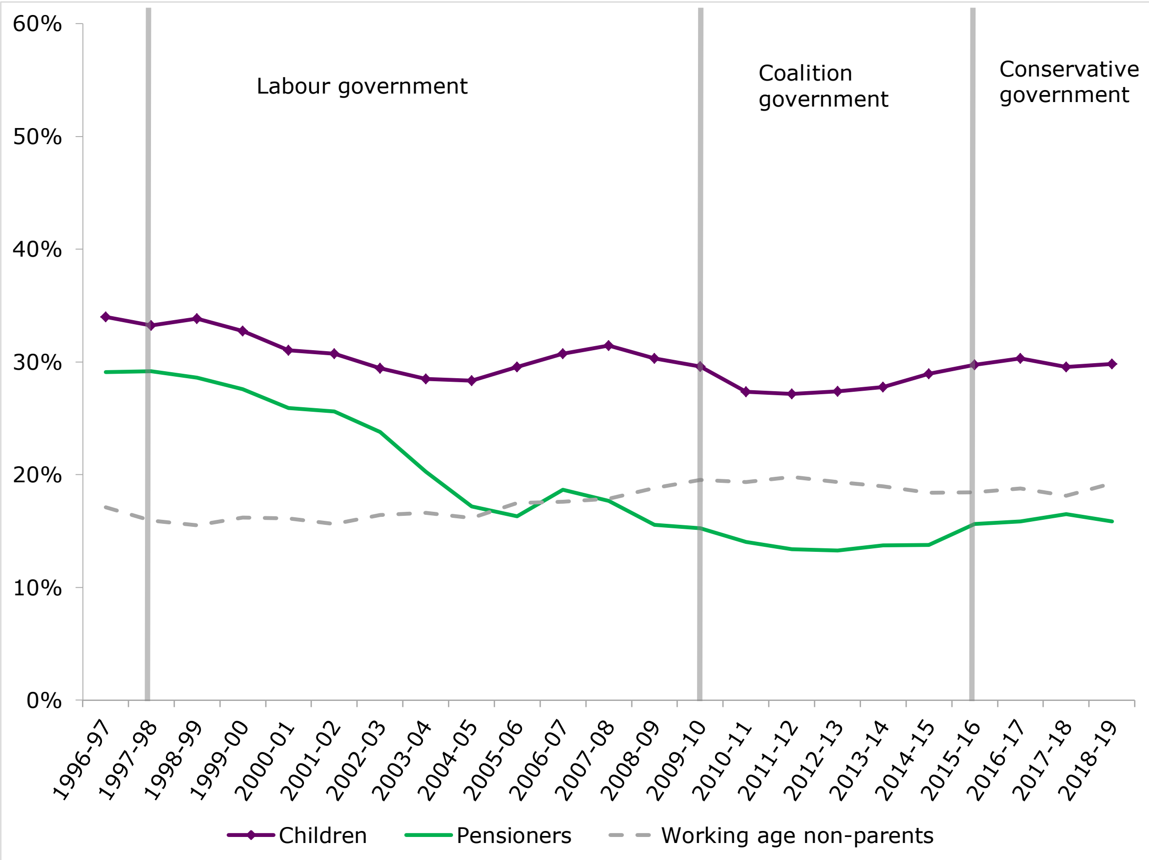
Relative child poverty, shown in Figure 16(b), has risen since 2012-13, standing at around 30 per cent in 2018-19. Over the same period relative poverty remained fairly stable for working-age adults without dependent children at around 19 per cent. Relative pensioner poverty also appears to have increased since 2012-13, although this is partly explained by variations in how private pensions have been reported in different years – and the continued fall in material deprivation for pensioners lends further support to this explanation (Bourquin *et al.*, 2019a; Department for Work and Pensions, 2020a). Nevertheless, a rise in housing costs for the poorest pensioners in particular may also account for some of the increase in relative pensioner poverty (Bourquin *et al.*, 2019a).

**Figure 16 Proportions of population with incomes below fixed and relative poverty thresholds (after housing costs), by population group**

a) Percentage below fixed threshold (60 per cent of 2010-11 median income in 2018-19 prices)



b) Percentage below relative threshold (60 per cent of contemporary median income)




*Source:* Institute for Fiscal Studies (IFS) (2020) *Living Standards, Inequality and Poverty Spreadsheet* 2020, based on Family Resources Survey data. Note: GB figures until 2001-02, UK from 2002-03.

The Social Metrics Commission (SMC) provides an alternative measure of poverty which takes into account 'inesacapable costs' faced by families including housing, childcare and attempting to account for the extra costs of having a disability by discounting the amount of disability benefit received (Social Metrics Commission, 2020). It also allows for some addition to incomes from the ability to run down savings. Their approach reduces calculated poverty rates for pensioners, but increases them for children and their families and for disabled people. The SMC find that based on their measure (relative) pensioner poverty rates have fallen from 18% in 2000-01 to 11% in 2018-19 (Ibid). They also find poverty rates for children have plateued after increasing for the past three years (Ibid). Nevertheless, children are still over-represented in the poverty rates compared with pensioners, with 33% of children in poverty in 2018-19 (and 22% of working-age adults) (Ibid). Single parent families are at particular risk of poverty, with 48% of single parent families in the UK in poverty in 2018-19 (Ibid).

In relation to the depth of poverty, the SMC finds that those in the deepest levels of poverty – more than 50% below the poverty line – have made up an increasing share of those in poverty. In 2000-01 22% of those in poverty were more than 50% below the poverty line but this has increased to 31% of all those in poverty in 2018-19 (Social Metrics Commission, 2020). The depth of poverty varies across regions with a greater proportion of people experiencing deep poverty (at least 50% below the poverty line) in London compared to other regions, with double the proportion in deep poverty compared to in the North East (40% and 20% respectively) (Ibid).

The report also highlights persistent poverty (defined as being in poverty for two out of the three previous years as well as the current year), finding that in 2017-18[61] 50% of all people in poverty were in persistent poverty which equates to 11% of the whole population and 18% of children in the UK (Ibid). Based on their estimates the SMC find that 50% of people in poverty were living in a family where someone was disabled, which is a significant increase from 43% in 2003-04 (Ibid). They also find poverty rates were higher for families from minority ethnic backgrounds compared to families with a White head of household: nearly half (46%) of all people living in families where the head of the household is Black were in poverty in 2016-17–2018-19 compared to less than a fifth (19%) of all people living in families where the household head is White (Ibid).

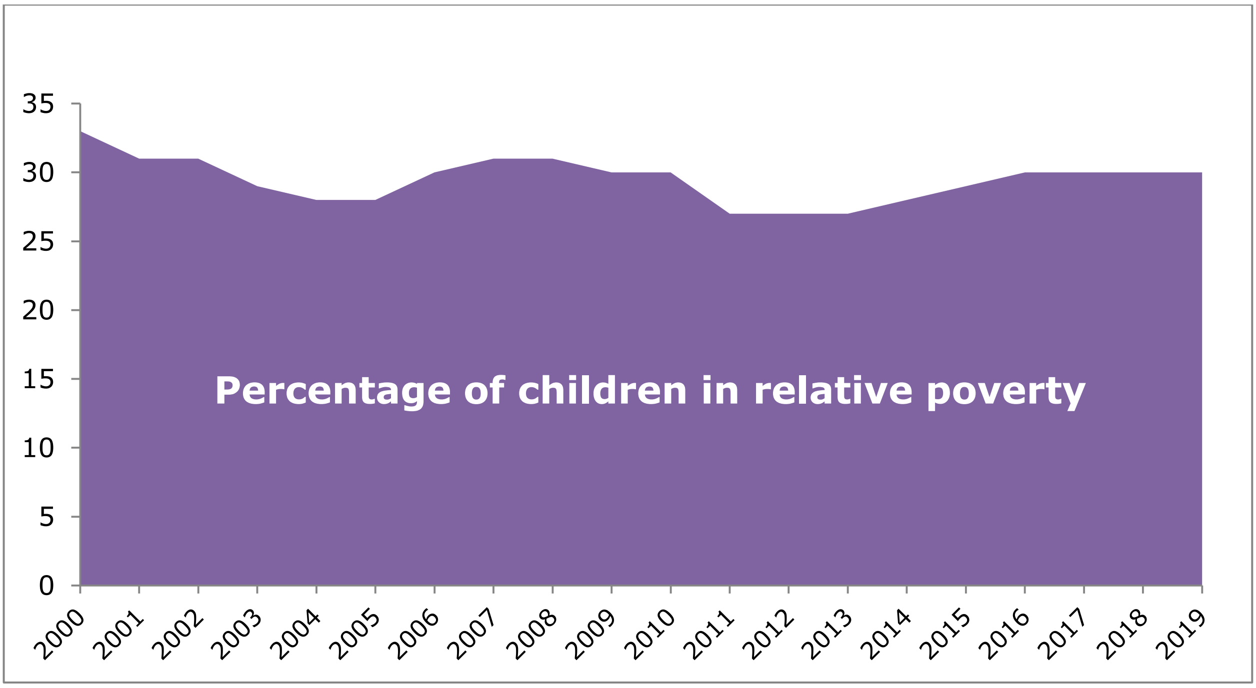
### 7.2. The changing composition of poverty

*Child poverty*

Beneath the overall trend of increased child poverty since 2012-13 (Figure 17), which shows a stalling of progress in reducing child poverty, particular groups of children fared worse than others and some inequalities widened (Vizard, Obolenskaya and Treebhoohun, forthcoming). Relative child poverty (after housing costs) increased for children in larger families with the gap between families with three or more children and other families widening since 2015-16 (Figure 18). Children living in families from a Bangladeshi, Pakistani and Black background have the highest rates of poverty (Figure 19) and poverty rates have increased since 2013, particularly for children in Bangladeshi families – in 2017 (pooled years 2016-17 to 2018-19) 68% of children in Bangladeshi families were in relative poverty. Child poverty for children living in single parent families had increased from 2013-14 to 2016-17 before falling back but remains higher than for children living in two parent families (Figure 20) – at 43% and 26% in 2018-19 respectively. This of course has gendered implications also as 86% of single parent households are headed by women (Office for National Statistics, 2019a).

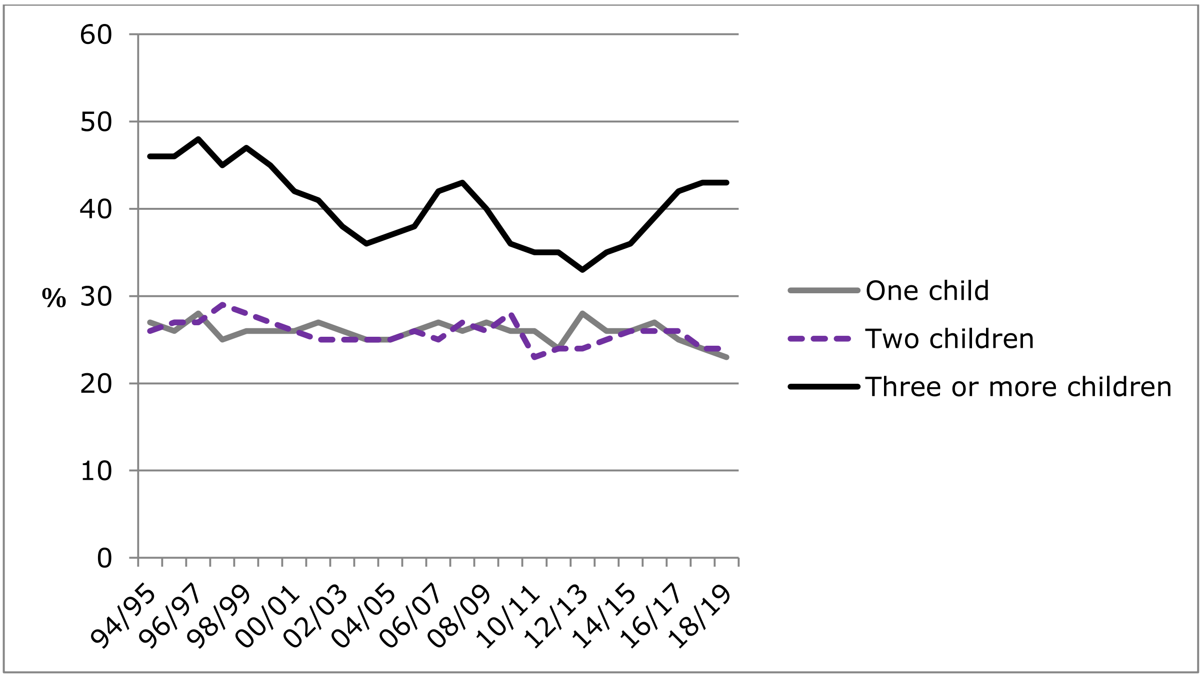
[61] These findings were not updated by the SMC with the other 2018/19 results.

**Figure 17 Trends in relative child poverty (after housing costs)**



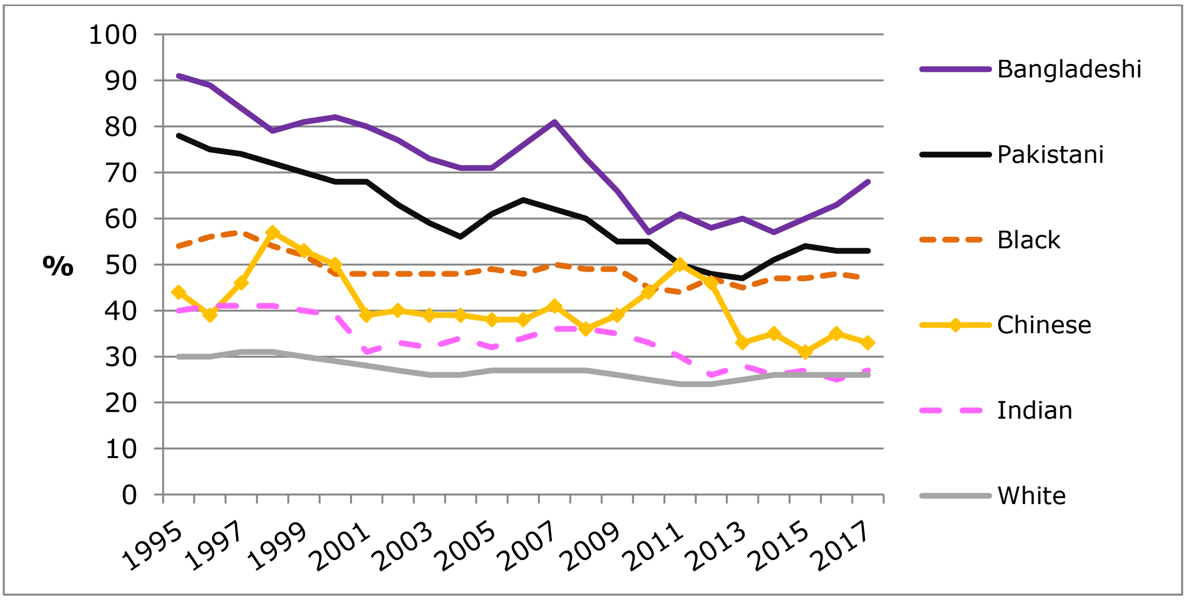

Source: Department for Work and Pensions (2020b)
Note: Years refer to financial years e.g. 2019 = 2018-19. Figures are for GB until 2001 then UK from 2002.

**Figure 18 Relative child poverty (after housing costs) by number of children in the family**



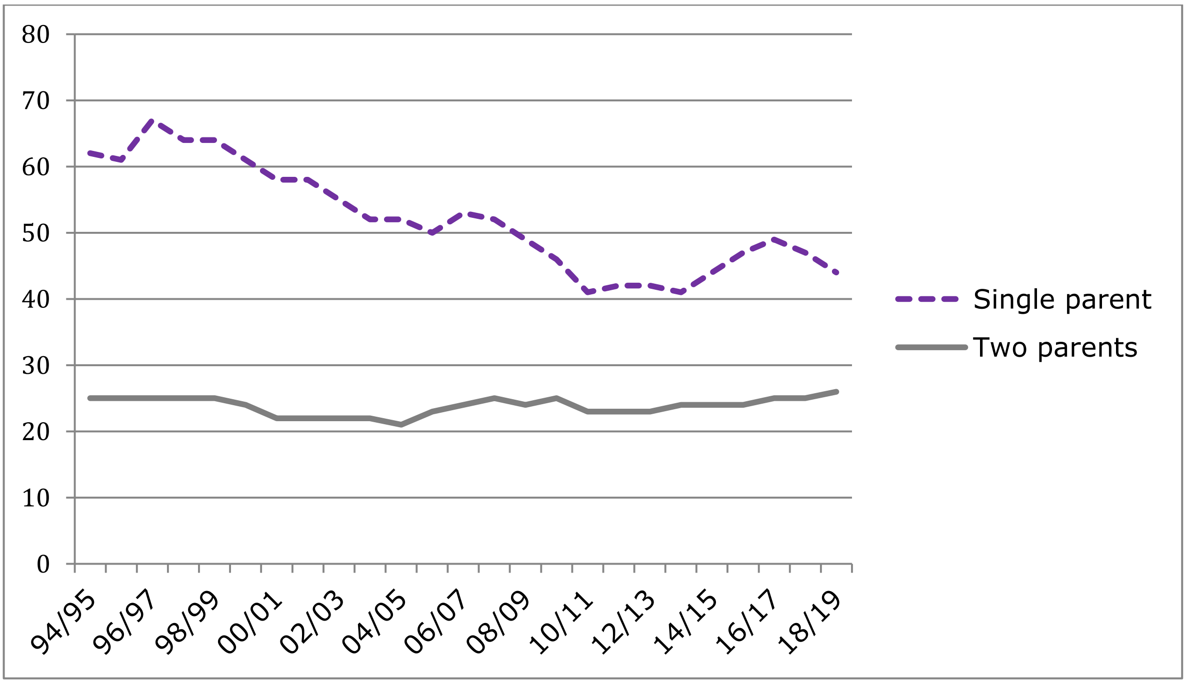

Source: Department for Work and Pensions (2020c).
Note: Figures are for GB until 2001/02 then UK from 2002/03.

**Figure 19 Relative child poverty (after housing costs) by ethnicity of household head**




Source: Households Below Average Income (HBAI) data. With thanks to the HBAI statistics team for sharing unpublished data. Note: data is pooled to enable large enough sample sizes. Each year represents three financial years combined, centred on the year stated. Thus "2017" represents "2016-17", "2017-18" and "2018-19". Figures are for GB until 2001/02 then UK from 2002/03.

**Figure 20 Percentage of children in relative child poverty (after housing costs) for children living in single and couple parent families**

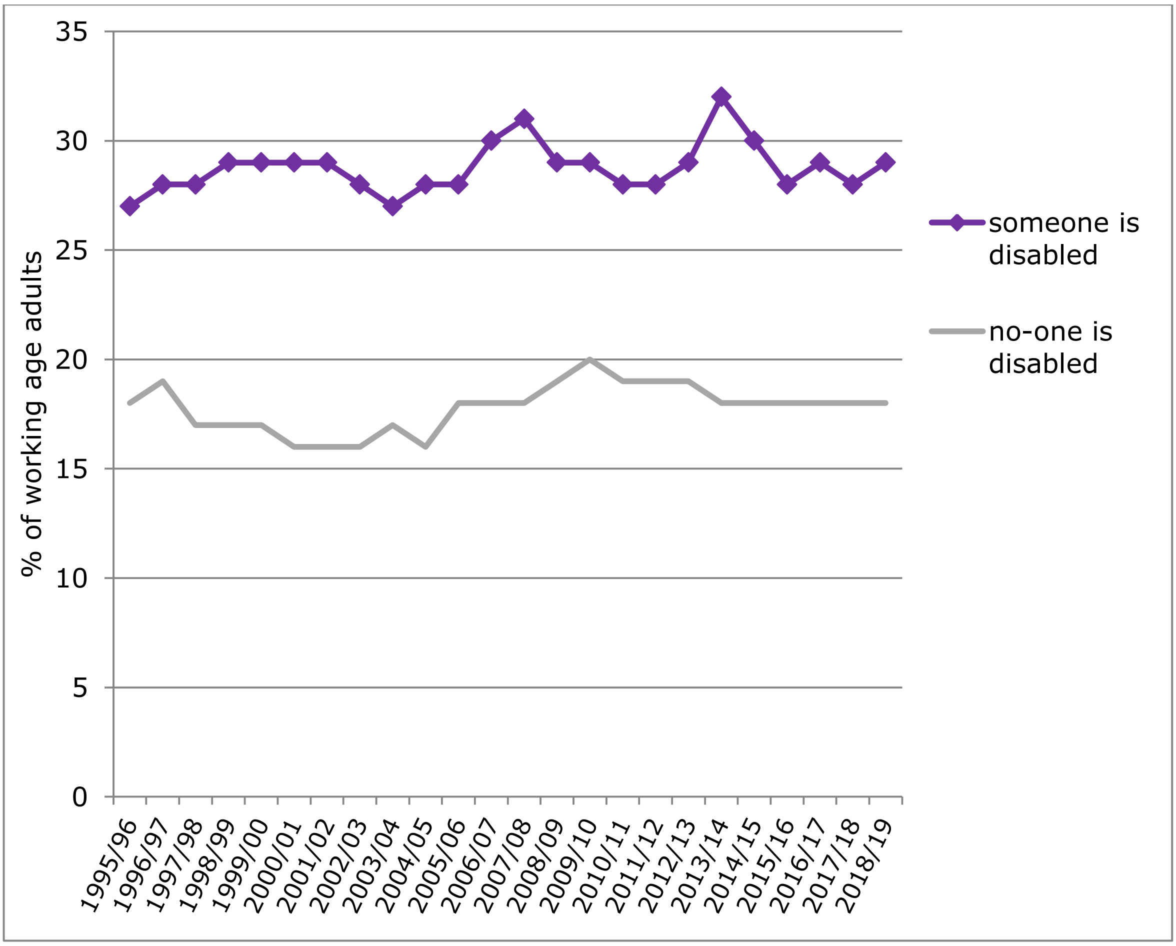



Source: Department for Work and Pensions (2020c)
Note: Figures are for GB until 2001/02 then UK from 2002/03.

*Disability status*

As can be seen from Figure 21, relative income poverty (AHC) declined for working-age individuals living in households with at least one disabled person between 2007-08 and 2012-13 (although remained above 1995-96 levels) but then rose again. By 2018-19 it remained a little higher than in 1995-96.

**Figure 21 Percentage of working-age individuals in relative income poverty after housing costs by household disability status**

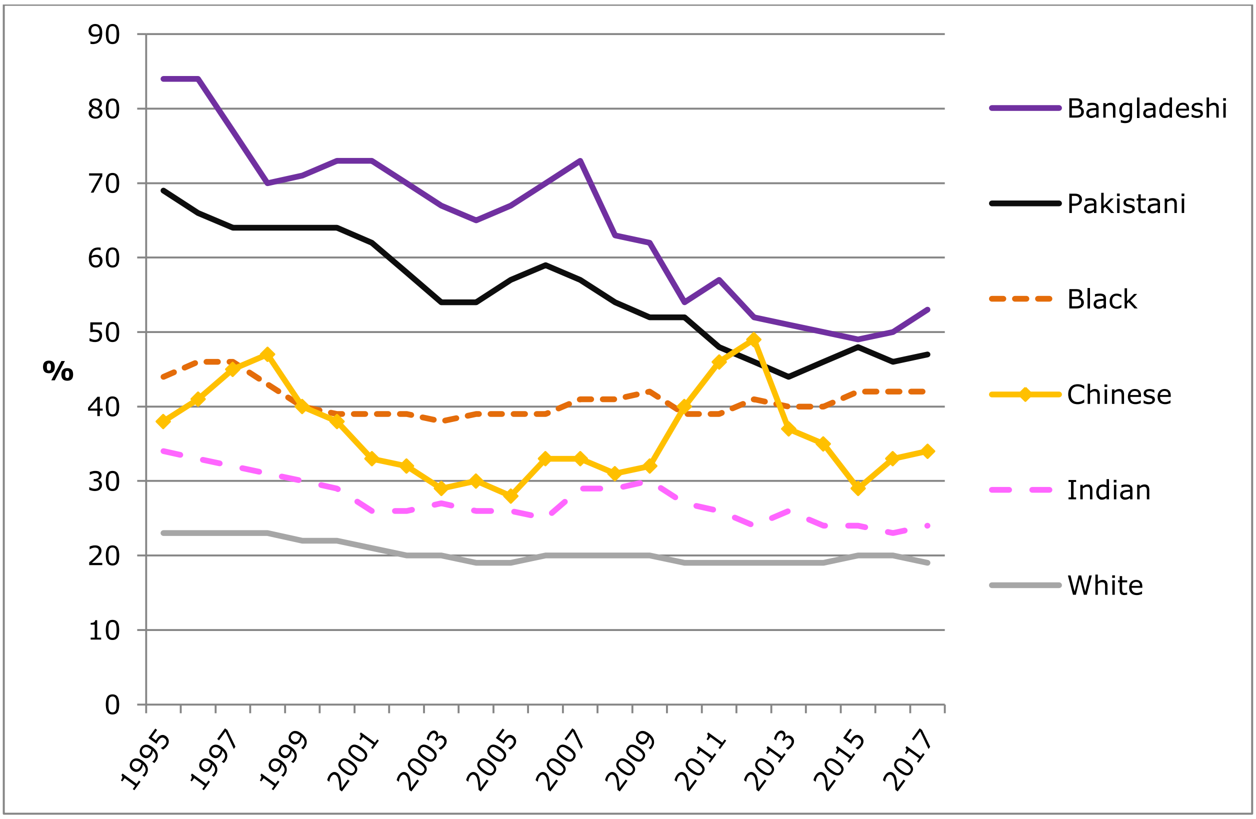



*Source:* Department for Work and Pensions (DWP) (2020b) *Households Below Average Income (HBAI) National Statistics*, data tables 1994/5 to 2018/19, released 26th March 2020, 'summary- hbai- 1994-94 - 2018-19 tables' spreadsheet available at https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201819 Figures are for GB until 2001/02 then UK from 2002/03.

*Ethnic inequalities in poverty*

Despite long-term decline in relative poverty rates AHC for those from a Pakistani or Bangladeshi background, ethnic inequalities in poverty remain and actually widened since 2015[62] for those from a Pakistani, Bangladeshi and Black background compared to those from a White background. Ethnic inequalities in other measures of poverty also increased since 2015, including poverty against a fixed threshold AHC, relative child poverty AHC (as discussed above) and in-work poverty (see analysis in section 3.3 of Vizard and Hills (2021)).

**Figure 22 Percentage of working age individuals in relative poverty after housing costs by ethnicity**




Source: Households Below Average Income (HBAI) data. With thanks to the HBAI statistics team for sharing unpublished data. Note: data is pooled to enable large enough sample sizes. Each year represents three financial years combined, centred on the year stated. Thus "2017" represents "2016-17", "2017-18" and "2018-19". Figures are for GB until 2001/02 then UK from 2002/03.

*Poverty in and out of work*

Another important change in the composition of poverty has been the rising proportion of people from households with at least one adult in work, as well

[62] Due to smaller sample sizes the poverty data for ethnic groups are pooled across three year periods. For ease of readability when summarising these poverty trends we refer to one year only, as follows: 2015 refers to years 13/14-15/16.

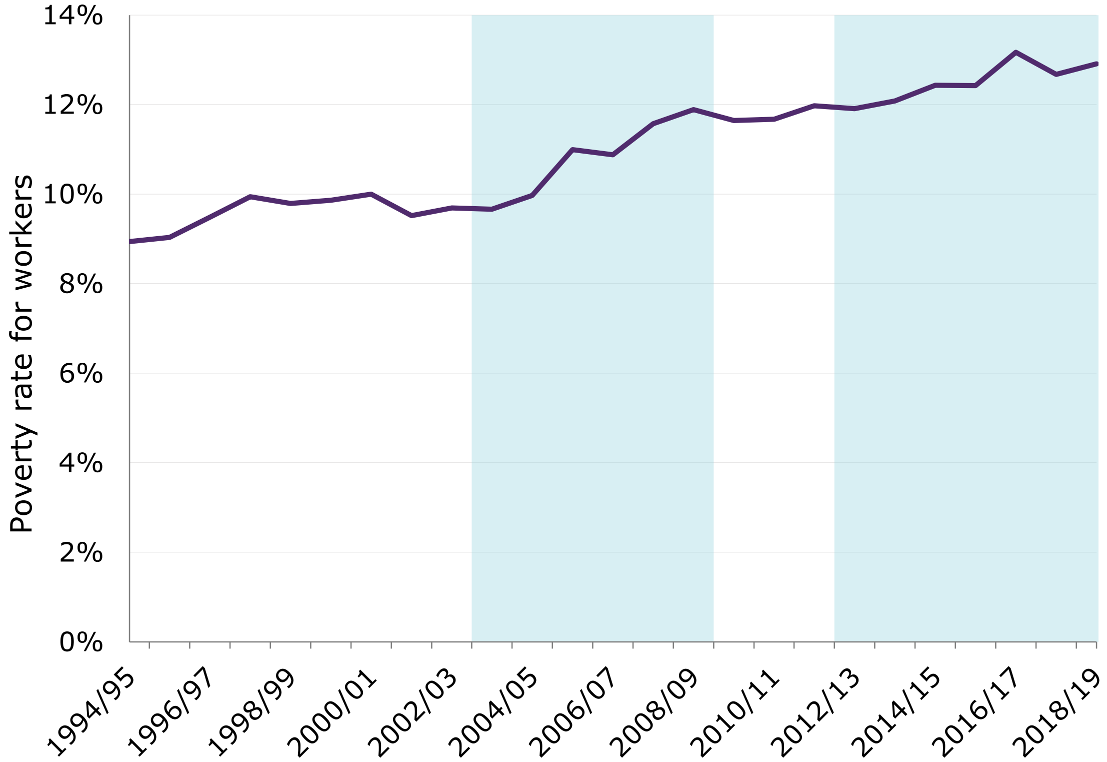
as the rising proportion of workers in poverty (Figure 23). An increasing share of those in relative income poverty at all thresholds (40, 50 and 60 per cent of median income) as well as those in expenditure poverty and material deprivation come from a household where at least one adult is working (Bourquin *et al.*, 2019a, p. 72). In 1997-98, 39 per cent of those in poverty (after housing costs) were from a working household, but by 2017-18 this had increased to 56 per cent.[63] The risk of in-work poverty is higher for single parents, Bangladeshi, Pakistani and Black households and households where a member of the family has a disability (see section 3.3 in Vizard and Hills (2021)).

This is not simply a matter of there being fewer workless households and of pensioners making up a smaller proportion of the population in poverty than twenty years ago (though this compositional change has taken place). As Figure 23 shows, the poverty rate for people in households with income from work has been rising – from 9.9 per cent in 1997-98 to 12.7 per cent by 2017-18. Restricting the analysis to working-age households, and so excluding relatively affluent pensioners with income from work, the rise was from 14.5 to 18 per cent.[64] One of the highlighted periods of growth in the figure was in the run-up to and during the economic crisis, but the rate also grew after 2012-13. Strikingly, if we consider only individuals in work (rather than those living in a household with someone in work), we see that that the number of individuals in full-time employment who are in poverty has increased since 1994-95.[65]

While some low-income working households gained from the rising minimum wage and from increased income tax allowances, these gains were offset by the falling relative value of in-work benefits (see Section 6.4 above). Bourquin, Cribb, Waters and Xu (2019b, table 5) show that while the net effect of tax and benefit changes between 1996-97 and 2017-18 overall was to reduce the rate of in-work poverty, between 2010-11 and 2017-18 the effect was to increase it (by 1.8 percentage points, after housing costs). Another significant factor that has contributed to the rise in in-work poverty has been increased housing costs for those living in private or social rented accommodation (Hick and Lanau, 2017; Bourquin *et al.*, 2019b). The issue of rising in-work poverty and the contributing factors and possible policy solutions is discussed further in another paper from this series on employment policies (McKnight and Cooper, forthcoming).

[63] Joseph Rowntree Foundation (2020a), p.6.
[64] Bourquin, Cribb, Waters and Xu (2019b), figure 2.
[65] Joseph Rowntree Foundation (2020b).

**Figure 23 Poverty rate (%) for individuals in work**



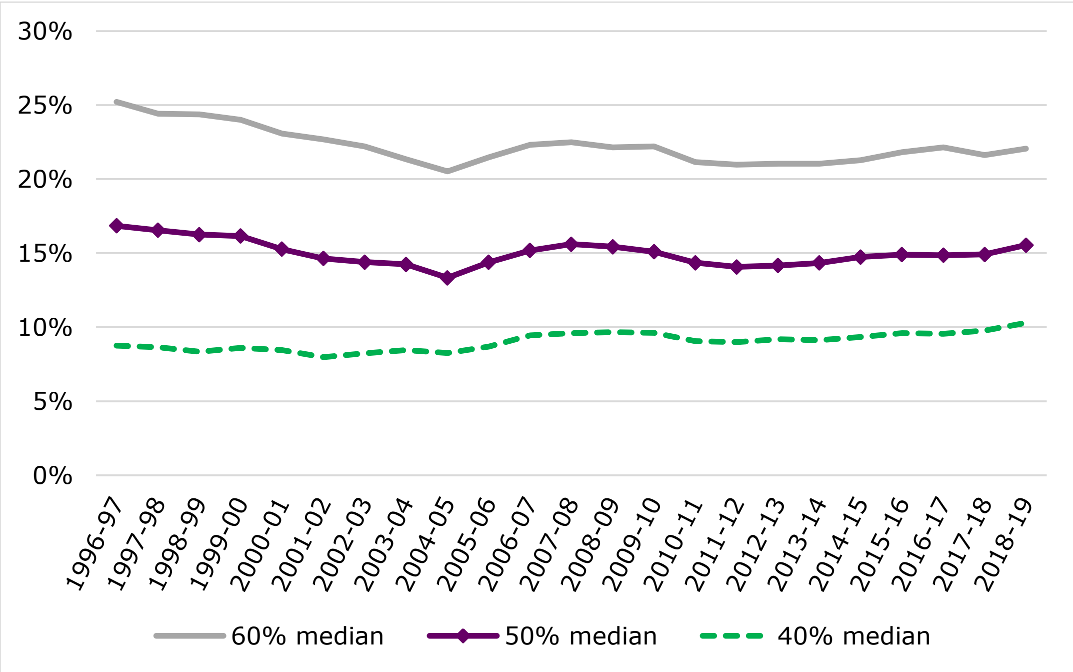

*Source: With thanks to the* Joseph Rowntree Foundation for supplying the underlying data from Joseph Rowntree Foundation (2020a), based on HBAI statistics. Poverty rate against threshold of 60 per cent of median income after housing costs.

## 7.3 Severe poverty and destitution

*Severe income poverty*

Given some of the changes outlined above, one might have expected increases in poverty measured against more severe thresholds. What we see depends on the threshold used. If we consider more severe measures of poverty as shown in Figure 24, we find that the proportion of people with incomes below 50 per cent of the median incomes has declined slightly since 1996-97, although if we consider the more severe measure of those with incomes below 40 per cent of the median this is actually slightly higher than at the start of the period (though this comes with the caveat that there is more measurement error when capturing incomes at the very bottom of the income distribution). Expenditure poverty (a measure of levels of expenditure compared to median expenditure with lower cut-offs, such as 50 per cent or 40 per cent, indicating more severe expenditure poverty) also increased between 1994-95 and 2017-18 (Bourquin *et al.*, 2019a, p. 64). Whilst these different measures of poverty indicate a stalling of progress, and even a worsening of poverty by some measures, the pattern is not the same for material deprivation[66] which has fallen (ibid). This trend stays the same whether different cut-offs are used for what counts as material deprivation as well as when different items are used; it also holds across the income distribution – material deprivation has declined for people across different income groups (ibid). Some of this decrease in material deprivation is likely to be due to some items becoming more affordable. Looking across all these measures the IFS concludes that there is no evidence of a rise in severe poverty, however they acknowledge that these measures do not include people in destitution who are missing from the samples. Trends in destitution and homeless are discussed below.

**Figure 24 Trends in severe relative income poverty, after housing costs**




*Source:* Institute for Fiscal Studies (IFS) (2020) *Living Standards, Inequality and Poverty Spreadsheet* 2020, based on Family Resources Survey data. Note: GB figures until 2001-02, UK from 2002-03.

The composition of severe poverty has also started to shift as private renters have started to make up a larger share of those in severe income poverty (at both 50 per cent and 40 per cent of median income) than social renters, though expenditure poverty and material deprivation are still higher for social renters (Bourquin *et al.*, 2019a).

In terms of regional inequalities, London has the highest rates of relative income poverty but severe income poverty (below 50 per cent and 40 per cent of median income) are even more concentrated in London, in contrast to the lowest levels in the rest of the South of England (ibid).

[66] This measures deprivation as going without necessary goods due to not being able to afford them.

Using the official DWP Households Below Average Income (HBAI) definition, 'severe' child poverty, which is a combined measure based on severe low income (less than 50 per cent of median income) and child material deprivation, increased for some disadvantaged groups: disabled children/children living with a disabled child, children living with a disabled parent, with a household head from the routine occupational class, with no working age adult in employment, children from Black African backgrounds and children living in single parent families (Vizard, Obolenskaya and Treebhoohun, forthcoming).

*Destitution*

Trends in destitution reveal what is happening at the even more extreme end of disadvantage. People are defined as being destitute if they meet *either* of the following criteria (Fitzpatrick *et al.*, 2018):

- They lacked two or more out of six essential items in the last month because they could not afford them (food, shelter, heating, lighting, clothing/footwear and basic toiletries)
- Their income is so low that they are unable to purchase these items for themselves.

The authors estimate that in 2019 the number of households in the UK experiencing destitution at some point and accessing services exceeded one million (1,062,000) (Fitzpatrick *et al.*, 2020). This included 2,388,000 individuals, of which 552,000 were children. This is estimated to represent a 35% increase in the number of households experiencing destitution since 2017. These estimates include a margin of error,[67] though a more conservative estimate based on a comparison of 73 services that participated in both the 2017 and 2019 survey still finds an increase of 23% in the number of destitute households, and also finds that destitute households in 2019 tend to be larger and to include more children (Fitzpatrick *et al.*, 2020).

Those experiencing destitution (and accessing services) in 2019 most commonly lacked food (57%), clothing (49%) and basic toiletries (43%) and a third (32%) had no income at all, though this rose to 46% amongst destitute migrants (Ibid).

Those most likely to be destitute in 2019 were single people, of working age[68], while destitution continued to be very low for those over the age of 65, which is consistent with findings of the relative protection of social security levels for pensioners discussed in Section 6. Compared to 2017 there had been an increase in single parent families in destitution. Many service users in

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[67] Additionally the income thresholds used in the definition of destitution were marginally adjusted in 2019 compared to 2017, as discussed in (Bramley, Fitzpatrick and Sosenko, 2020).
[68] Those (with a household head) aged 25- 34 made up the largest group of destitute households, however the proportionate risk of destitution is highest for those aged under 25 (ibid).

destitution also had limiting health conditions or disabilities (54%). Of those in their own accommodation (as opposed to temporary accommodation of some kind or sleeping rough), households in social rented accommodation accounted for the largest proportion of households in destitution (more than 60%). Regional patterns indicate that the highest average rates of destitution are in the North East followed by Greater London and the lowest rates in the South East, East and South West. The rate of destitution in Scotland is higher than the average for Great Britain.

Based on analysis of secondary data the authors identify multiple factors that are likely to have contributed to the trends in destitution from 2017 to 2019 (Fitzpatrick *et al.*, 2020). These include issues with social security benefits including the rollout of UC, the cash freeze in the level of benefits, the rollout of PIP, the tighter benefit cap and the two child limit (Ibid). Additionally increases in problem debt, child poverty and the number of asylum seekers and refugees as well as 'the cumulative effects of austerity on local authority budgets' and high levels of homelessness (Ibid, p.12).

A companion paper in this series finds that homelessness has continued to increase in England[69] (Fitzpatrick and Bramley, forthcoming). Further, many more are at risk of homelessness, according to analysis by Shelter (Weekes and Kleynhans, 2019). The authors find that the freeze in Local Housing Allowance (LHA) as well as the overall benefit cap (revised to lower levels in 2016[70]), have led to a rapid increase in rent shortfalls[71], with 70 per cent of private renters on low incomes and in receipt of LHA facing a shortfall in rent – amounting to 370,000 households who are at risk of homelessness if they cannot make up the shortfall from other benefit income. This would require households to find on average £113 per month from their benefits to bridge the gap, though this rises to £150 for couples with no children. Again London is the outlier, with average shortfalls in rent of around £211.94 per month (ibid).

Migrants have also been identified as having a disproportionate risk of destitution and had less access to cash assistance and other forms of support (Fitzpatrick *et al.*, 2020). One significant driver of hardship amongst migrants is a lack of access to social security benefits or 'no recourse to public funds' (Pinter *et al.*, 2020). Non-EEA migrants in particular are at risk of falling through gaps in the social safety net and experiencing increased risk of severe child poverty and child material deprivation (Obolenskaya *et al.*, forthcoming). As well as restrictions on benefit entitlements, difficulties accessing the labour market can also push migrants into destitution (Fitzpatrick *et al.*, 2018). The

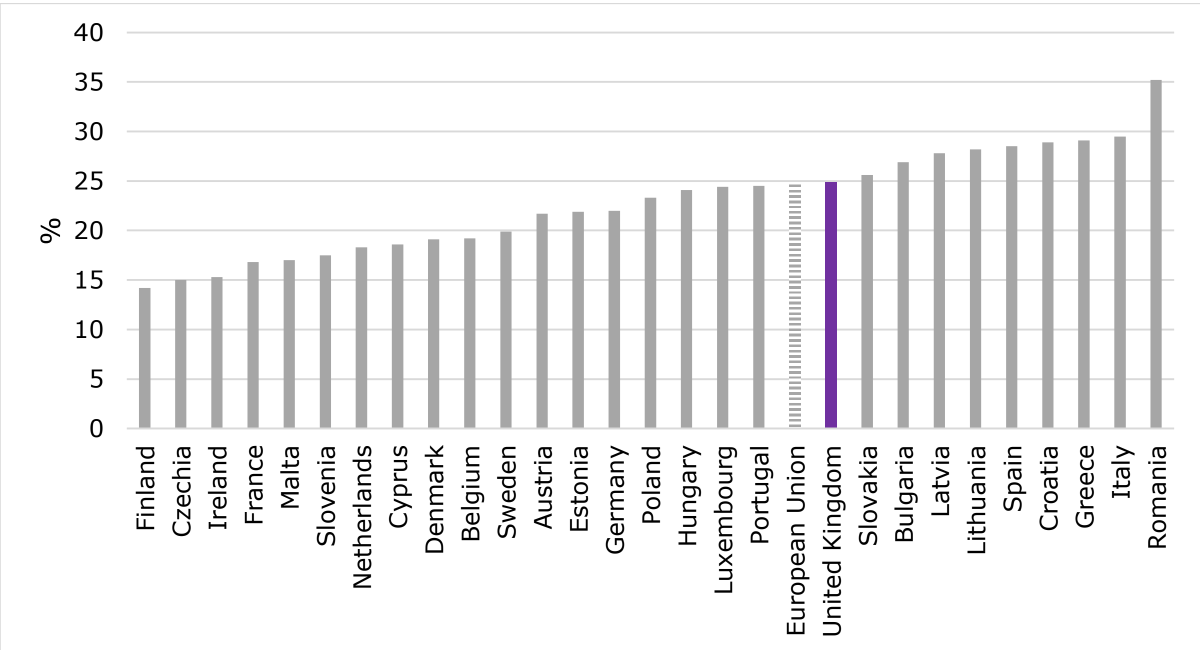
[69] The latest data for the preferred measure 'core homelessness' currently goes to 2017.
[70] The cap which limits the amount of benefits a household can receive was reduced from £26,000 to £23,000 in Greater London and £20,000 outside Greater London for couples and lone parents; and from £18,000 to £15,410 in Greater London and £13,400 outside of London for single people.
[71] Between February 2016 and February 2018 the average rent shortfall increased by 8 per cent, though families have been hit harder with an increase of 13 per cent in the average shortfall.

damaging consequences of such restrictions faced by migrants has been tragically highlighted by the Windrush scandal, whereby people who had lived in the UK as British citizens for decades suddenly lost access to healthcare, social security benefits, homes and jobs, with some detained or made destitute as they were suddenly treated as illegal immigrants (House of Commons Home Affairs Committee, 2018). As discussed in another paper from this programme, the post-Brexit immigration system will be likely to draw new lines of social inclusion and exclusion in relation to social rights, with 'a high risk that the most vulnerable will be those most likely to lose entitlements' (Stewart, Cooper and Shutes, 2019, p. 52).

### 7.4 UK poverty rates in international context

Comparing poverty rates in the UK to those in other European countries also provides insights into levels of disadvantage. As can be seen from Figure 25, in 2018 the poverty gap in the UK – the distance between the median income of those in poverty and the poverty threshold itself[72] - was slightly higher in the UK than the EU average in 2018, and almost ten percentage points higher than the poverty gap in France, indicating deeper levels of poverty for those who are poor.

**Figure 25 Poverty gaps across Europe in 2018**



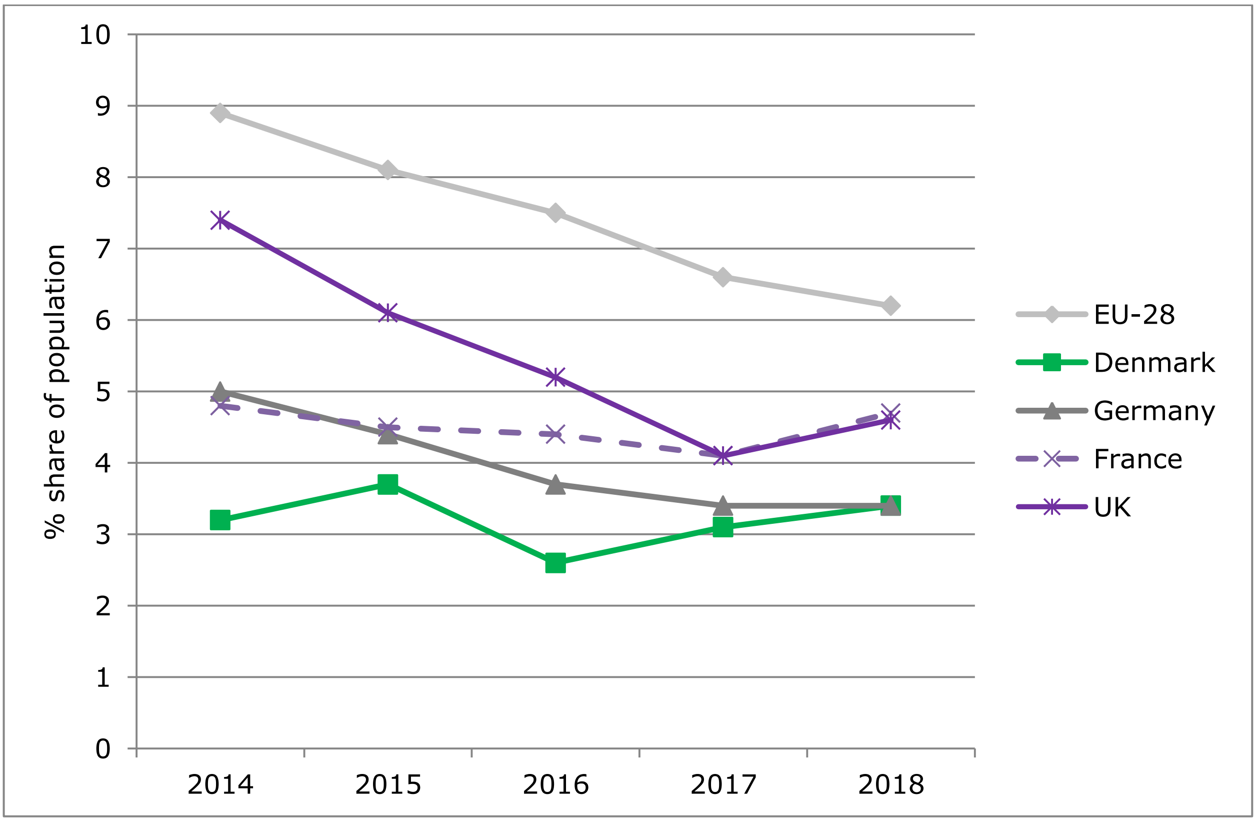

*Source:* EU-SILC survey data (31 January 2020). Notes: the relative median at risk poverty gap is calculated as the distance between the median equivalised total net income of persons below the at-risk-of-poverty threshold expressed as a percentage of the at-risk of poverty threshold (cut off point: 60 per cent of the national median

[72] Specifically in this case estimated as the distance between the median income of those below the relative poverty threshold and the poverty threshold itself.

equivalised disposable income of each country before housing costs). The risk-of-poverty rate is measured relative to the situation in each country.

If we look at trends over time, this time using severe material deprivation as an indicator, we see that although the rates of severe material deprivation are lower in the UK compared to the average for all member states, they are higher than in Germany and Denmark (Figure 26). Rates fell rapidly in both the EU as a whole and the UK between 2014 and 2017, but in the UK there was an upward tick in the latest available data for 2018, although it is too early to know if this was a change in the trend.

**Figure 26 International comparison of trends in severe material deprivation rates**




Source: Eurostat Material Deprivation Early Statistics (online data code: ilc_mddd11) extracted May 2019 available at https://ec.europa.eu/eurostat/statistics-explained/index.php/Material_deprivation_statistics_-_early_results#Material_deprivation_rate:_country_variations

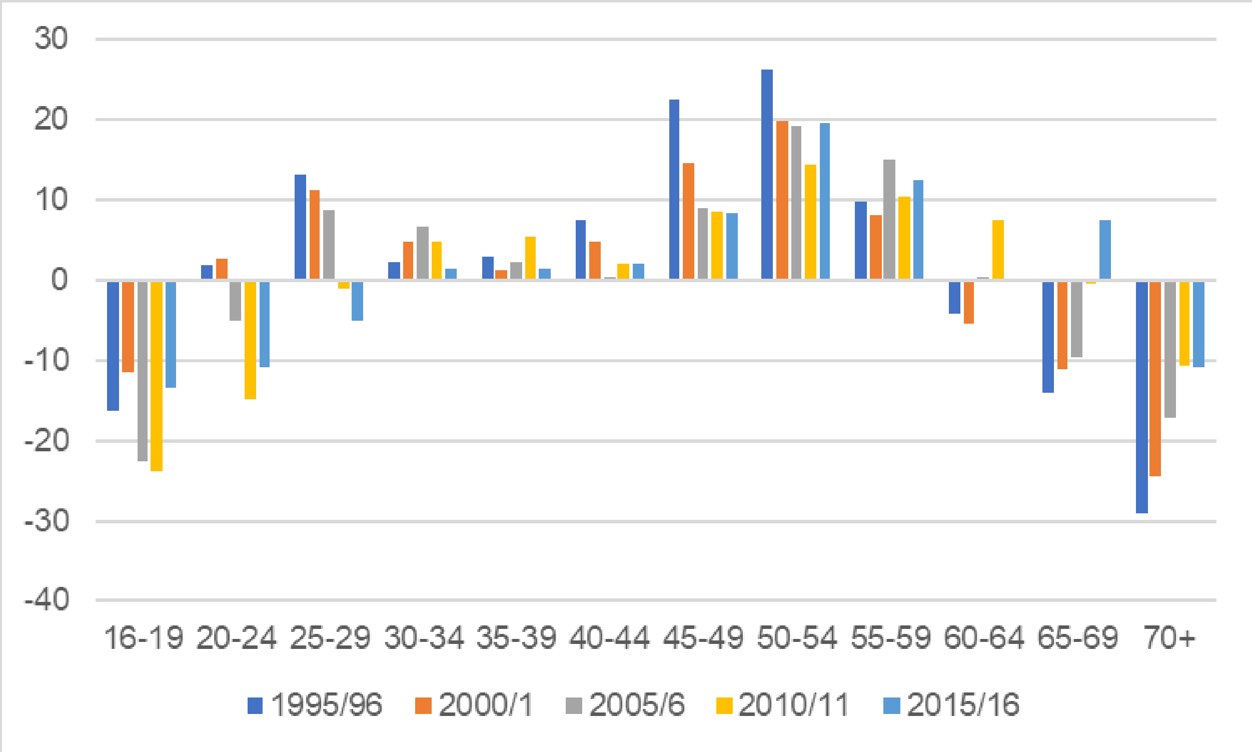
### 7.5 Income smoothing

As we discussed in Section 3 above, one of the fundamental aims of social security systems is to smooth incomes across the life cycle, especially between when people are of working age and retirement, but also towards periods of greater need, such as when people have children. In earlier sections we have seen how social security spending and policy have increasingly favoured those above state pension age. This has combined with the increased value of private sector pensions for many of those who have retired in the last twenty years compared to their predecessors, as well as the greatest falls in real earnings after the crisis being for those in their twenties and early thirties, and changes in housing costs hitting younger households hardest. In associated analysis within the research programme, we have shown how the overall effect of this has been a tilting of income gains towards older people and away from younger adults (since 2005 in particular).[73]

Looking over the longer term, Figure 27 shows quite how substantial a social change this has represented. In 1995-96, median incomes (after housing costs) for people aged over 65 were substantially less than the overall median – by nearly 30 per cent for those aged 70 or over. By 2010-11 this shortfall had fallen to only 10 per cent (but with little further change by 2015-16). At the start of the period those in their late twenties had incomes above the overall median; by 2015-16 they were below it. The reductions in pensioner poverty by comparison with other groups up to 2010-11 shown in Figure 16 represent another aspect of this change. Taken as a whole, typical incomes varied less by age in 2015-16 than twenty years before, with part of that reduction representing a success in the social security system smoothing incomes for the elderly, though with less success at smoothing incomes at earlier stages of the life course for children and parents.

[73] Obolenskaya and Hills (2019). For earlier discussion, see Hills, Cunliffe and Obolenskaya (2016).

**Figure 27 Difference between median net income (after housing costs) for each age group, 1995-96 to 2015-16 (%)**




*Source:* CASE analysis of Family Resources Survey/ Households Below Average Income dataset. Data available from: http://sticerd.lse.ac.uk/case/_new/research/spdo/data-and-charts.asp

## 7.6 Outcomes associated with the introduction of Universal Credit

In this section we focus on the largest social security reform of recent years, the introduction of Universal Credit (UC). We consider emerging evidence on wider outcomes relevant to some of the specific features of UC as well as conditionality and sanctioning more generally which were also features of legacy benefits. Whilst it is difficult to attribute causal relationships and identify precise mechanisms through which UC is associated with different outcomes, where possible based on available evidence we highlight the specific features of UC which have been identified as leading to different outcomes.

There is more evidence in relation to some outcomes (such as foodbank use) compared to others (such as sex work). We have sought to include qualitative evidence based on lived experience alongside quantitative studies, though there is too little space here to do justice to the former and we therefore advise readers to follow up on the qualitative studies themselves which include more detail in the words of those who have lived experience of these policies. The evidence surveyed relates to experiences up to 2019-20, before the surge in UC applications after the start of the Coronavirus crisis from March 2020.

As has been discussed extensively elsewhere,[74] the design of UC has a number of particular features, some of which are associated with its effects:

- Replacement of several means-tested working-age benefits with a single system, intended to make claiming easier and to boost take-up;
- Claims to be made 'digital by default';
- Use of 'real time' information from employers via HMRC so that UC reacts quickly to changing circumstances;
- Payment monthly in arrears, generally five weeks (at the time of writing) after a successful claim, with the ability to get advances more quickly, but which currently have to be repaid over the coming year;
- A single payment, normally including rent (rather than this going to the landlord), and not split between couples.
- No minimum hours of work for entitlement (as with Working Tax Credit), a single 'taper' reducing entitlement as earnings rise, conditionality on those in low-paid and low-hours work, and extension of 'capital rules', reducing or removing entitlement for those in work with savings.

Other features of Universal Credit reflect austerity measures applied after 2015 in common with 'legacy benefits', such as the effects of the cash freeze on benefit levels, caps on eligible private (and some social) rents for the rent element, the overall 'welfare cap', and the two-child limit (although some existing legacy benefit recipients have protection from the full effects of these).

*Universal Credit and employment*

Increasing employment is a central aim of UC and the government had estimated that the system will move an additional 200,000 individuals into employment by 2024-25 (Department for Work and Pensions, 2018). This estimate was based on three main drivers of increasing employment: first, financial incentives to work under UC; second, increased conditionality under UC as some groups of claimants will have to commit to looking for work for the first time; and third, a simpler benefits system which makes the advantages of taking up work more obvious and the transition to work smoother (ibid).

An early impact evaluation in 2017 found that UC claimants were three percentage points more likely (compared to a matched group receiving Jobseeker's Allowance) to be in work six months after their claim started and four percentage points more likely to have been in work at some point within the first six months of making the claim, though this is half the size of estimates made in the previous evaluation (Department for Work and Pensions, 2017). However, the National Audit Office (NAO) questions whether the effects found in the evaluation can be replicated as this early evidence is based on claimants with relatively simple needs (e.g. single individuals with no children) and more resources have been spent on them than will be the case for future

[74] Finch (2015), Millar and Bennett (2017), NAO (2018), OBR (2018), Brewer et al (2019), Gardiner and Finch (2020), Timmins (2020).

claimants (NAO, 2018, p. 9). Furthermore, research commissioned by the Local Government Association, using administrative data from three local authorities[75] and trialling different approaches[76], produces a range of estimates from negative effects to small positive effects and ultimately concludes that there is *not* clear evidence that UC has had a significant impact on employment rates (Vilanova and Ghelani, 2018).

As well as little evidence of employment effects so far, the NAO has argued that it is not possible to actually prove either way whether UC will lead to 200,000 more individuals in employment by 2024-25 (NAO, 2018, p. 10). This is because the DWP cannot isolate the effect of UC from other factors that affect employment as the way UC has been rolled out means that it lacks appropriate control groups of claimants on legacy benefits (ibid).

*Universal Credit and foodbanks*

There is now a substantial body of evidence on the relationship between UC, austerity and sanctioning more widely, and foodbank use, including work that manages to unpick whether foodbank use is driven by demand (an increase in food insecurity) or supply (an increase in the number of foodbanks).[77] This body of evidence shows that the rollout of UC was associated with an increase in foodbank use, with some estimates finding a 52 per cent increase in demand for foodbanks 12 months after rollout of UC compared to a 13 per cent rise in demand in areas that had had UC for 3 months or less (between 2016-17 and 2017-18) (Jitendra, Thorogood and Hadfield-Spoor, 2018). These are likely to be underestimates of people who cannot afford to buy food, as there is currently no comprehensive single statistic on foodbank use in the UK (Human Rights Watch, 2019) and people experiencing food insecurity may not be accessing foodbanks for a variety of reasons (Loopstra et al. 2015).

The key issues identified with UC that lead to foodbank use include the five week wait for the first payment as well as delays in payments, and paying back benefit-related debt (Jitendra, Thorogood and Hadfield-Spoor, 2018; Sosenko *et al.*, 2019). Under- and over-payments were also found to be a particular issue for people claiming UC and in work (Jitendra, Thorogood and Hadfield-Spoor, 2018).[78] Aside from errors and the waiting period, the overall level of UC was found to be insufficient for some, with only 8 per cent of respondents reporting that UC covered their basic costs, falling to just 5 per cent amongst respondents with poor health or a disability (Jitendra, Thorogood and Hadfield-Spoor, 2018). Sanctions were also a key issue leading to

[75] Newcastle City Council, London Borough of Tower Hamlets and Great Yarmouth Borough Council.
[76] Estimating the employment effects from UC claims triggered by changes in circumstances, new UC claims only and comparing employment rates in UC versus non-UC postcodes.
[77] Human Rights Watch (2019); Loopstra et al (2018, 2015); Sosenko et al (2019); Jitendra et al (2018); The Trussel Trust (2018)
[78] This contrasts with the aim of the UC reform being to reduce under- and over-payments. See Millar and Whiteford (2020) for further discussion.

foodbank use (Human Rights Watch, 2019; Sosenko *et al.*, 2019), with estimates that the rate of adults fed by foodbanks rose by 3.36 adults per 100,000 as the rate of sanctioning increased by 10 per 100,000 adults (Loopstra *et al.*, 2018).

In February 2019 Amber Rudd (as Work and Pensions Secretary) accepted the link between UC rollout and the increase in foodbank use, stating that 'The main issue which led to an increase in food bank use could have been the fact that people had difficulty accessing their money early enough' (BBC News, 2019). In response Rudd announced changes to advances, and a run-on for two weeks of housing benefit in order to help with food insecurity. However, the response falls short of the recommendations made in the *State of Hunger* report, which include *abolishing* the five week period before UC is paid, restoring the value of benefits to make up for the losses from the benefit freeze, restoring centrally funded emergency local welfare provision and for more responsible recovery of debts (Sosenko *et al.*, 2019, p. 108).

*Universal Credit and domestic abuse*[79]

Recent research into couples' experiences of UC has highlighted a number of unintended gendered consequences, including complex interactions with traditional gender roles, the burden of the work to manage the UC claim mostly falling upon women, and risk of relationship breakdown related to issues of managing a joint UC claim (Griffiths *et al.*, 2020). Controlling behaviour and financial abuse also featured in the experiences of some of the women interviewed (Ibid).

The House of Commons Work and Pensions Committee (HoC WPC) set up an inquiry to investigate new issues raised by UC in relation to domestic abuse (HoC WPC, 2018a). The key issues relate to how payments are made: under UC couples who live together are required to make a single household claim, which also involves one payment made to one account. This can leave those in abusive relationships even more vulnerable as money needed, including for essentials and children's items, can be withheld by an abusive partner, forcing survivors of abuse into financial hardship and potentially forcing them to remain 'dependent on their abusive partner and making it harder for them to leave' (HoC WPC, 2018a, p.4). Split payments can be requested in certain circumstances including 'domestic violence issues' (Department for Work and Pensions, 2019b). However, a number of domestic abuse charities have highlighted the risks that requesting a split payment can pose to survivors of abuse (Howard, 2018, p. 24), and the inquiry found that a number of claimants had difficulty accessing split payments (HoC WPC, 2018a).

Currently DWP does not record data on split payment requests and abuse disclosure which means the Department is *unable* to measure 'if disclosure of

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[79] This issue is a reflection of several of the gendered aspects of the Universal Credit reform. For an early review of these, see Bennett (2012).

financial abuse to JCP [Jobcentre Plus] is increasing under UC' (House of Commons Work and Pensions Committee, 2018a).

The Scottish Parliament has passed legislation which requires the Scottish Government to introduce split payments by default and the Work and Pensions Committee has recommended that the government co-commission an independent evaluation of the split payments trial. Other recommendations include a request to publish all data on split payments to date and for UC to be paid to the main carer (where there are children) by default (ibid). It also requests that the Westminster government urgently starts collecting data to monitor how it is supporting survivors of domestic abuse.

In its response, the government agreed to publish data on the number of split payments each month as part of the Universal Credit Official Statistics Series and has been doing so since September 2018 (HoC WPC, 2018b). However, it does not intend to publish data on the reasons for split payments, in the interest of protecting claimants. The government also agreed to continue to work closely with the Scottish Government as it designs the split payments policy (ibid). In relation to making the payment to the main carer by default, the government highlighted that UC is paid to a nominated individual in the household, as has been the case for many legacy benefits (though this is not the same as all benefits being made in one single payment). In situations of domestic abuse it argues that the right response is to signpost claimants to other sources of help and to support them (ibid). It also highlights that support is made available to claimants from the moment they report domestic abuse, enabling them to open a new claim on the same day and receive an advance payment up to 100 per cent of their award entitlement (ibid). In January 2019 Amber Rudd (as Work and Pensions Secretary) announced that payments would be paid to the main carer by default.[80]

*Universal Credit and sex work*

In his report on extreme poverty and human rights, UN Special Rapporteur Phillip Alston described meeting people during his visit to the United Kingdom who had sold sex for money or shelter (Human Rights Council, 2019, p.4). Concerns have also been raised by charities about women being pushed into sex work due to shortfalls in their income on UC[81] and a Select Committee inquiry into Universal Credit and "survival sex"' was launched in 2019 (House of Commons Work and Pensions Committee, 2019). DWP's initial response had argued that there was no evidence on the "direct causative link" between UC and sex work, although the inquiry collected evidence - from frontline services staff and women who have worked in the sex industry – which suggested that

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[80] BBC News (11th January 2019) https://www.bbc.co.uk/news/uk-politics-46836799 accessed 8th April 2020.

[81] http://prostitutescollective.net/2019/03/i-news-we-are-single-mothers-and-sex-workers-this-is-what-we-want-the-government-to-know-about-universal-credit/ accessed 23rd July 2019

UC has pushed some people into sex work in order to make ends meet (ibid). This was due to three issues with UC in particular: the wait for the first payment, sanctions, and deductions to pay back debts. The committee criticised the DWP for showing a lack of interest in the lived experience of UC claimants. The inquiry, now published, makes recommendations for a revised evaluation framework for UC including emphasis on the lived experience of claimants and evidence from frontline organisations. The committee also repeats the recommendation to eliminate the five-week wait and to make non-repayable advance payments available for vulnerable claimants (ibid). At the time of writing, the Committee (reconstituted since the election in December 2019) was still awaiting the government's response.

*Universal Credit and mental health*

There is increasing evidence that some features of UC can be detrimental to claimants' mental health. As discussed above UC has extended conditionality to new groups, including those in work. Sanctions and the threat of sanctions (also a feature of legacy benefits) are associated with increased anxiety and depression. There is quasi-experimental evidence that the introduction of UC has led to an increase in 'distress' among unemployed individuals from areas receiving UC (Wickham *et al.*, 2020).[82] As increasingly more claimants are moved onto UC the estimated number of individuals whose mental health is negatively affected by the policy is large. The study, based on data from Understanding Society (the UK Household Longitudinal Study) linked with administrative data in England, Scotland and Wales, estimates that between 2013 and 2018 the introduction of UC may have led to an additional 64,000 individuals experiencing psychological distress, of whom 22,000 might reach the diagnostic threshold for depression (Wickham *et al.*, 2020). Interestingly they found no impact of UC on physical health but also none on employment despite this being a key aim of UC. Other quantitative evidence supports these findings: a study using longitudinal local authority level data on JSA sanctions and antidepressant prescriptions in England found that the rate of sanctions applied is significantly related to the rate of anti-depressant prescriptions, with every additional ten sanctions associated with 4.6 additional antidepressant prescriptions (Williams, 2019). Later work, taking a similar approach but this time using self-reported measures of mental health, found JSA sanctions lead to increases in self-reported anxiety and depression (Williams, 2020). Though the particular evidence from both these studies pre-dates extensive rollout of UC (based on data from 2010-2015) it nevertheless has important implications for UC which is characterised by increased conditionality.

A number of qualitative studies also find evidence of adverse impacts of UC on mental health, related to increased hardship as well as conditionality under UC discussed further below.

[82] By 6.7 percentage points as measured by the General Health Questionnaire 12 (GHQ12).

*Other evidence on the lived experience of UC and welfare conditionality*

As UC continues to be rolled out more evidence is emerging about the lived experience of claimants receiving UC and subject to increased conditionality in order to receive their social security benefits. Qualitative research into the impact of UC on vulnerable claimants with complex needs in Gateshead and Newcastle describes how respondents found the process of claiming UC 'complicated, difficult, demeaning, impersonal and punitive' (Cheetham *et al.*, 2019, p. 3). The findings echo other evidence on the material impact of UC – of hardship, not having enough to eat, relying on foodbanks and donations from others, and staff from support services described people being pushed into 'survival crime' (ibid, p.4). As well as the material impact the study found severe negative consequences for family and social life with people experiencing shame in requiring financial assistance from family and friends who were often also having to struggle on low incomes, as well as social isolation and loneliness because they could not afford to participate in social activities. The research also found that UC had a detrimental impact on claimants' mental and physical health. Six of the 33 respondents interviewed described being so low that they considered suicide. Support staff who took part in interviews and focus groups for the research described UC as discriminatory for people with poor physical and mental health and argued that it made peoples' physical and mental health even worse, causing negative spill over effects on other services such as the NHS (ibid).

Though this evidence comes from one particular region of the UK, similar findings are echoed in the much larger longitudinal qualitative evidence generated from the *WelCond* study, which included ten locations in England and Scotland, focusing on conditionality in legacy benefits as well as in the early stages of UC rollout. The research found that the process of claiming UC, sanctions and the threat of sanctions as well as the pressure of increased conditionality, exacerbated mental health problems (Dwyer *et al.*, 2019). Fit for work tests were also found to focus on physical health and to be generally dismissive of mental health problems, especially the episodic nature of many mental health conditions (ibid).

The study also presents further evidence of claimants' mental and physical health worsening under UC and people wanting to take their own life to escape (ibid). The number of suicides related to benefit claims has also been brought to the attention of the NAO, which found in its review that since 2014-15 the DWP has reviewed 69 cases of suicide possibly linked to benefit claims and that there are likely to be many more worthy of investigation (NAO, 2020). However, up to 50 reports into suicides linked to benefits being stopped before 2015 have been destroyed, leaving gaps in the evidence base.[83] The NAO's findings reiterate the issue of spill-over effects onto other services such as

[83] https://www.disabilityrightsuk.org/news/2020/february/dwp-destroyed-reports-claimants-who-committed-suicide-after-their-benefits-were accessed 9 March 2020.

health services – with the problems caused by conditionality undermining the work of health professionals (Dwyer *et al.*, 2019).

As UC has brought new groups into conditionality with the threat of sanctions for the first time, the evidence also suggests that in some cases sanctions have directly caused homelessness and destitution for claimants and pushed some into ‘survival sex’, as discussed above (Dwyer, 2018). Claimants described receiving sanctions for attending the funeral of a brother, accompanying their daughter to a hospital appointment for cancer treatment, missing an appointment they never received notification of or arriving at their appointment a few minutes late (ibid). Based on this evidence welfare conditionality has been described as having ‘systematically undermined welfare rights, normalised benefit sanctions, and exacerbated the social insecurity of the most vulnerable members of society’ (Dwyer, 2018, p. 8). Rather than encourage people into work, sanctions were found by the study to have pushed some people further away from the labour market, caused some people with mental health conditions to become extremely unwell and led to some people disengaging from the social security system altogether (ibid).

# 8. Summary and challenges for the future

## 8.1 Summary

This report focuses on social security policies under the Conservative governments from 2015 until March 2020, the eve of the Covid-19 pandemic. It documents a period during which the role of Britain's social security system has changed profoundly, when one steps back and looks at the last decade as a whole. Those changes shaped the system that was in place in March 2020 to cope with the shock to living standards created by the Covid-19 pandemic, as discussed below in section 8.3.

This reshaping was only in part due to the two main structural reforms of that decade, i.e. the implementation and extension of the pension reforms set in motion by the Labour government before 2010, and the continued roll-out of the Universal Credit reforms for those below pension age introduced by the Coalition government. Each of these will have larger effects in the long run than they have so far. Existing pensioners have rights established under pre-reform systems, so it is future pensioners (those retiring since April 2016) who will be most affected by the single tier state pension, including the abolition of any earnings-related state pension, and by rights accruing under automatic enrolment into workplace pensions. Even by late 2019, Universal Credit had only extended to a third of those who had been projected eventually to be covered by it, with full roll-out not then expected to be complete until 2024.

In addition to these structural reforms, specific austerity measures were also put into effect, reducing working-age entitlements; but a large part of the change came from less visible processes, especially the cumulative effects of the way in which benefit rates were adjusted – or left frozen – from year to year, driven by austerity and by differential treatment of uprating for pensioners and non-pensioners. This, combined with demographic change, has led to a decisive shift in what social security spending does.

*Goals and policies*

The evolution of the social security system under the Conservatives between 2015 and 2019 was dominated by a combination of the inherited pension and Universal Credit reforms and the objective set in the July 2015 Budget to achieve annual savings of £12 billion from working-age social security. This drove a further series of austerity measures, notably the freeze in the cash value of most working-age benefits (including Housing Benefit caps), reductions in tax credits or Universal Credit for new recipients of in-work benefits, and the introduction of the two-child limit for children born after April 2017.

Over time some of the initially intended cuts were moderated, with some protection for existing tax credit claimants and concessions in relation to the design of Universal Credit, with the waiting time for payment after a successful claim reduced from six to five weeks, and the introduction and extension of a system of repayable advances. A concession was also made to the two-child limit in 2019 so that the limit was only applied to new births after the policy was brought in (April 2017). The Office for Budget Responsibility (2019a) estimated that actual savings in 2019-20 after the modifications were £8.4 billion, projected to rise to £9.1 billion in 2020-21 (under conditions expected at that time), or around 70 per cent of the savings planned in 2015.

Ambitions to transfer all of those on 'legacy benefits' (including tax credits) to Universal Credit were further delayed, but nonetheless 2.8 million people were receiving UC at the start of 2020. Reform of disability benefits also continued, but again with the government – sometimes as a result of court rulings – moderating some of their changes.

To set against this austerity drive, minimum wage levels continued to increase in real terms and in relation to median wages, and the government further increased the value of the annual personal allowance for income tax, reaching its target of £12,500 by 2019-20. These were intended both to increase work incentives and in ministers' words to be the "most effective poverty-tackling measure there is".

By contrast with most working-age benefits, the real values of state pensions were protected and improved through continuing the 'triple lock' on changes from year to year. However, the increases in State Pension Age announced by the Coalition government continued, to reach 66 for both men and women by the end of 2020. This slowed the increase in spending on pensioners, and also meant that a larger number of those in their sixties had the value of the state safety net set by the considerably less generous working-age rates, rather than by Pension Credit.

*Spending*

Over the whole decade from 2009-10 to 2019-20 total spending on social security and tax credits rose from £215 to £221 billion per year (GB, 2019-20 prices). But real spending was largely flat between 2012-13 and 2015-16, and then fell under the Conservative government, reflecting the effects of cuts in the values and entitlement rules for working age benefits, the substantial fall in unemployment, and the increases in State Pension Ages.

Spending had peaked at 11.8 per cent of GDP in 2011-12 and 2012-13 but had fallen to 10.0 per cent by 2019-20, just above the level it had been for the Labour governments from 1997-98 until the onset of the economic crisis in 2008.

Within these totals, however, there was a large change in the balance of spending between different age groups. Real spending on pensioners was at the same level in 2019-20 as in 2014-15, £14 billion higher than in 2009-10. However, spending related to children (such as Child Benefit and tax credits to families with children), which had also increased under Labour, fell both before and after 2015, and by £10 billion in total over the decade. In 2009-10, spending on pensioners had been 52 per cent of the total, but this rose to 56 per cent by 2019-20. This was at the expense of child-related spending, which fell from 22 to 17 per cent of the total. Real spending per child aged under 18 fell by a quarter. Other working-age benefits had already fallen to 26 per cent of total benefits and tax credit spending under Labour by 2009-10, and remained at a similar level, 27 per cent in 2019-20.

Driving these changes were increased spending on state pensions (by itself totalling £100 billion in 2019-20) and spending on disability benefits, but falling spending after 2012-13 on Housing Benefit and unemployment benefits. By the end of the period, unemployment benefits and associated Housing Benefit were less than 2 per cent of total spending.

Alongside these changes in benefit payments, DWP's budget for running costs ('DEL') fell in real terms by 41 per cent between 2010-11 and 2019-20, nearly halving from the equivalent of 6.0 to 3.2 per cent of DWP benefit spending. Achieving such savings was an important driver of choices made in the delivery of Universal Credit, such as claiming on-line by default.

*Outputs*

A fundamental measure of the generosity of the social security system is the relationship between the minimum income guaranteed by the state to most residents and the poverty line. Here there has been a profound change. The minimum given by Pension Credit remained just below the relative poverty line (based on 60 per cent of median income after housing costs) for pensioner couples and just above it for single pensioners between 2010-11 and 2019-20.

By contrast, for single non-pensioners the equivalent from out-of-work benefits fell from 53 to a maximum of 46 per cent of the poverty line, and for non-pensioner couples from 48 to 42 per cent. However, restrictions in Council Tax support, Housing Benefit shortfalls and repaying Universal Credit advances mean that net income could be only 25 per cent of the poverty line for non-pensioners without children. Benefits are a higher proportion of the poverty line for those with children but also fell over the period, for example from 88 to 64 per cent of the poverty line for a couple with three children including a baby affected by the two-child limit in 2019-20 (and to only 53 per cent if they were affected by typical Council Tax and Housing Benefit shortfalls).

Beyond this, the extent of sanctioning and reduction or removal of benefits for non-compliance with 'conditionalities' varied widely across the decade. The number of sanctions rose rapidly to reach a peak of 1.1 million in 2013 but had fallen back to 210,000 in the year to July 2019. Initially, the rate of sanctions at any one time to Universal Credit claims where conditionality applied was running at 10 per cent of claims in March 2017 but had fallen to 2.4 per cent by August 2019.

Incomes of those households with a full-time earner remained above those of equivalent families which had no earner. But, for example, for families who were in private rented accommodation and had two children and one full-time earner paid the minimum wage, net income after housing costs would have fallen from just above the relative poverty line in 2010-11 to well below it in 2019-20, especially if affected by a Housing Benefit shortfall. Cuts in their benefits and tax credits more than offset the advantages for rising minimum wages and income tax allowances. This kind of mechanism is one of the drivers of the rise in poverty for families with income from work discussed below.

Analysis by the Institute for Fiscal Studies and the Resolution Foundation shows that the distributional effect of benefit and tax reforms from 2010 to 2019 was regressive. The IFS modelling suggests a net loss from combined reforms (when fully rolled out) equivalent to 5 per cent of their net income for the poorest tenth of households, but small gains for most of the top half of the distribution, apart from a small loss for the top tenth.

*Outcomes*

Conventional measures of income poverty show a stalling of progress. Against a *fixed threshold*, overall poverty rates (before and after housing costs) were the same in 2018-19 as they had been in 2014-15. This lack of progress contrasts with the rapid reduction up to 2004-05, and slower progress after then. *Relative* poverty rates also flattened out after 2004-05. The downward trend up to 2013-14 (when benefits were price-protected but other incomes were falling) was reversed, and relative poverty in 2018-19 was at the same level as in 2009-10.

These overall poverty trends played out differently for different parts of the population. Against a fixed threshold, child poverty flattened out, but remained lower than in 2009-10. Relative child poverty increased after 2012-13, taking it back by 2018-19 to 30 per cent (after housing costs), the same level it had been in 2009-10. Children living in families from a Bangladeshi and Pakistani background and children in larger families (three or more children) have been particularly hard hit by increases in relative child poverty (after housing costs). The policies in place by the end of 2019, especially the two-child limit, implied higher relative child poverty over the coming years, other things remaining the same.

Over the long term, pensioner poverty has fallen. Whereas in 1996-97 children and pensioners had the same poverty rate against the current fixed standard, by 2018-19 the rate for pensioners was half that for children. In relative terms, pensioner poverty rose after 2012-13 (but some of that may reflect changes in reporting to the surveys used).

There has also been a significant rise in the proportion of those in poverty who also have income from work, which is not explained only by compositional effects (e.g. fewer pensioners living in poverty), but is also due to the risk of poverty increasing for individuals in work (and their families). This is despite the increases in personal tax allowances and minimum wages, the effects of these being more than offset by the reduced value of in-work benefits and rising housing costs.

More severe measures of deprivation also show a stalling of progress, with an increase in severe relative income poverty (below 40 per cent of median income after housing costs) as well as an increase in poverty measured by expenditure, though material deprivation overall has fallen. There is also evidence that destitution increased between 2017 and 2019, likely to be linked to a range of issues of social security benefits, as well as a rise in child poverty and the cumulative effects of austerity on funding for local authorities. At the same time, homelessness in England increased, with more households at risk of homelessness due to increasing shortfalls in rent, following the freezing of Local Housing Allowance for private rented accommodation and the revised benefit cap.

Finally, one of the major policy changes of this period, the rolling out of Universal Credit, was accompanied by evidence of some negative outcomes, with little conclusive evidence of increases in employment, a key aim of the policy. The effect of the delay in receiving the first payment (and/or deductions to pay back advance payments), and the levels of income received on Universal Credit for some, have been associated with increased hardship and increased foodbank use. There is some evidence of women being pushed into sex work to make ends meet, while the single payments made to couples can increase risks for those experiencing domestic abuse and risk greater imbalance between partners more generally. Studies have found that the increased conditionality under the programme was associated with negative impacts on mental health, with qualitative studies finding that some claimants felt suicidal.

## 8.2 Challenges for the 2020s

The outcomes from the policies of the Conservative governments from 2015 to the end of 2019, and of their predecessors, had already bequeathed a series of challenges to the new government of Boris Johnson from December 2019, even before the pandemic took effect. We look in this section first at the policy context set by the successful Conservative Manifesto for the December 2019 election, and then at the challenges that would in any case have affected any government in the 2020s. In the final section we examine the implications of the developments we have charted for the effectiveness of the system, in terms of its fundamental aims, on the eve of the Covid-19 pandemic.

*The December 2019 Conservative Manifesto*

The Conservative Manifesto for the December 2019 election made few new announcements on social security, although it confirmed that the cash freeze of working-age benefits would end, with an increase in line with prices in April 2020. Nonetheless, more than a quarter of the £12 billion cuts planned in 2015 were yet to be implemented, implying rising child poverty as a bigger proportion of children is affected by the two-child limit (Gardiner, 2019) and withdrawal of the 'family premium' in UC and tax credits if all of a family's children have been born since April 2017 (Joyce and Waters, 2019).

The Manifesto pledged to continue the roll-out of Universal Credit, though with a promise to "do more to make sure that Universal Credit works for the most vulnerable", but at the same time to "make sure those who cheat the system by committing benefit fraud are punished" (Conservative Party, 2019, p. 17). As more people transition onto UC there will be big changes in the amounts of benefit to which people are entitled (with winners and losers), and fewer people will be helped by 'transitional protection' for those previously receiving tax credits.[84] However, previously announced changes to the National Living Wage are likely to mean earnings of low-waged employees will rise faster than average earnings (Bourquin *et al.*, 2019a).

The Manifesto said that the number of reassessments disabled people must go through, when a change in their condition is unlikely, would be reduced. It also promised to publish a National Strategy for Disabled People before the end of 2020, to improve the benefit system for them (as well as access to housing, education, jobs and transport).

In outlining the vision for a new immigration system, the Manifesto also promised restrictions for people coming into the country from the EU which will mean being able to access unemployment, housing and child benefits only after five years (as are currently the rules for non-EEA migrants), as well as increasing the health surcharge and enforcing charges on those who use health services without contributing.

The Manifesto promised not to raise income tax, National Insurance or VAT and to raise the National Insurance threshold to £9,500 per year in 2020. Plans in the 2017 manifesto to move to a less generous 'double lock' on pensions were reversed with a promise to keep the triple lock, as well as continuing to protect Winter Fuel Payments, the older person's bus pass and other pensioner benefits, but with the cost of free TV licences for older people to be paid for by the BBC.

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[84] Once transitional protections have ended around 2 million households could be more than £1,000 per year worse off than their equivalents with protection (Joyce and Waters, 2019).

*Ageing and sustainability*

The first long-term challenge, given that spending on pensioners had already risen to 56 per cent of total benefit and tax credit spending, is the cost of ageing. The increase in State Pension Ages to 66 by the end of 2020 for men and women kept real spending on pensions in check in the second half of the 2010s, albeit at particular cost to women born in the first half of the 1950s. That increase is now almost over, however, so rising numbers of pensioners will combine with the increasing generosity of pensions inherent in the 'triple lock' to increase pressures on the overall social security budget.

Total social security and tax credits spending was reduced as a share of GDP after 2012 through cutting the real value of working-age benefits and a series of more specific cuts. The end result is a system that – apart from Housing Benefit shortfalls for private tenants – comes close to ensuring that pensioner incomes reach the poverty line, but that reaches less than half of the poverty line for many non-pensioners, and for some is worth considerably less, if they face housing costs that are not covered fully by benefits. This gap in treatment already existed in 2010-11, but widened considerably in the last decade, especially after 2015. Even without shortfalls, the real value of the state minimum income for non-pensioners without children was lower in 2019-20 than it had been 25 years before.

The question then arises as to whether it is sustainable to continue to contain overall spending by continued diminution of the relative value of support for working-age benefits, especially for children, so that the system contributes less and less to ameliorating poverty, including in-work poverty?

The return to indexing working-age benefits with prices slows down this process, but does not end it, as witnessed by the contrast between the 3.9 per cent increase to pensions in April 2020, in line with earnings, but only 1.7 per cent for non-pension benefits, in line with prices.

This increasing difference in treatment between pensioners and working-age people means that the gap in protection from poverty at the State Pension Age (SPA) will continue to grow. A single person a few days before reaching their SPA in 2019-20 would be entitled to a minimum income (before shortfalls and deductions) of less than half the poverty line. On reaching the SPA, their entitlement through Pension Credit would be above the poverty line. It would be hard to argue that their needs – or deservingness – had doubled as a result of reaching that age. This discrepancy in treatment was already associated with rising poverty for women in their 60s as their SPA rose.

More broadly, this paper has shown the success of many of the pension reforms since 2005, with falling pensioner poverty, a successfully embedded system of automatic enrolment into workplace pensions, and with old age no longer associated with a sharp increase in the risk of poverty. But those reforms relied on a political consensus that may no longer exist. The accelerated increase in State Pension Ages to 66 introduced by the Coalition government as an austerity measure had effects on women born in the 1950s in particular that led to Opposition parties pledging at the 2019 election that they would reverse some or all of the previous or planned future increases in pension ages. The 'pension freedom' for the use of accrued pension savings was also introduced by the Coalition government without consultation or consensus, and crucially without default arrangements of how 'decumulation' would take place. This has highlighted the unanswered question of why – if pension saving can be used in the same way as any other saving – it should receive such favourable tax treatment.

*The treatment of the non-pensioner population*

For non-pensioners Section 7 described the evidence of hardship linked to benefit changes that have already taken effect; but part of the effect of the reforms of the 2010s is yet to come. This includes the widening coverage of the two-child limit, increased numbers on Universal Credit without transitional protection from previous tax credit and benefit entitlements, and rising shortfalls as Housing Benefit limits slide behind actual rents. In November 2019, the Resolution Foundation projected that the results as forecast before the pandemic would have been 600,000 more children in poverty by 2023-24 than in 2017-18.[85]

Part of the background to family hardship has been the continued growth in the number of families with children living in the private rented sector and facing shortfalls in Housing Benefit compared to their rents. Those shortfalls had been increasing as the 'Local Housing Allowance' limits remained frozen while rents rose. Even with price indexation shortfalls would continue to rise, if rents rose faster than overall inflation.[86] At its root, this problem stems from the collision of shortages in the overall housing market and the policy objective of capping Housing Benefit spending in the face of rising costs.

Alongside these aspects of the generosity (or otherwise) of the system, the spread of Universal Credit will mean increasing numbers affected by its design issues, including amongst other issues: its system of payment in arrears (and repayment of advances); the need to cope with single monthly payments; effects on landlords and their willingness to house UC recipients in the face of potential rent arrears; and the dynamics within couples associated with the move to a single household payment.

[85] After housing costs. Gardiner (2019), figure 19 and associated discussion.

[86] The restoration of LHAs to the 30th percentile of local rents as an emergency measure in the Spring of 2020 would – if it is maintained – stop the increase in shortfalls, although they would still exist for those with rents just above this level.

In principle, those still receiving 'legacy benefits' were to be moved onto Universal Credit by later in 2024 through 'managed migration' and natural migration. The history of the last seven years suggests that this may not actually happen, and that the 'legacy' systems may be left to wither on a very extended vine to avoid the painful jolt in treatment for existing recipients. This would leave, however, parallel – and very different – administrative systems in place for years to come.

A further continuing challenge within the working-age social security system is that the successive reforms to disability and incapacity benefits through the 2010s (and before) have not reduced overall spending, despite increasing harshness of testing. Again, many of the roots of this lie outside the social security system itself, in the effectiveness of the labour market to adapt to people with different needs and in the profound inequalities in health and disability status so tragically highlighted by the effects of the pandemic.

*The implications of Brexit*

A companion paper in this series, Stewart, Cooper and Shutes (2019), has looked in detail at the implications of Brexit for social policies more widely, and we do not repeat that discussion here. The authors point to four features that will create challenges for the social security system:

- The economic outcomes after the current end of the 'transition period' at the end of 2020, which at the time of writing is too early to judge - and now with the added uncertainty of how that will interact with whatever form recovery from the current public health emergency takes. If those outcomes are adverse, the effect would simultaneously increase demand for social security, but reduce tax resources to fund public spending, including on social security.
- Lower net migration could slightly reduce demand pressures on social housing (but might also reduce supply, if building is slowed). If that led to lower rents, some of the pressures that have led to increasing shortfalls in the Housing Benefit system could conceivably be reduced.
- New lines of inclusion and exclusion may emerge. For example, UK nationals in the UK moving to another EU country after Brexit may find themselves no longer entitled to social security provision in that EU country, while UK nationals legally residing in an EU country before Brexit may retain entitlements even if they move to a different EU country. At the same time, by facilitating access to permanent residence, EU nationals already in the UK will, in principle, be *less* likely to be excluded from social security benefits than without Brexit. However, some who fail to complete this process may end up losing out (Sumpton and Fernandez-Reino, 2020). The recent experience of members of the Windrush generation of Caribbean migrants provides an illustration of the long-term consequences this could have.

- For EU/UK citizens moving after the Brexit transition period, there is continuing complexity regarding entitlements. At the time of writing it has become clear that EEA migrants will face the same rules as non-EEA migrants, meaning no access to non-contributory benefits until indefinite leave to remain is granted. This points to new divisions in security of status and social rights: between more recent arrivals and those in the UK longer term; between those with greater employment security, facilitating access to contributory benefits, and those with less; and between migrants whose visa route requires five years continuous residence to claim indefinite leave to remain (most workers) and those with a reduced requirement of two or three years (which applies to some migrants entering with an Investor or Entrepreneur visa).

### 8.3 A system fit for purpose?

At the start of our discussion of policies since 2015 in Section 3 we set out four aims that social security systems are designed, in varying degrees, to address. This gives a framework for considering how well the British social security system, as it had evolved by the eve of the 2020 pandemic, met those aims, with some of the Government's immediate responses to the coronavirus also highlighting areas where it fell short.

*Prevention and relief of poverty*

The analysis of both the structure of the system in Section 6 and poverty outcomes in Section 7 points to a sharp and increasing difference between pensioners and others. For pensioners, the support available through the Guarantee Credit element of Pension Credit should in principle keep all pensioners either just above or only just below the conventional relative poverty line, with the exception of private tenants with a shortfall in their Housing Benefit entitlement, and more generally of those who do not take up all of their entitlement. Most future retirees with a sufficient National Insurance record (now including self-employed people), will receive a non-means-tested individual state pension above this level.

By contrast, the minimum income levels given through Universal Credit (or legacy benefit equivalents) for working-age people and their children are far less generous, and much less so than they were in the aftermath of the 2008 financial crisis. Even without shortfalls, those levels had fallen to between two-thirds and three-quarters of the poverty line for families with children, or below half of it for single people and couples without children. But for many, shortfalls in coverage of Council Tax and rent, as well as the effects of payment of Universal Credit in arrears meant that support was even further below the poverty line.

It is notable that the immediate response to the Covid-19 crisis included a temporary £20 per week increase standard allowance of Universal Credit (and Working Tax Credit),[87] funding for local authorities to increase their Council Tax and other support, and a reversal of some of the reduction of Housing Benefit limits for private tenants since 2013 (but not a restoration to the limits as they had been up to then). But it is equally notable that those changes were flat-rate amounts per family, rather than reflecting family size, and that the two-child limit – justified as discouraging irresponsibility – remains in place, even though many of those parents who needed to claim out-of-work benefits could hardly have foreseen the current economic crisis when their babies and toddlers were born.

Administratively, the on-line claiming system proved a strength of the UC system for many of those left with no alternative but to claim it, and who had the IT skills to do so, some of whom had the resources to cope with delays in payment.[88] It was able to process a peak of claims for up to 100,000 individuals per day at the end of March 2020, compared with a previous average of 10,000 per day. It remains to be seen though how successful those claims were, and how smoothly the system worked for those with fewer skills and resources. The immediate very large increases in foodbank use at the end of March 2020 are already a very concerning indication of many families slipping through the state's safety net.[89]

*Providing individual insurance, protecting incomes and accustomed living standards against unexpected events*

Earnings-related additions to working-age social security benefits were abolished in the 1980s, and the scope of 'insurance-based' unemployment benefits (such as Jobseeker's Allowance) dwindled further over the 2010s. The system no longer has a mechanism to protect accustomed living standards even partially for those previously in work. It is notable therefore that the Government's main response to the crisis was to introduce the 'furlough' scheme, based on 80 per cent of previous earnings (or self-employed profits for those qualifying). Importantly, this is at the discretion of employers rather than a social right, and whilst earnings-based, it does not account for family size. It is this scheme that has attempted to protect the previous living standards of those unable to work because of the lock-down and the crisis, rather than the social security system.

[87] Although note this uplift was not applied to other out of work benefits including contributory benefits such as New Style Jobseeker's Allowance, for which many people who lost their jobs during the pandemic would have been eligible for, though it was deprioritised in political discourse as people were instead directed towards Universal Credit. See Hick (2020) for discussion on this.

[88] *https://www.instituteforgovernment.org.uk/blog/universal-credit-coronavirus*.

[89] The Trussell Trust reported that need for its food parcels had risen by more than 80 per cent in the last two weeks of March compared to a year earlier, including more than doubled demand for food parcels for children. https://www.trusselltrust.org/2020/05/01/coalition-call/

*Smoothing incomes over the life cycle*

A central function of welfare states in general and of social security systems in particular is to smooth out incomes over more predictable changes across the life course, notably between people's working careers and retirement, but also towards times when they have children or other caring responsibilities. As we have shown, it is the first of these functions at which British social security has increasingly been aimed, with spending on pensioners rising to 56 per cent of total benefits and tax credits by the end of the decade. Combined with the legacy of more generous earnings-related state and occupational pension systems for those retiring in the last fifteen years than in the past, pensioner poverty rates have fallen over the long term. But median pensioner incomes had also become much closer to overall median incomes by the mid-2010s than they had been twenty years before (Figure 27). Although occupational pension schemes have become less generous than in the past, the success of automatic enrolment means that more workers are now covered by them, so at least part of this improvement should be maintained.

By contrast, the last decade saw a considerable reduction in social security and tax credit support for families with children, with a reduction in the amounts per child by 25 per cent. The system is now doing much less than it did to even out that part of life cycle variation.

*Reducing horizontal inequalities between those with different needs*

This paper has only scratched the surface of the complexities of other kinds of need and the function of social security in compensating for those needs through disability-related and other benefits. We noted above, however, that the gap in relative poverty rates between people in families without a disabled member and those with a disabled member was slightly wider in 2018/19 than in 1995/6 (Figure 21). Such comparisons measure incomes including 'extra costs' benefits as income without adjusting for additional needs. If instead those benefits are discounted to allow for those extra needs, the Social Metrics Commission (2019) calculates that nearly half of people living in poverty on its alternative measure live in families containing a disabled member.

*Conclusion*

The current public health emergency and economic crisis has shown some strengths of the UK's social security system, but also exposed alarming weaknesses. There has been no immediate crisis in pensioner incomes. For those not covered by the 'furlough' scheme or self-employment income support, actually claiming safety net support through Universal Credit has proved much easier for many new claimants than might have been anticipated. But that safety net is far lower than it was at the time of the last economic crisis, and has much wider gaps in the protection it offers, particularly for families with children.  As this paper has shown, those weaknesses can be traced back to the accretion of policy decisions over the last decade.  Steps have been taken to moderate some of them in the response to the crisis, but large gaps remain, with the potential for widening and prolonged hardship.

# Appendix

## Table A1 Benefit and tax credit spending, 1996-97 to 2006-07 (selected years) and 2009-10 to 2019-20

| | £ billion 2019-20 prices | | | | % of Total Managed Expenditure | | | | % of GDP | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Child-ren | Other WAge | Pens-ioner | **Total** | Child-ren | Other WAge | Pens-ioner | **Total** | Child-ren | Other WAge | Pens-ioner | **Total** |
| 96-97 | 18.4 | 47.3 | 65.8 | **131.5** | 3.8 | 9.6 | 13.4 | **26.7** | 1.3 | 3.4 | 4.7 | **9.5** |
| 01-02 | 26.6 | 43.6 | 82.4 | **152.7** | 4.6 | 7.5 | 14.2 | **26.3** | 1.6 | 2.7 | 5.0 | **9.3** |
| 06-07 | 38.6 | 46.7 | 95.4 | **180.7** | 5.3 | 6.5 | 13.2 | **25.0** | 2.1 | 2.5 | 5.1 | **9.6** |
| | | | | | | | | | | | | |
| 09-10 | 46.9 | 56.9 | 111.2 | **214.9** | 5.7 | 6.9 | 13.5 | **26.1** | 2.6 | 3.1 | 6.1 | **11.7** |
| 10-11 | 47.3 | 57.9 | 113.4 | **218.7** | 5.7 | 6.9 | 13.6 | **26.2** | 2.5 | 3.1 | 6.1 | **11.7** |
| 11-12 | 47.3 | 59.3 | 116.4 | **222.9** | 5.7 | 7.2 | 14.1 | **27.1** | 2.5 | 3.1 | 6.1 | **11.8** |
| 12-13 | 46.2 | 60.2 | 120.6 | **227.0** | 5.6 | 7.3 | 14.6 | **27.6** | 2.4 | 3.1 | 6.3 | **11.8** |
| 13-14 | 44.4 | 58.6 | 121.7 | **224.7** | 5.5 | 7.2 | 15.0 | **27.7** | 2.3 | 3.0 | 6.2 | **11.4** |
| 14-15 | 44.2 | 58.5 | 123.8 | **226.5** | 5.4 | 7.1 | 15.1 | **27.7** | 2.2 | 2.9 | 6.1 | **11.2** |
| 15-16 | 43.1 | 59.0 | 125.3 | **227.4** | 5.3 | 7.2 | 15.3 | **27.8** | 2.1 | 2.8 | 6.1 | **11.0** |
| 16-17 | 41.4 | 57.7 | 124.2 | **223.4** | 5.1 | 7.1 | 15.2 | **27.3** | 2.0 | 2.7 | 5.9 | **10.6** |
| 17-18 | 39.6 | 58.7 | 123.8 | **222.1** | 4.8 | 7.1 | 15.0 | **26.9** | 1.9 | 2.7 | 5.8 | **10.4** |
| 18-19 | 37.3 | 60.1 | 123.8 | **221.2** | 4.5 | 7.3 | 15.0 | **26.7** | 1.7 | 2.8 | 5.7 | **10.2** |
| 19-20 | 36.9 | 60.0 | 123.7 | **220.6** | 4.4 | 7.1 | 14.7 | **26.2** | 1.7 | 2.7 | 5.6 | **10.0** |

*Sources:* DWP (2019a) and HMRC (2019).
*Notes:*
1. Spending on children represents benefits and tax credits received in respect of having children. For consistency with earlier systems such as Family Credit and Working Families Tax Credit, Working Tax Credit for families with children is included as child-related.

2. For the years between 2014-15 and 2018-19, the DWP shows spending on Universal Credit as a single total for all its elements. However, its figures from 2019-20 onwards reallocate the bulk of UC spending back to legacy benefits and tax credits. To produce a more consistent time series here and in other figures in Section 5, reported UC spending between 2015-16 and 2018-19 (when it reaches £8.1 billion) is reallocated in our analysis to tax credits (23%), Housing Benefit (32%), income-related JSA (12%), and income-related ESA (7%). These proportions are based on the nominal increases shown by DWP between 2018-19 and 2019-20 as a proportion of the fall in UC spending from the 2018-19 total to the 'marginal' cost in 2019-20. This reallocation approximates a series for legacy benefits consistent with earlier treatment and that from 2019-20.

3. DWP published updated estimates of GB benefit spending at the time of the Spring 2020 Budget, but these did not include figures for overall 'welfare' spending, including tax credits, Child Benefit and other 'non-DWP welfare'. They also included a global figure for Universal Credit in 2019-20, rather than dividing it between what would have been tax credits and 'legacy' benefits. For consistency of the time series, we therefore use the 2019 Spring Statement estimates (cash spending figures for years up to 2018-19 were little changed).

## Timeline for Conservative reforms to cash transfers from 2015-16 to the eve of the pandemic

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|
| **Personal tax allowance** | Increased personal tax allowance to £10,600 and higher rate threshold raised to £42,386 | Increased personal tax allowance to £11,000 and higher rate threshold £43,001 | Increased personal tax allowance to £11,500 and higher rate threshold £45,001 | Increased personal tax allowance to £11,850 and higher rate threshold £46,351 | Increased personal tax allowance to £12,500 and higher rate threshold of £50,000 (1 year early) | | Personal tax allowance to be increased by CPI (forecast at £12,760) |
| **Transferable tax allowance** | Transferable tax allowance of £1,060 for married couples and civil partners without a higher rate tax payer[90] | | | | | | |
| **National Living wage** | | | | | Increase in National Living Wage from £7.83 to £8.21[91] | National Living Wage set to reach 60% of median earnings subject to sustained economic growth[92] | |
| **Uprating of benefits** | Another year of uprating benefits based on CPI many benefits | Freeze on working-age benefits and Local Housing Allowances – no uprating of benefits or tax credits apart from protected elements (e.g. disability and carers premiums, ESA support component) | | | | | |

[90] This increases to £1,250 by April 2019

[91] Different rates for those below 25 years old: £7.70 per hour for 21 - 24 year olds; £6.15 per hour for 18 – 20 year olds; £4.35 per hour for 16 – 17 year olds; £3.90 per hour for apprentices.

[92] Department for Business, Energy and Industrial Strategy (March 2019) *National minimum wage and national living wage: low pay commission remit 2019* https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/785217/nmw-nlw-lpc-remit-2019.pdf

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|
| | going up by 1% for third year running | | | | | | |
| **Benefit caps and limits** | | Benefits cap reduced across the UK[93] | The Two Child Limit for UC and CTC is introduced. CTC and UC is applied only to the first two children for new claims (CTC) and where the third child is born after 6 April 2017. No new UC claims from families with three or more children | Claims for UC now accepted from families with three or more children. January 2019 Two Child Limit is amended so that it still only applies to new claims and children born after 6 April 2017[94] but not those born before. | | | |
| **Family premium** | | Family premium in housing benefit removed from April 2016 | | | | | |
| **Tax-free childcare** | | | Tax-Free Childcare introduced for working parents - £2 government top up for every £8 paid into Tax-Free Childcare account, saving up to £2,000 per year for each child under 12 or up to £4,000 per year for disabled children under 17. | | | | |
| **UC childcare support** | | Childcare support within Universal Credit increase from 70% to 85% of eligible costs with a monthly cap of £646 for one child and £1108 for two or more children | | | | | |
| **Tax credits & UC equivalent** | | Cuts to tax credits announced in | Family Element removed from tax credits and | | | | |

[93] From £26,000 to £23,000 in Greater London and £20,000 outside Greater London for couples and lone parents; and from £18,000 to £15,410 in Greater London and £13,400 outside of London for single people

[94] Initially the plan for the second phase of introducing the two child limit was for it to apply to all subsequent children born after the first two children, regardless of date of birth from February 2019, however this was amended in January 2019.

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|
| | | Summer budget 2015 due to come into effect from April 2016 but reversed in Autumn budget 2015[95] | equivalent First Child Premium removed from Universal Credit | | | | |
| **Tax credits income disregard** | | Reduction in tax credits increased income disregard from £5,000 to £2,500 | | | | | |
| **Disability Living Allowance (DLA) & Personal Independence Payments (PIP)** | Full roll out of switch from DLA to PIP[96] | | | | | | |
| **Changes to PIP** | | | Changes made to PIP daily living descriptors and mobility activity I, then ruled as illegal by High Court[97] | | | | |
| **Employment Support Allowance** | | | Changes to ESA: 52 week permitted work limit removed; ESA sanctions reduced so claimants continue to receive 80% of award; | | | | |

[95] The plan announced in the summer budget 2015 was to reduce the tax credits income threshold from £6,420 to £3,850 from April 2016. The equivalent work allowances in Universal Credit were set to be reduced to £4,764 for those without housing costs, £2,304 for those with housing costs, and removed altogether for non-disabled claimants without children. In the same budget the Government also announced an increase in the taper rate in tax credits from 41% to 48%. However both these decision on the tax credit income threshold and taper rate were reversed in the Autumn 2015 budget,

[96] October 2015 – March 2020.

[97] March 2017 – Jan 2018.

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|
| | | | reduction in payments bringing it in-line with JSA. | | | | |
| **Rollout of UC** | | Slow roll out of UC digital service jobcentre area by area | | | Revised UC implementation schedule – managed migration with up to 10,000 people to pilot Universal Credit from July 2019, with transitional protection. Planned to go to full service from November 2020. Still scheduled to be fully rolled out by end of 2023. | | |
| **UC work allowances and UC limited capability for work element** | | Work allowances removed for those without children or disabilities and reduced for those who are eligible: e.g. for single people with children work allowances were reduced from £734 to £397 for those with no housing cost element and from £263 to £192 per month for those with a housing element[98]. | Removal of UC limited capability for work element and ESA work related activity component for new claims | | Increase work allowances[99] for households with children and people with disabilities to £503 per month for those with no housing element and £287 per month for those with housing element | | |
| **UC work conditionality and surplus earnings rule** | | | Work conditionality[100] for parents claiming UC | Surplus earnings rule brought in for those on digital UC system[101] | | Scope of surplus earnings policy in UC will be temporarily | |

[98] https://www.entitledto.co.uk/help/Work-allowance-Universal-Credit
[99] Still not recovered to pre-2016 levels for those with housing element – see 2016 column.
[100] Work preparation for those with a child aged 2 and full job seeking for those with a child aged 3 or 4.
[101] Accumulated earnings that are more than £2,500 per month over threshold for nil entitlement to UC, count as notional income on a return to UC within 6 months. To be reduced to £300 above threshold after one year.

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|
| | | | | (delayed from April 2016) | | reduced – from April 2020 will affect earnings spikes of £300 | |
| **UC housing costs element and free school meals** | | | No UC Housing Costs Element for jobseekers under 21 unless vulnerable/unable to live with parents/have own children (now cancelled) | Free school meals threshold introduced for UC – no help where a household's income is over £7,400 per year which can be averaged over 3 months (England only) | | | |
| **UC additional support and deductions** | | | Hardship payments available when sanctioned for those who are homeless or have a long-term mental impairment without waiting period | | Reduce the maximum rate at which deductions can be made from UC from 40% to 30% | Additional support for transition to UC[102] | |
| **UC advance payments** | | | Advance payments for UC available to cover up to 50% of potential entitlement and repayable over 6 months | Advance payments for UC available to cover up to 100% of potential entitlement and repayable over 12 months | | | Increase the period over which UC advances will be recovered from 12 to 16 months |
| **UC for self-employed** | | | | For self-employed UC claimants on digital system able to carry forward losses to | 12 month grace period (before minimum income floor applies) extended for self-employed UC | | |

[102] Housing Benefit claimants will receive an additional fortnight's payment during transition and income related elements of JSA, ESA and IS.

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|---|
| | | | | next month | claimants | | |
| **UC waiting period** | UC 7 waiting days at start of claim (abolished Feb 2018) | | | | | | |
| **Housing support for 18-21 year olds** | | | Automatic entitlement to housing support for 18-21 year olds reinstated[103] | | | | |

[103] From 1st April 2017 single adults aged 18 – 21 were not entitled to housing support unless met other eligibility criteria. On31st March 2018 it was announced that entitlement would be reinstated from 31st Dec 2018, following concern about youth homelessness and rough sleeping. See https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06473

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