Welfare reform: context and consequences

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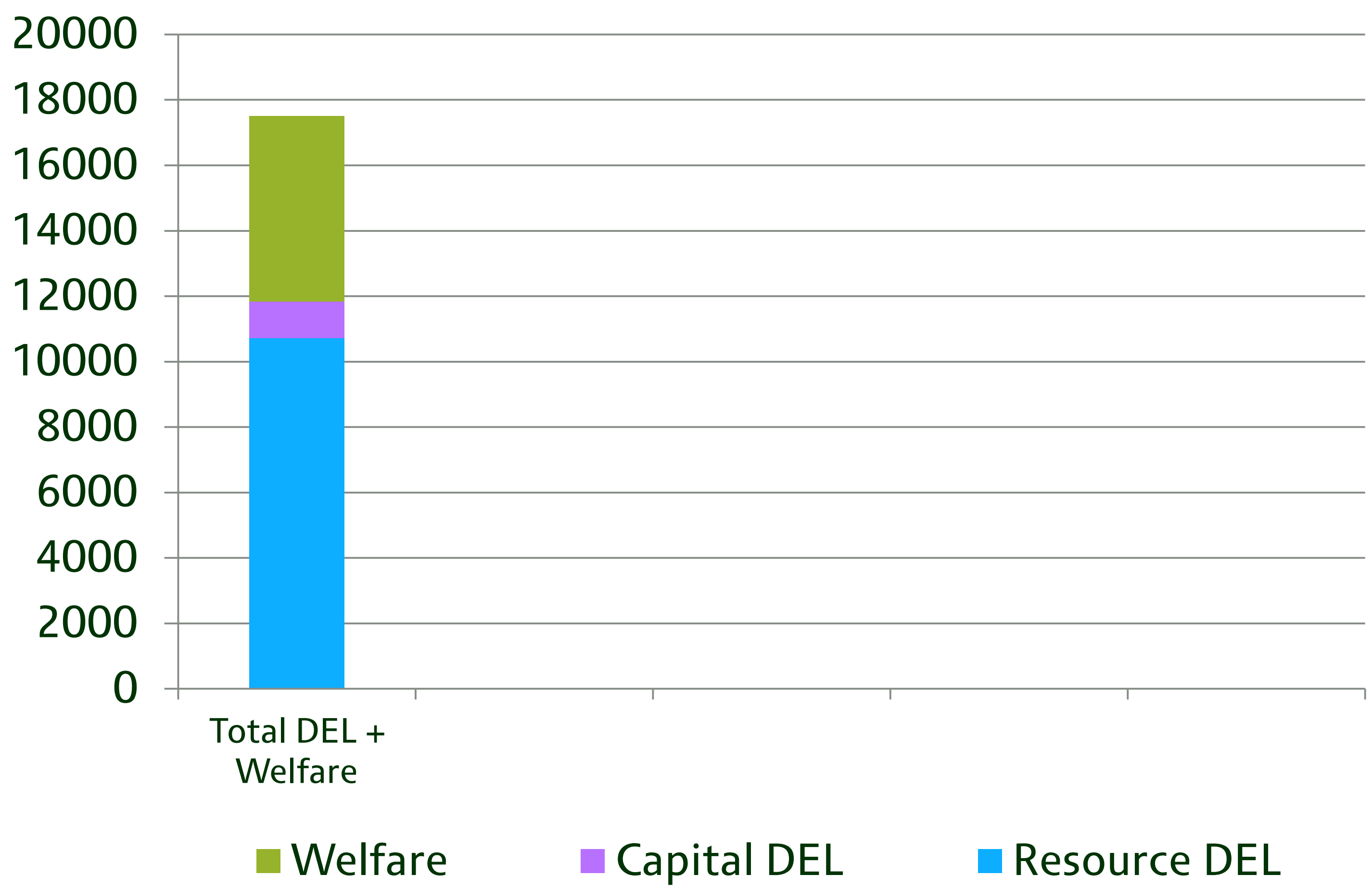
Coming up

- Tax and welfare reforms and their distributional impact
- Fiscal and budgetary context
- Mitigating the impact of welfare reform in Northern Ireland
  - The proposals on the table
  - Impossible to offer full protection?
- Time for a more radical reform of welfare funding?

Welfare spending is ~30% of govt spending



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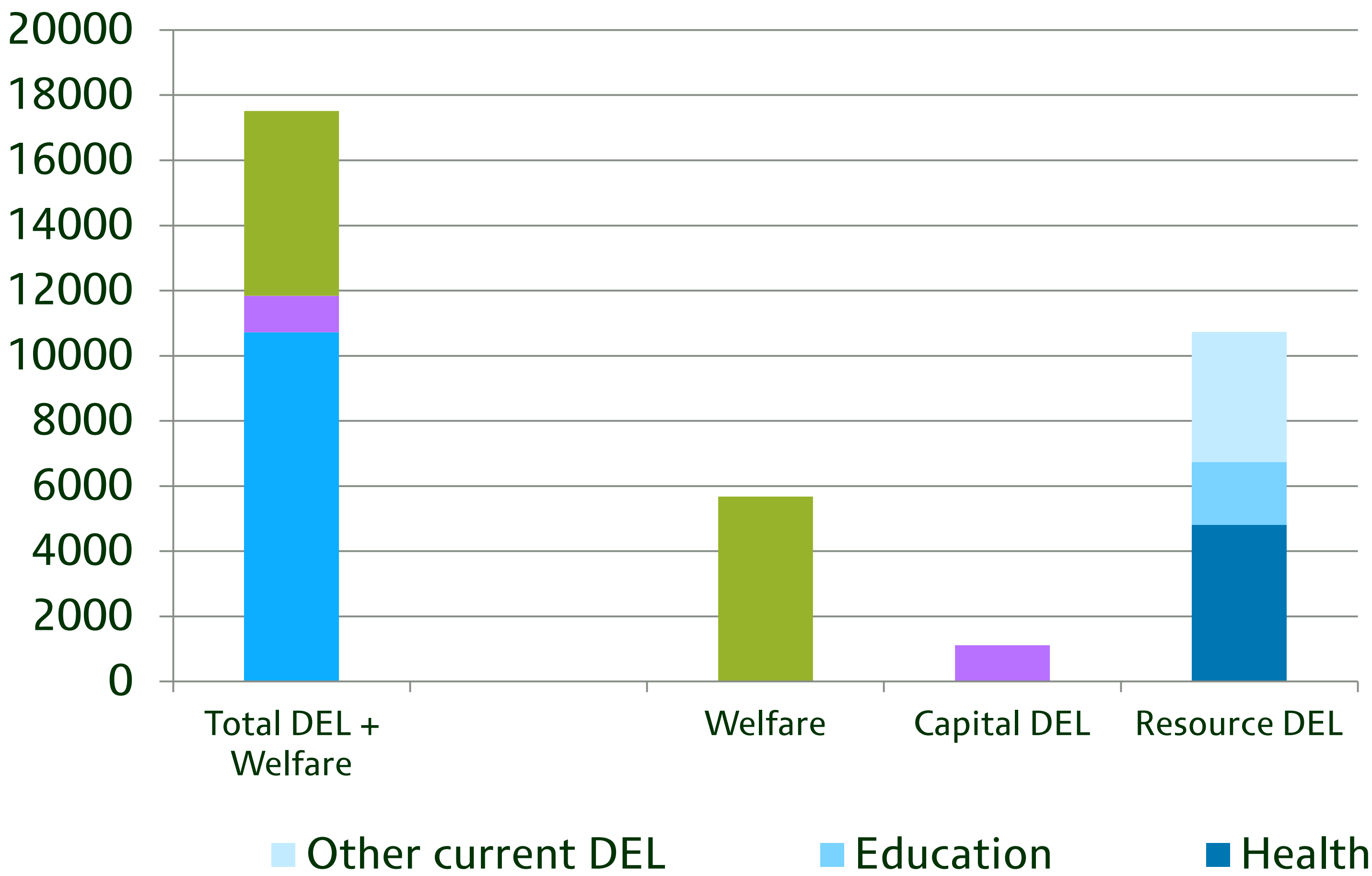
Almost as big as health and education combined



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An overview of tax and welfare reforms

- The UK's coalition government has implemented a net tax takeaway of £16.4 billion
  - Within this big takeaways and giveaways
  - Biggest tax rise is VAT increase
  - Biggest tax cuts are IT personal allowance, fuel duties, corporation tax
- Also implemented £21 billion of benefit cuts
  - Switch to CPI uprating, 1% uprating caps, and freezes
  - Cuts to tax credits and housing, child, and disability benefits
  - And wider structural reforms – Universal Credit
- £4.5bn giveaway to pensioners – "triple lock" for pensions
- Benefits in principle devolved to Northern Ireland
  - Not yet implemented all benefit reforms

Impact of reforms to date in NI v rUK

	% Of income
Northern Ireland	–1.2%
UK	–1.4%

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Northern Ireland	**–1.2%**
UK	**–1.4%**
North East	-1.3%
Yorkshire	-1.3%
North West	-1.4%
East Midlands	-0.9%
West Midlands	-1.3%
East Anglia	-0.9%
Greater London	-2.3%
South East	-1.6%
South West	-1.1%
Wales	-1.3%
Scotland	-1.0%

Impact of reforms to date in NI v rUK

	% Of income	Tax changes	
		£ Direct	£ Indirect
Northern Ireland	**–1.2%**	**+ £426**	**–£250**
UK	**–1.4%**	**+£321**	**–£325**
North East	-1.3%	£ 411	-£ 304
Yorkshire	-1.3%	£ 407	-£ 311
North West	-1.4%	£ 387	-£ 268
East Midlands	-0.9%	£ 445	-£ 286
West Midlands	-1.3%	£ 402	-£ 318
East Anglia	-0.9%	£ 407	-£ 324
Greater London	-2.3%	£ 27	-£ 366
South East	-1.6%	£ 229	-£ 429
South West	-1.1%	£ 402	-£ 342
Wales	-1.3%	£ 359	-£ 249
Scotland	-1.0%	£ 366	-£ 291

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Impact of reforms to date in NI v rUK

	% Of income	Tax changes		Benefit changes
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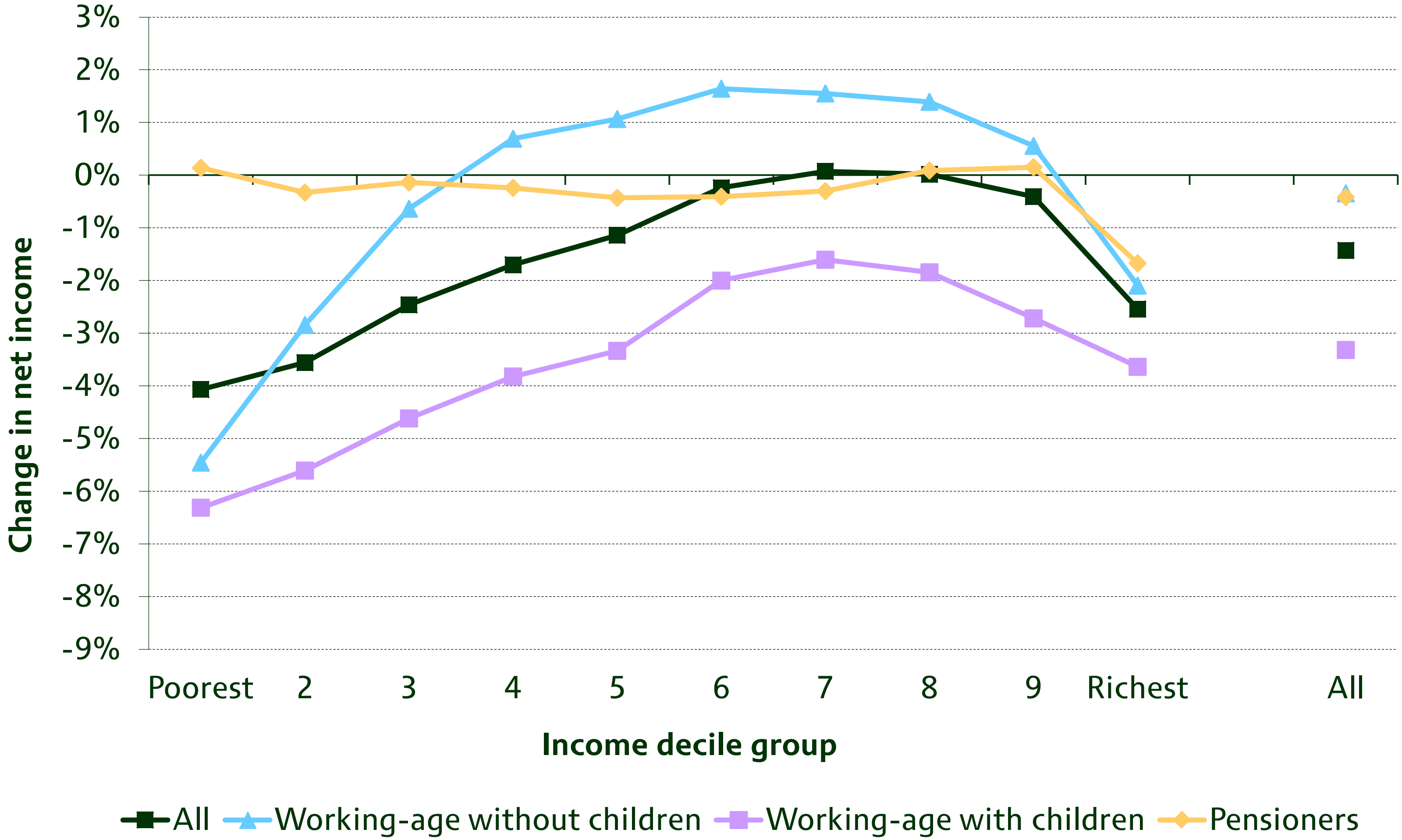
Northern Ireland	**–1.2%**	**+ £426**	**–£250**	**–£533**
UK	**–1.4%**	**+£321**	**–£325**	**–£485**
North East	-1.3%	£ 411	-£ 304	-£ 466
Yorkshire	-1.3%	£ 407	-£ 311	-£ 467
North West	-1.4%	£ 387	-£ 268	-£ 533
East Midlands	-0.9%	£ 445	-£ 286	-£ 445
West Midlands	-1.3%	£ 402	-£ 318	-£ 499
East Anglia	-0.9%	£ 407	-£ 324	-£ 387
Greater London	-2.3%	£ 27	-£ 366	-£ 690
South East	-1.6%	£ 229	-£ 429	-£ 436
South West	-1.1%	£ 402	-£ 342	-£ 425
Wales	-1.3%	£ 359	-£ 249	-£ 489
Scotland	-1.0%	£ 366	-£ 291	-£ 376

Impact of reforms to date in NI v rUK

	% Of income	Tax changes		Benefit changes	£ Total change
		£ Direct	£ Indirect		
Northern Ireland	**–1.2%**	**+ £426**	**–£250**	**–£533**	**–£357**
UK	**–1.4%**	**+£321**	**–£325**	**–£485**	**–£489**
North East	-1.3%	£ 411	-£ 304	-£ 466	-£ 359
Yorkshire	-1.3%	£ 407	-£ 311	-£ 467	-£ 371
North West	-1.4%	£ 387	-£ 268	-£ 533	-£ 415
East Midlands	-0.9%	£ 445	-£ 286	-£ 445	-£ 285
West Midlands	-1.3%	£ 402	-£ 318	-£ 499	-£ 415
East Anglia	-0.9%	£ 407	-£ 324	-£ 387	-£ 305
Greater London	-2.3%	£ 27	-£ 366	-£ 690	-£ 1,029
South East	-1.6%	£ 229	-£ 429	-£ 436	-£ 636
South West	-1.1%	£ 402	-£ 342	-£ 425	-£ 365
Wales	-1.3%	£ 359	-£ 249	-£ 489	-£ 379
Scotland	-1.0%	£ 366	-£ 291	-£ 376	-£ 301

Dist. impact of coalition reforms (UK)



The reforms not yet implemented in NI

- Household benefits cap
- Under-occupation charge for social sector tenants (‘bedroom tax’)
- Time limiting of contributory employment support allowance (ESA) for those considered able to prepare for work (‘WRAG’)
- The replacement of Disability Living Allowance (DLA) with Personal Independence Payments (PIPs)
- The introduction of Universal Credit
  - Decision on how rates rebates will work with UC?

- Note: latter two only apply to a very few claimants in rUK at the moment – but many more in future

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Dist. impact of reforms to be implemented (NI)

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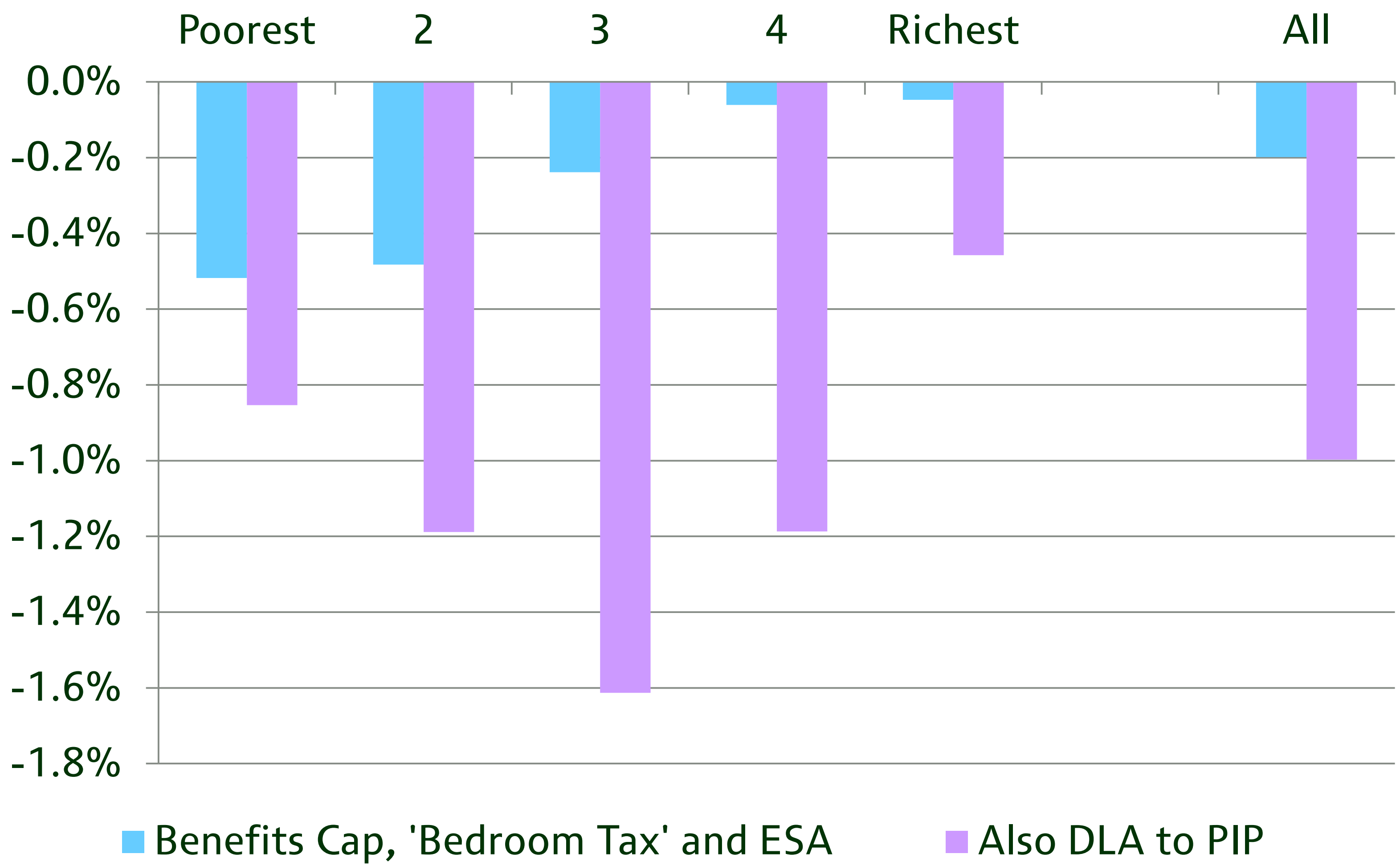
Dist. impact of reforms to be implemented (NI)



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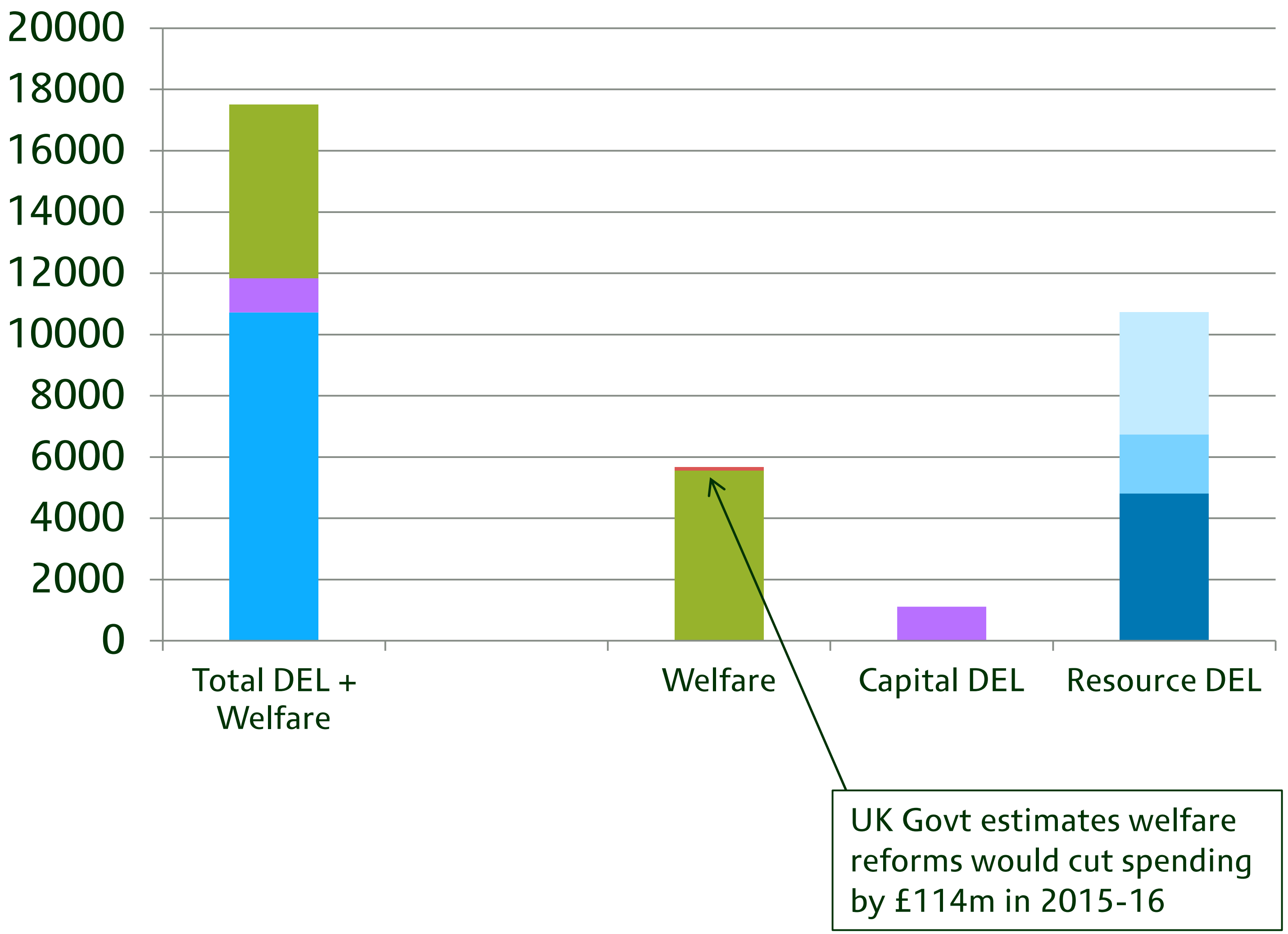
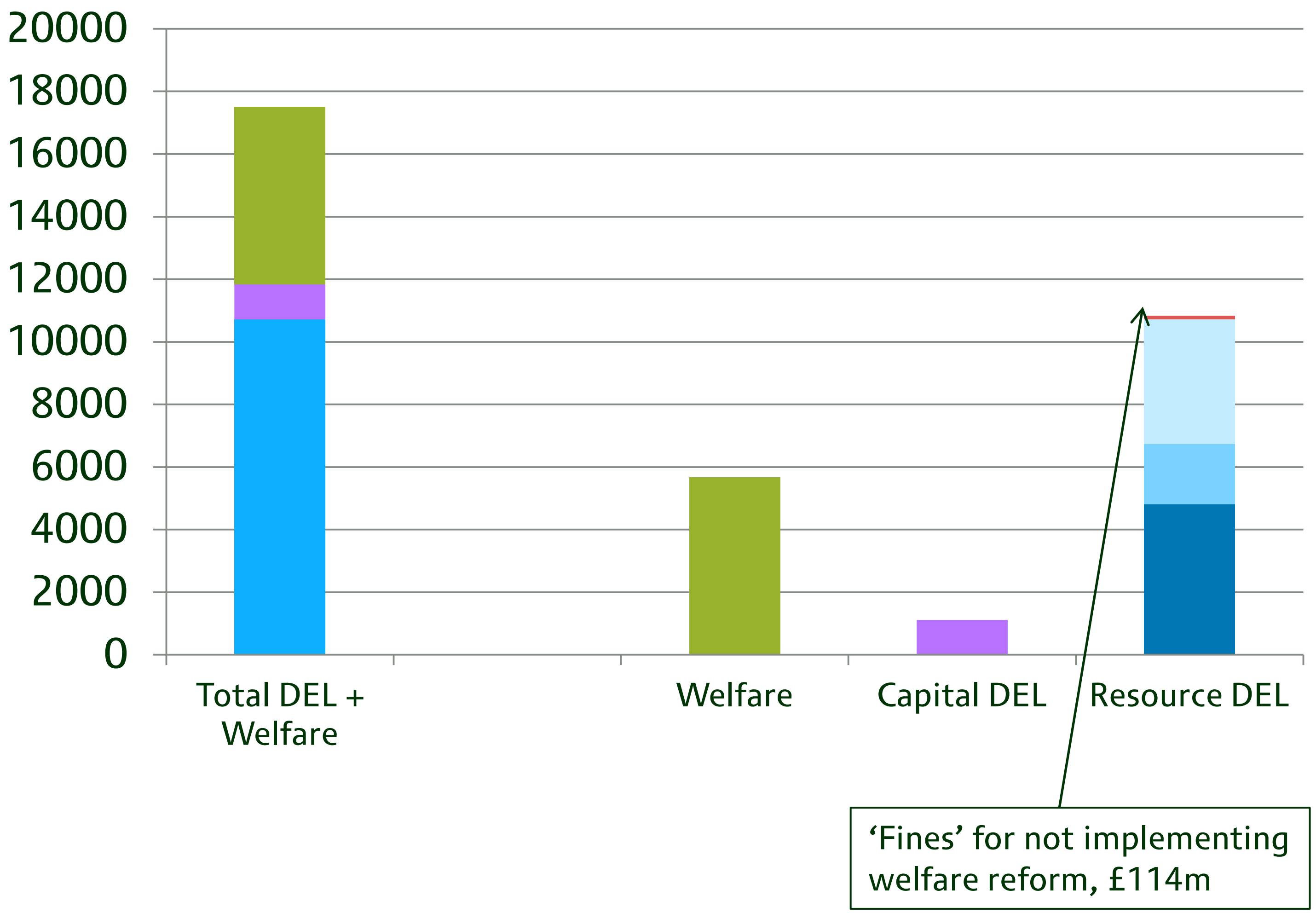
The welfare reforms as yet unimplemented…



… and the 'fines' in lieu of implementing them



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Trade off between welfare and public services

- Without agreement on welfare reform, £114 million and rising would be taken off Northern Ireland's DEL
- Stormont House agreement to implement reforms, and spend average £94 million on impact 'mitigation' a year
- Funding this would require cuts to resource DEL equivalent to:
  - 0.9% of overall resource DEL
  - 1.6% of resource DEL ex. health
  - Although remember this is less than the 'fines'
- Passage of welfare reform bill stalled – calls for extra compensation
- Finding e.g. a further £20m for welfare would mean
  - Cutting resource DEL by further 0.2%
  - Cutting resource DEL ex. health by further 0.3%

Wider fiscal context

- Other calls in NI Govt's budget, at least in the short-medium term
  - Cutting corporation tax to 12.5% estimated to cost £300m a year (nearly 3% of DEL, 5% excluding health)
- Tough fiscal environment in the next parliament
  - Conservatives plan cuts to DELs equating to maybe 2-3% for NI, and £12bn in working-age welfare cuts, equivalent to ~ £450m in NI
  - Labour may actually be able *to increase* DELs modestly, equating to an extra 2-3% for NI, but still challenging
- Finding money for welfare mitigation involves difficult trade-offs
  - And possibility of further controversial welfare changes

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Mitigation Measures

The mitigation measures being proposed (I)

- Household benefits cap will apply
  - But able to submit claims for discretionary support
- Under-occupancy charge will be offset by a ‘separate fund’ for most social-sector tenants
  - Only those who refuse to move to suitable alternative property will face the charge
- Unclear what will happen with time-limiting of ESA
  - Perhaps available for 2 rather than 1 year? Will ESA be paid at a lower rate for the 2nd year?

The mitigation measures being proposed (II)

- PIP will replace DLA but…
  - Will be piloted first
  - Those found ineligible for PIP will receive payments while they appeal
  - Those who receive less PIP than DLA will get time-limited top-up
- UC will start to be rolled out…
  - But payments can be split, paid every 2 weeks, and housing element paid direct to landlords
  - "Supplementary fund" to provide cash support for those who lose from lower 'standard' disability premia in UC – only partial and time limited for adults?
- Considering consultation responses on rates rebates
  - Looks like it will be integrated with UC under "Option A"

Household benefits cap

- Affect small number of people in NI
  - High housing costs and/or many children
  - DLA/PIP/AA claimants and most working families exempt

Under-occupancy charge for social tenants

- Would affect rather more people in NI
  - 90,000 social sector housing benefit claimants in 2011
  - In GB just over 1/3 affected by ‘bedroom tax’
- Mitigation mechanism: housing benefit / UC will be cut to reflect ‘under-occupancy charge’, but claimants re-imbursed by fund
  - How will this interact with direct payments to landlords?
- Protects those for whom no suitable accommodation exists
  - How define “suitable”? Include private sector?
- Such protection means…
  - Social tenants continue to be better treated than private tenants. Fair?
  - May need other mechanism to incentivise social landlords to build more smaller properties

Time-limiting of contributory ESA

- Many of those who hit the time-limit for contributory ESA will be able to claim other benefits
  - Income-based ESA / UC
  - Some may decide to claim JSA and search for work
- Extending the time-limit to 2 years largely benefits those with other sources of income (including from partners)
- How much does it cost?
  - About £30-35 million a year initially, but then fall substantially as only applies to “flow” not “stock”
- Could be applied to new as well as existing claimants of ESA
  - Not clear what the current costings assume

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Personal Independence Payments

- Always good to pilot major programmes
  - Randomised roll-out allows you to learn most
- Support for assessments and appeals
  - Funding to support ‘evidence gathering’ – clear guidance needed
  - Appeals process can take a long time – paying benefits while appeal could be costly (esp. given claimant incentive to stall)
  - Issue of fairness new v existing claimants
- Support for those seeing reduced or no entitlement to PIP
  - Will this be 100%? How long will at apply for?
  - If it applies permanently at 100%, undermines whole principle of PIP
- Hard to see how could protect future claimants
  - Would require assessing people under both DLA and PIP

Universal Credit (I)

- Good to introduce UC – reform simplifies system, removes over-payment problem, and improves work incentives of many
- Payments administration is perhaps where UC has come in for biggest criticisms
  - Plans for splitting, two-weekly, and direct-to-landlord payments all address these concerns
- Important to recognise UC creates both winners and losers
  - Winners include low income people in low-hour jobs, one-earner couples
  - Losers include those with lots of unearned income; couples where one person is aged over SPA, other isn't; self-employed people with low incomes; those claiming standard disability premia
- Transitional protection will be in operation

Universal Credit (II)

- Mitigation measures focus on those losing due to changes to disability premia
  - Support comes from £125m 6-year 'supplementary fund'
- Only enough to cover a small fraction of the losses
  - Figures in SF 'welfare facts' suggest full compensation would require 'supplementary fund' of £346m over 6 years
- Calculating exact compensation may be difficult
  - Involves calculating under existing system as well as UC – complex interactions between HB and tax credits, for instance
  - Easier to operate some form of 'top up' to UC rather than exact compensation?
- Could, in principle, be applied to new claimants
  - But odd to operate a 'shadow' system in tandem for ever

Rate rebates

- UK Govt cut funding it gives to NI to fund rates rebates (as in rUK)
  - NI Govt made up difference (as in Wales, Scotland, parts of England)
- In rUK rates rebates will remain outside UC
  - Adds to complexity and risks poor interaction
  - NI has to make a decision about what to do
- Consultation document suggests preferred option is
  - Integrate with UC (good)
  - Only those on UC can claim
  - DSDNI estimate 18,000 will lose entitlement, 45,000 gain entitlement
  - Self-employed reporting low incomes are notable losers
  - Only update award once-per-year (diff to current and rest of UC)

Concluding thoughts

Time for a more radical devolution of welfare?

- NI welfare seems to be in a kind of devolution limbo
- Formally devolved, with NI free to design
  - But funding mechanism gives very strong incentive to mimic rUK
  - UK fully fund if same system, but adjust DEL if deviate
- Means if NI wants more generous system, incentive to have formal system same as rUK and separate “top up” funds – admin complex
- Time to move to more fully devolved welfare funding?
  - NI bear risk of its welfare bill rising more (or less) quickly than rUK
  - But stronger incentives for NI govt to grow economy & reduce poverty
  - And more freedom to design benefits policy for NI
  - Its how disability benefits being devolved to Scotland
  - Need to think about IT systems too

Summary

- UK Government has made substantial benefit cuts which hit poorer households incomes
  - NI hit harder than average, as large numbers of disability claimants
  - But NI gained more than average from the personal tax changes
- Trade off between spending on welfare mitigation and spending on public services – esp. given desire to cut corporation tax
- The money allocated to mitigation at the moment not enough for ‘full protection’
  - Hard to see how could protect future claimants of PIPs
  - UC creates winners and losers – if protected all losers fully, system would cost more than old system
- Time for more radical devolution of welfare?