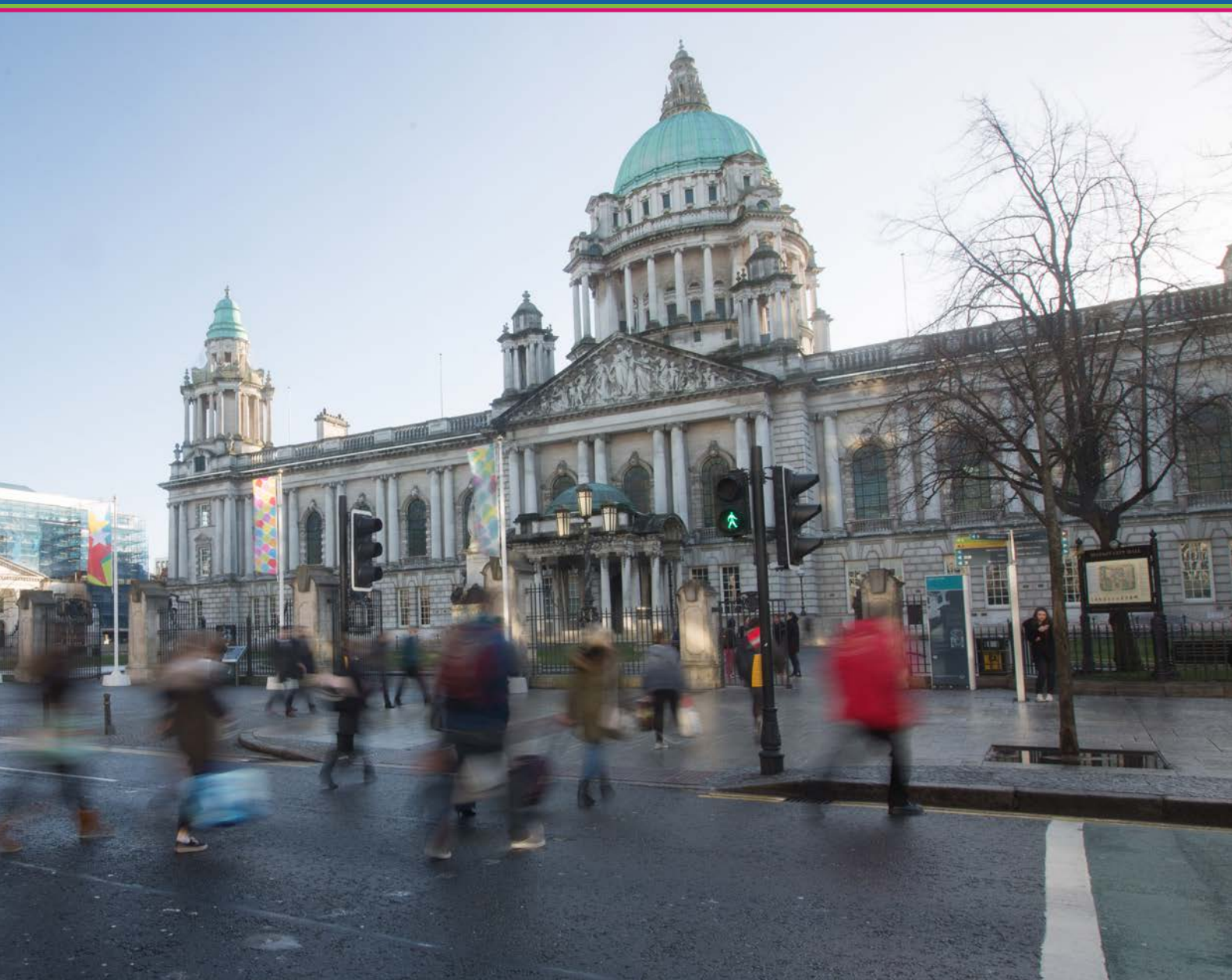


# Autumn Statement 2015 Addendum to Summer Budget 2015

FEBRUARY 2016





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# Introduction

1. This document is an addendum to previous analysis produced by the Department for Social Development which outlined the Northern Ireland specific impacts of Summer Budget 2015 for benefit claimants (including Tax Credit claimants). The original document can be accessed at:  
  
<https://www.dsdni.gov.uk/publications/impact-summer-budget-2015>
2. On 8 July 2015 the Chancellor of the Exchequer, George Osborne, announced a number of welfare measures as part of his Summer Budget 2015. It was forecast that the measures announced would achieve a £12 billion per annum reduction in UK level benefit spending by 2019-20.
  - A package of reforms to Universal Credit, including reducing entitlements for many households. Universal Credit will be introduced in January 2017.
  - Reform to housing and housing support, including removing the entitlement to housing support in Universal Credit for those aged 21 or under from April 2017, lowering rents in the social rented sector from 2016-17 (in England only), changing Support for Mortgage Interest into a loan from April 2018 and a four-year freeze to Local Housing Allowance rates from 2016-17;
  - The lowering of the Benefit Cap to £23,000 in London and £20,000 elsewhere including Northern Ireland;
  - Alignment of the size of payments to the Employment and Support Allowance Work Related Activity Group (and the Universal Credit equivalent Limited Capability for Work Group) with Jobseeker's Allowance for new claimants from April 2017.
3. The main measures included in the Budget were:
  - A four-year freeze to working age benefits from 2016-17. Pensioners benefits and benefits related to the extra costs of disability were protected from the freeze;
  - A package of reforms to Tax Credits, including reducing entitlements for many households;

# Summary of Cost Impacts in Northern Ireland of the Social Welfare measures announced in the Summer Budget 2015

4. The analysis produced by the Department following Summer Budget 2015 estimated that Northern Ireland would produce the level of savings as per Table 1.1.

This gives annual estimates of the expected contribution by Northern Ireland to the UK level savings outlined by HM Treasury.



Table 1.1

Northern Ireland Summary of Costs/Savings associated with Summer Budget 15  
Welfare Reform Policy Changes (in £m)\*

POLICY	2016-17	2017-18	2018-19	2019-20
Up-rating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17	4	29	65	105
Reduce income thresholds in tax credits and work allowances in Universal Credit	111	115	124	136
<b>Reduce income threshold in Tax Credits</b>	<b>111</b>	<b>105</b>	<b>75</b>	<b>45</b>
Reduce Work allowance in Universal Credit	0	10	49	92
<b>Increase tax credits taper rate to 48%</b>	<b>77</b>	<b>73</b>	<b>51</b>	<b>29</b>
Limit child element to 2 children for new births in tax credits and new claims in Universal Credit	0	7	21	33
Tax Credits	0	5	14	21
Universal Credit	0	2	8	12
Remove family element in tax credits and Universal Credit, and the family premium in Housing Benefit, for new claims	2	8	15	20
Tax Credits	0	5	6	4
Universal Credit	0	1	8	16
Housing Benefit	2	2	1	0
Benefit cap: reduce to £20,000, and £23,000 in London	7	7	7	7
Align Work-Related Activity Group rate with JSA for new claims	0	5	9	11
Reduce income rise disregard in tax credits	6	8	9	6
Support for Mortgage Interest: change from welfare payment to loan; maintain capital limit at £200,000	-1	-1	10	10
End automatic entitlement for out-of-work 18-21 year olds in Universal Credit	0	1	2	2
UC parent conditionality from when youngest child turns 3	0	-0.2	-0.2	1
<b>Total</b>	<b>206</b>	<b>251</b>	<b>313</b>	<b>361</b>

Positive figures denote a saving to government while negative figures denote a cost to government Figures may not sum due to rounding

# Summary of Northern Ireland cost Impacts after Autumn Statement 2015

5. In the days following Summer Budget 2015 some of the newly announced Welfare Reforms, in particular the reforms to Tax Credits, received significant criticism from a range of stakeholders. In September 2015, MPs voted in favour of the tax credit reforms, however on 26th October 2015 the plans were blocked by the House of Lords.
6. On 25th November 2015 the Chancellor announced in the Autumn Statement that the changes to the Tax Credit taper rate and income thresholds that had been announced in the Summer 2015 Budget would be abolished. The Autumn Statement Blue Book<sup>1</sup> states that:
  8. The Chancellor did however announce a number of additional welfare measures in the Autumn Statement. These are:
    - Universal Credit: Uprate Minimum Income Floor with National Living Wage for Self Employed Claimants effective from January 2017 (the proposed start date of Universal Credit in Northern Ireland)
    - Housing Benefit: Limit social sector rates to the equivalent private sector rate effective from April 2018
    - Housing Benefit and Pension Credit: Limit temporary absence from the country effective from April 2016
    - Pension Credit: Freeze on Savings Credit effective from April 2016

“the tax credit income threshold will remain at £6,420 from April 2016 and the tax credits taper will remain at 41% of gross income”

7. The measures that were announced in the Summer 2015 budget, that were subsequently abolished in the Autumn 2015 statement, are highlighted in red in Table 1.1. All other policy measures announced in Summer Budget 2015 were unaffected by the Autumn statement.
9. The Chancellor also confirmed that even with these amendments, the £12 billion of Welfare savings would still be delivered in full by 2020.
10. Table 1.2 beside summarises the revised Northern Ireland estimated savings taking into account the abolished Tax Credit proposals and the new welfare reform measures as detailed in Paragraph 8.

<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479749/52229\\_Blue\\_Book\\_PU1865\\_Web\\_Accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf)



Table 1.2

Northern Ireland Summary of Costs/Savings associated with revised Summer Budget 2015 Policy Changes and Autumn Statement 2015 (in £m)\*

POLICY	2016-17	2017-18	2018-19	2019-20
Uprating: freeze working-age benefits, tax credits and Local Housing Allowances for 4 years from 2016-17	4	29	65	105
Reduce work allowances in UC	0	10	49	92
Limit child element to 2 children for new births in tax credits and new claims in UC	0	7	21	33
Tax Credits	0	5	14	21
Universal Credit	0	2	8	12
Remove family element in tax credits and Universal Credit, and the family premium in Housing Benefit, for new claims	2	8	15	20
Tax Credits	0	5	6	4
Universal Credit	0	1	8	16
Housing Benefit	2	2	1	0
Benefit cap: reduce to £20,000, and £23,000 in London	7	7	7	7
Align Work-Related Activity Group rate with JSA for new claims	0	5	9	11
Reduce income rise disregard in tax credits	6	8	9	6
Support for Mortgage Interest: change from welfare payment to loan; maintain capital limit at £200,000	-1	-1	10	10
End automatic entitlement for out-of-work 18-21 year olds in Universal Credit	0	1	2	2
UC parent conditionality from when youngest child turns 3	0	-0.2	-0.2	1
Universal Credit: uprate Minimum Income Floor with National Living Wage for Self Employed Claimants	0	1	3	6
Housing Benefit: limit social sector rates to the equivalent private sector rate	0	0	4	7
Housing Benefit and Pension Credit: limit temporary absence	1	1	0	0
Pension Credit: Freeze on Savings Credit	5	4	4	4
<b>Total</b>	<b>23</b>	<b>79</b>	<b>199</b>	<b>305</b>

Positive figures denote a saving to government while negative figures denote a cost to government Figures may not sum due to rounding

11. This document will provide detail on the analysis of the four additional policy measures included in the Autumn Statement. Previous analysis for the policy measures that remain from the Summer Budget still stand and can be found in 'The impact of Summer Budget 2015 Welfare Changes in Northern Ireland' publication via the link below.

<https://www.dsdni.gov.uk/publications/impact-summer-budget-2015>

12. All figures in this document are estimates. These estimates are based on forecasts that will be revised over time and will be impacted by various external factors as well as the updating of assumptions and methodology. External factors include the implementation of Welfare Reform in Northern Ireland as well as other factors that influence forecasts such as changes in employment and claimant behaviour. Figures are sourced from both administrative and sample data and will be subject to forecast and modelling error.



Revised Analysis of the impact of Summer Budget 2015

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SECTION 1

# **Estimated impact of the New Welfare Reform Policy measures announced in the Autumn 2015 Statement**

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13. This section provides a summary of the analysis that was produced on the impact of the four additional welfare

reform measures announced during the Autumn Statement 2015.

#### UNIVERSAL CREDIT:

## Uprate the Minimum Income Floor with the National Living Wage for Self Employed Claimants

14. Universal Credit is paid in arrears and is linked to earnings. In the current system, self employed people who either receive no or very low earnings from their business activity, can continue to receive the bulk of their income via benefits or tax credits entitlement with no compulsion to either look for employment or increase their earnings. The Government are keen however to ensure that, once people are in work, they are more financially independent and less reliant on benefits.

15. A 'Minimum Income Floor' will be applied to Universal Credit self-employed claimants whose earnings are below the amount that the Government would reasonably expect them to earn if they were in employment. This will result in the calculation of the Universal Credit entitlement for the self employed being based on the Minimum Income Floor level rather than the actual income from Self Employment that claimants report.

16. Currently the Minimum Income Floor is set at 35 hours x National Minimum Wage for each claimant in self employment. Where

the reported earnings for self employed claimants are lower than the Minimum Income Floor their Universal Credit award will be based on the Minimum Income Floor threshold. Their Universal Credit will therefore be lower than that which would be paid if entitlement was calculated using the earnings from Self Employment that claimants report.

17. It was announced in the Autumn Statement 2015 that the Minimum Income Floor earnings threshold in Universal Credit would be increased in line with the **National Living Wage** rather than the **National Minimum Wage** for all self employed claimants aged over 25. This measure will be introduced from April 2016 but will only affect Northern Ireland claimants when Universal Credit starts to be implemented in Northern Ireland in January 2017.

18. By 2020-21 the Minimum Income Floor for over 25's will be  $£9 \times 35 = £315$  per week based on the National Living Wage rather than  $£8.05 \times 35 = £281.75$  per week based on the National Minimum Wage.

19. Table 1.3 details the estimated financial savings as a result of the introduction of this measure. The savings profile increases over time due to the rollout of Universal Credit in Northern Ireland (which is

assumed to commence in January 2017. This is dependent on the implementation of Welfare Reform in Northern Ireland).

**Table 1.3**

Estimated Northern Ireland Savings for Uprating the Minimum Income Floor with the National Living Wage for Self Employed Claimants

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Impact (£m)	0	1	3	6

#### HOUSING BENEFIT:

## Limit social sector rate to the equivalent private sector rate

20. Housing Benefit (HB) helps with housing costs for those with low incomes, whether they are working or not. Rented accommodation is available from two main providers' private landlords and social housing providers, namely housing associations and the Northern Ireland Housing Executive.

21. Local Housing Allowance (LHA) is a rent assessment scheme for HB claimants who rent accommodation from private landlords. It is equal to the thirtieth percentile of rents for similar houses in an area. The LHA a household receives depends on the area it is in and how many people live in the household which determines the number of bedrooms a household is entitled to. Northern Ireland has eight areas known as Broad Rental Market Areas (BRMAs).

22. This measure limits social sector rents eligible for Housing Benefit to the level of the relevant Local Housing Allowance (LHA) rate that applies in the private rented sector. The change will not be implemented until April 2018 and will only affect new tenancies that begin after April 2016.

23. This proposal means that new Social Rented Sector (SRS) claimants will receive the lower of either their HB entitlement or the appropriate LHA for their area and bedroom entitlement. Their HB entitlement is dependent on their income, age, savings and family and may not currently meet their contracted rent. This support could be further reduced if the LHA is lower than their HB entitlement.

24. LHA rates are subject to the freeze on benefit uprating from April 2016 for four years. If during this time a claimant’s contracted rent continues to increase, then claimants will have an escalating deficit to meet from other sources of income.
25. To model the impacts of this policy measure, NIHE administrative data was used to estimate the SRS caseload build from April 2015 to October 2019. Each household was assigned an estimated bedroom entitlement to allow a comparison between the Housing Benefit (HB) amount and the appropriate LHA amount.
26. It is estimated that when the policy is implemented in April 2018 there will be an immediate pool of households who will be potentially impacted by this change. This is due to the number of new SRS claims that would have started their claim on or after April 2016. Early estimates indicate that approximately thirty percent of the SRS caseload could be impacted by this policy by October 2019.
27. The proportion of households potentially impacted will continue to increase as the number of SRS claims to Housing Benefit increases, as all new claims will be subject to the LHA limit. Eventually, this limit may affect all SRS households, but only if the amount of HB received is higher than the appropriate level of LHA.
28. Table 1.4 below shows the estimated Northern Ireland cumulative savings from this policy. It is expected that as the number of new SRS claims continues to increase over time so too will the accumulation of savings from this policy.

**Table 1.4**

Estimated Northern Ireland savings for limiting social sector rates in Housing Benefit to the equivalent private sector rate.

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Impact (£m)	0	0	4	7



## HOUSING BENEFIT AND PENSION CREDIT:

# Limit temporary absence from the country

29. At present, Housing Benefit (HB) and Pension Credit (PC) recipients can go abroad for up to 13 weeks while continuing to receive Housing Benefit. This measure reduces the duration for which Housing Benefit and Pension Credit will be paid for a claimant who is temporarily absent from the United Kingdom from 13 weeks to 4 weeks from April 2016.
30. Exemptions will apply in particular circumstances for up to 26 weeks, for example:
- Absence due the death of a family member,
  - if a claimant or their dependant requires medical treatment abroad,
  - members of certain professions who spend time abroad.
31. The estimated UK level savings for this policy were derived from data from the International Passenger Survey. Adjustments were also made to the model to take account of behavioural responses by the affected population.
32. Due to modelling limitations it was not possible to replicate this analysis for Northern Ireland. Instead, the impact of this policy in Northern Ireland was estimated by applying the proportion of UK claimants who reside in Northern Ireland (3.35%) to the UK savings figure.
33. The table below outlines the estimated savings from this policy, based on the proportionate read-across from the UK level estimates.

**Table 1.5**

Estimated Northern Ireland savings for limiting temporary absence from the UK for Housing Benefit and Pension Credit.

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Impact (£m)	1	1	0	0



PENSION CREDIT:

# Freeze on Savings Credit

34. Pension Credit is an income related benefit for pensioners that has two elements: Guarantee Credit and Savings Credit. Guarantee Credit is paid to those who have reached the minimum qualifying age and their income is below a certain level. Savings Credit is paid to those aged 65 or over, and is intended to provide extra money for people who have made modest provision for their retirement. The Savings Credit of Pension Credit is not available to anyone who reaches state pension age on or after 6 April 2016.
35. At present the maximum amount of Savings Credit payable is £14.82 a week for a single person and £17.43 for a couple. Savings Credit is payable to those who have qualifying income above their Savings Credit threshold which is £126.50 for a single person and £201.80 for a couple.
36. This policy will raise the Savings Credit threshold to £133.82 for a single pensioner and to £212.97 for a couple which will reduce the single rate of Savings Credit maximum by £1.75 to £13.07 and the couple rate by £2.68 to £14.75. Effectively this means those who are receiving Savings Credit will have their Pension Credit award frozen where income is unchanged.
37. Due to modelling limitations it was not possible to generate the equivalent Northern Ireland savings for this policy. The impact of this policy in Northern Ireland has been derived from the estimated savings for the UK as a whole. This was done by applying the proportion of UK claimants who reside in Northern Ireland (3.35%) to the UK figure.
38. The table below outlines the estimated savings from this policy, based on the proportionate read-across from the UK level estimates.

**Table 1.6**

Estimated Northern Ireland savings for freezing the Savings Credit element of Pension Credit.

	2016-17	2017-18	2018-19	2019-20
Northern Ireland Impact (£m)	5	4	4	4



Revised Analysis of the impact of Summer Budget 2015

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# Conclusion

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39. Previous analysis produced on the impact of the welfare reform policy measures announced in the Summer 2015 Budget indicated that Northern Ireland would see an estimated £361 million saving on benefit spending by 2019-20. A substantial amount of these savings were due to the proposed changes to the Tax Credits taper rate and income thresholds.

40. In the Autumn Statement 2015 it was announced that the proposed Tax Credit

reforms would no longer be introduced. The impact of this policy reversal and the addition of several new policy measures have been provided in this addendum.

41. As shown in Table 1.7 below, the revised estimated savings following the Autumn 2015 Statement drop quite significantly in the early years however considerable savings are still expected to be achieved by 2019-20.

**Table 1.7**

Comparison of Northern Ireland Costs/Savings following Summer Budget 2015 and Autumn Statement 2015 (in £m)

	2016-17	2017-18	2018-19	2019-20
Overall Savings following Summer Budget	206	251	313	361
Overall Savings following Autumn Statement	23	79	199	305



42. The Tax Credit measures that have since been abolished made up a large proportion of the savings in the early part of this 4 year period. However, considerable savings are still expected to be achieved by 2019-20 due to the reduction in the Universal Credit work allowances, which still remain in place following the Autumn Statement.

43. The reduction in the work allowances under Universal Credit is the equivalent to the reduction in the income thresholds under Tax Credits. The two policies would have effectively impacted similar households and to a similar degree. The reduction in the income threshold under Tax Credits would have impacted

all existing and new claimants of Tax Credits from April 2016 onwards while the reduction in the work allowances under Universal Credit would only start to impact claimants as Universal Credit is rolled out.

44. Consequently, while Tax Credit reforms that were due to come in from April 2016 onwards will no longer be applied, there will still be significant savings achieved in future years.

45. At the Autumn Statement 2015, the Chancellor confirmed that even with these amendments, £12 billion of Welfare savings would still be achieved by 2020 at a UK level.

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