Social Policies and Distributional Outcomes

in a Changing Britain

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The Conservative Governments' Record on Social Security
May 2015 to pre-COVID 2020

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The role of Britain's social security system has changed profoundly, looking over the last decade. Those changes shaped the system in place in March 2020 to cope with the shock to living standards created by the COVID-19 pandemic.

- Social security and tax credit spending had peaked at 11.8 per cent of GDP in 2012-13 but fell to 10.0 per cent in 2019-20. Real spending on pensioners was the same in 2019-20 as 2014-15 but spending on children fell further (the fall totalling £10 billion over the decade to 2019-20).
- The value of the state safety net has become even more strongly dictated by age. In 2019 the minimum income guaranteed for a pensioner couple placed them just above the poverty line, while for working-age couples this fell to just 42% of the poverty line, and much less, if Housing Benefit shortfalls or Universal Credit repayments are taken into account.
- Progress in reducing poverty stalled. 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. *Relative* poverty rates were on a broadly rising trend overall and for children after 2012-13.
- The proportion of people in poverty with income from work continued to rise, as in-work benefit cuts and higher rents outweighed higher minimum wages and tax allowances.
- The rolling out of Universal Credit (UC) was not accompanied by strong evidence of increased employment, a key aim. There is also growing evidence that some of the features of UC are associated with a range of negative outcomes, including increased hardship and foodbank use and negative impacts on mental health.
- Some changes to social security enabled a more rapid response to the COVID-19 crisis. But the crisis has highlighted gaps in the social security system reflecting the accretion of policy decisions over the last decade with the potential for widening and prolonged hardship.

What were the Conservative's aims and what did they do?

The evolution of the social security system under the Conservatives between 2015 and 2019 was dominated by the inherited pension and Universal Credit reforms and the July 2015 Budget objective to save £12 billion per year from working-age social security. 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.

The goal to save £12 billion per year drove a further series of austerity measures, notably the cash freeze 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 two-child limit removing additional benefits or tax credits for third or later children born from April 2017.

Some of the initially intended cuts were moderated, with some protection for existing tax credit claimants and concessions on the design of Universal Credit, with the waiting time for payment after a successful claim reduced from six to five weeks, while a system of repayable advances was introduced and extended. A concession was also made to the two-child limit in 2019 so that it only applied to new births after the policy was brought in. The Office for Budget Responsibility estimated that actual savings in 2019-20 were £8.4 billion, rising to £9.1 billion in 2020-21, 70 per cent of the savings planned in 2015.

Ambitions to transfer all of those on 'legacy benefits' to Universal Credit were further delayed, but 2.8 million people were receiving UC at the start of 2020. Disability benefit reform also continued, but with some changes moderated.

At the same time, minimum wage levels continued to be increased in real terms and in relation to median wages, and the government further increased the value of the tax-free personal allowance. These were intended both to increase work incentives and 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 the continuing 'triple lock' on annual changes. 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 rising spending on pensioners, but meant that more of those in their 60s had the value of the state safety net set by much less generous working-age rates.

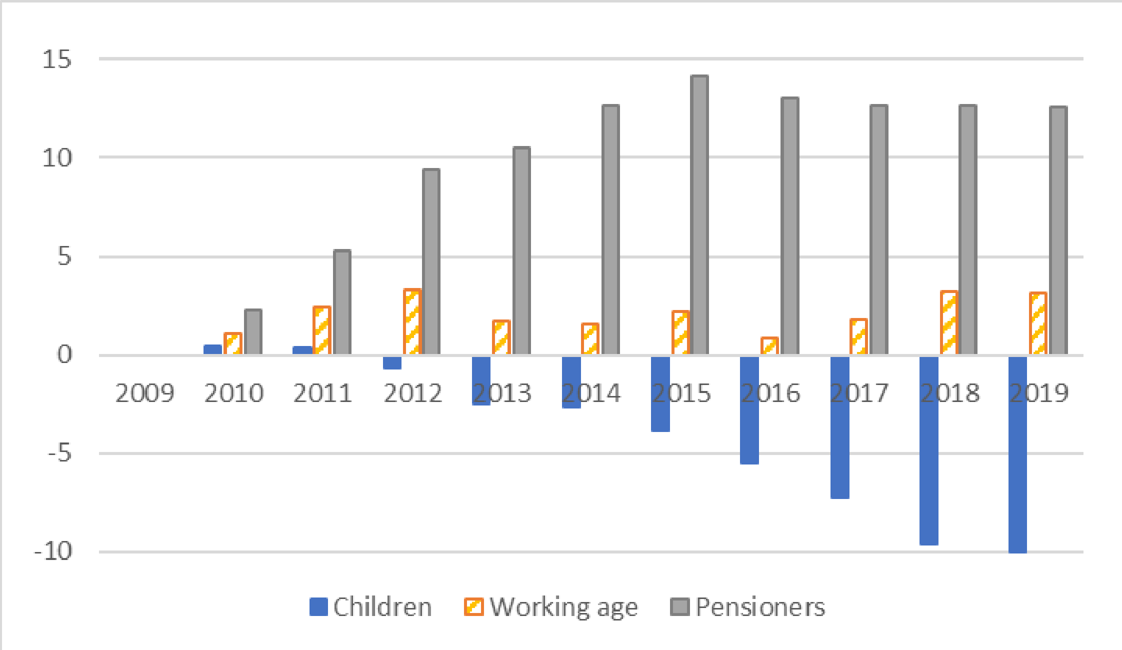
How much did the Conservatives spend?

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 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 fell 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 there was a large change in the balance of spending between age groups (Figure 1). Real spending on pensioners was at the same level in 2019-20 as in 2014-15, £14 billion higher than in 2009-10. Spending related to children (such as Child Benefit and tax credits to families with children) fell both before and after 2015, and by £10 billion over the decade. Spending on pensioners rose to 56 per cent of the total, while child-related spending fell to 17 per cent of the total. Real spending per child aged under 18 fell by a quarter.

Figure 1 Cumulative change in social security and tax credit spending since 2009-10 (£ billion, 19-20 prices, GB)



Source: Department for Work and Pensions (2019) and HMRC (2019). For underlying figures, see Appendix Table A1 in Cooper and Hills (forthcoming)

Driving these changes were increasing spending on state pensions (by themselves 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.

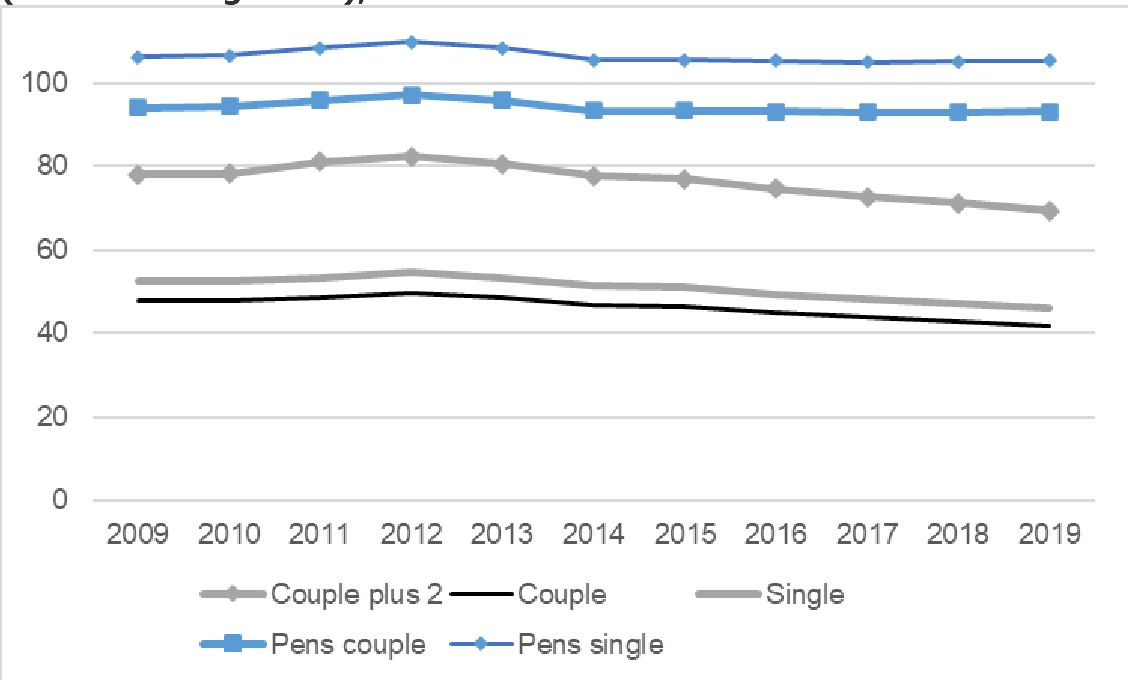
Alongside these changes in benefit payments, DWP's running costs budget fell in real terms by 41% between 2010-11 and 2019-20, from the equivalent of 6.0% to 3.2% of DWP benefit spending. Achieving such savings was an important driver of choices made in delivering Universal Credit, such as claiming on-line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

How well has the social security system performed?

A fundamental measure of the generosity of the social security system is the relationship between the minimum income guaranteed by the state and the poverty line. Here there has been a profound change, as shown in Figure 2. The minimum for pensioners given by Pension Credit remained just below the relative poverty line (using 60 per cent of median income after housing costs) for couples and just above it for single pensioners between 2010-11 and 2019-20. But for single non-pensioners the out-of-work safety net fell from 53% to a maximum of 46% of the poverty line, and for non-pensioner couples from 48% to 42%.

However, restrictions in Council Tax support, Housing Benefit shortfalls and repaying Universal Credit advances mean that net income could be only *a quarter* 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% 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% if they were affected by typical Council Tax and Housing Benefit shortfalls).

Figure 2 Value of the state safety net as percentage of poverty line (After Housing Costs), 2009-10 to 2019-20



Sources: Authors' calculations based on Institute for Fiscal Studies (2019a, 2019b) with Resolution Foundation projections of change in prices from 2017-18 to 2019-20.

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. The rate of sanctions at any one time to Universal Credit claims where conditionality applied initially ran at 10% of claims in March 2017 but had fallen to 2.4% by August 2019.

Incomes of those in work full-time remained above those of equivalent families who were out of work. But for example, for private tenant families with two children and a single full-time earner paid the minimum wage, net income after housing costs would have fallen from just above the relative poverty line in

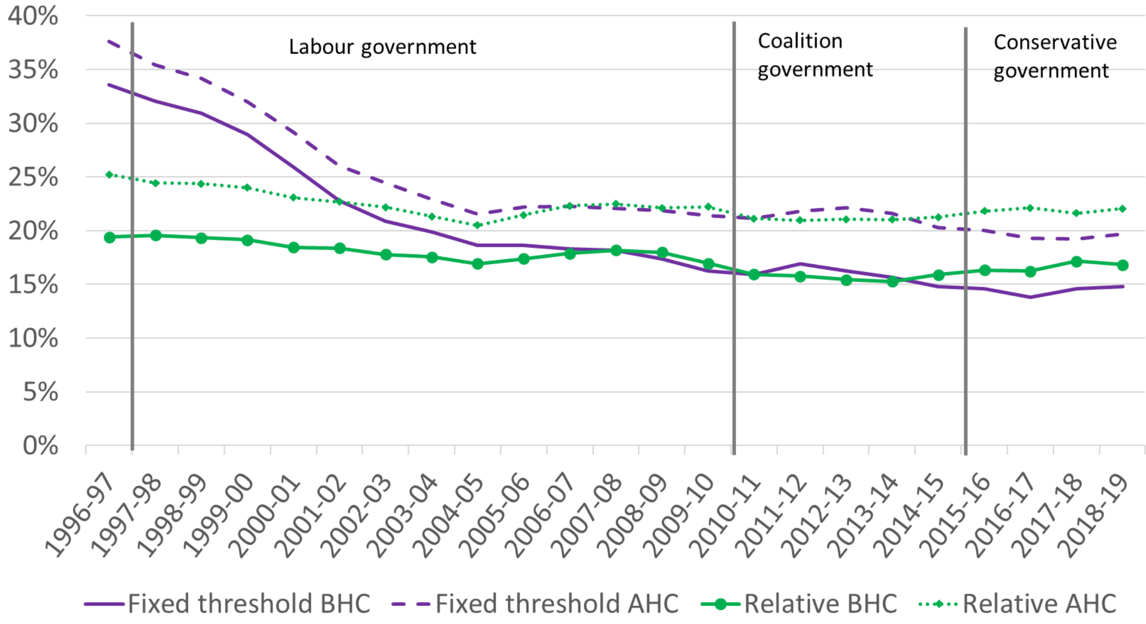
2010-11 to well below it in 2019-20, especially if affected by a Housing Benefit shortfall. Cuts in their benefits and tax credits more than offset the advantages from rising minimum wages and tax allowances. This is one of the drivers of the rise in poverty for families with income from work discussed 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. 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.

What have been the short-term outcomes?

Conventional measures of income poverty show progress stalling. 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 (Figure 3). *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) were reversed, and relative poverty in 2018-19 was at the same level as in 2009-10.

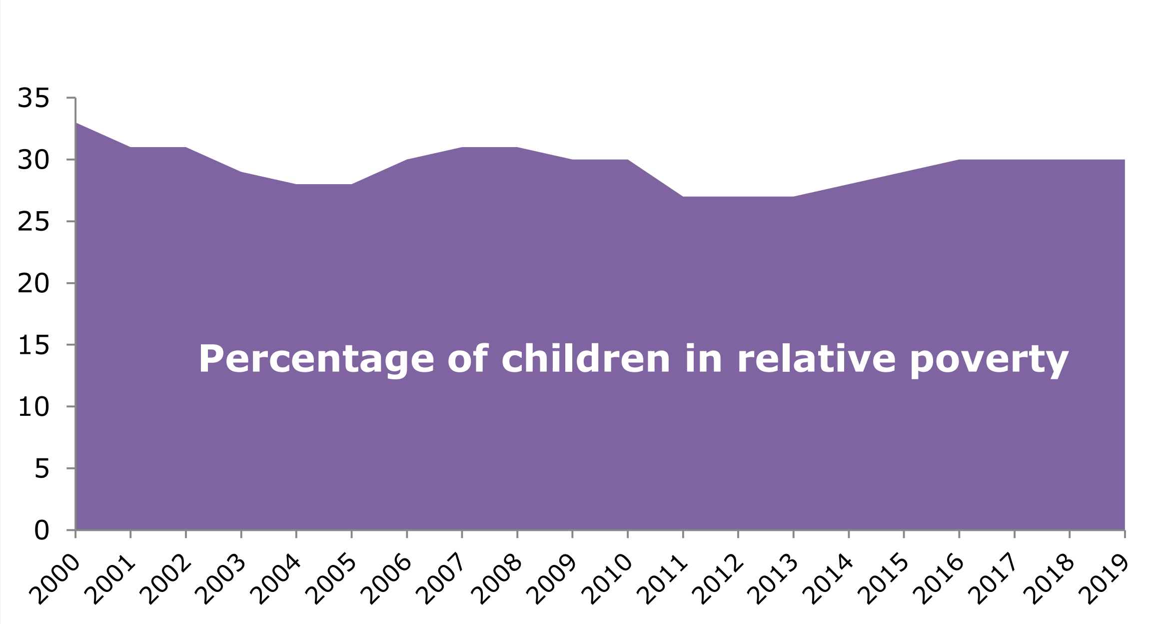
Figure 3 Overall trends in relative poverty and poverty against a fixed threshold, before and after housing costs, 1996-97 to 2018-19



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. GB figures until 2001-02, UK from 2002-03. Source: Institute for Fiscal Studies (2020).

Within these totals, relative poverty rose after 2012-13 for children, taking it back by 2018-19 to 30% (after housing costs), the same level as 2009-10. Against a fixed threshold, child poverty flattened out, but remained lower than in 2009-10. Relative child poverty (after housing costs) increased for children in larger families and children living in families from a Bangladeshi and Pakistani background. Child poverty for children living in single parent families had increased from 2013-14 to 2016-17 before falling back. The increasing reach of policies in place by the end of 2019, especially the two-child limit, implied further increases in relative child poverty.

Figure 4 Trends in relative child poverty after housing costs



Source: Department for Work and Pensions (2020)

Over the long-term, pensioner poverty has fallen. 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 (partly as a result of variations in how private pensions have been reported in different years).

There has been a significant rise in the proportion of those in poverty who also have income from work, part of which is due to the risk of in-work poverty increasing, despite higher tax allowances and minimum wages, as their effects were more than offset by the lower in-work benefits and higher housing costs.

More severe measures of deprivation also showed progress stalling, with an increase in severe income poverty (below 40% of median income) as well as an increase in expenditure poverty, though material deprivation overall fell. There is also evidence that destitution increased between 2017 and 2019, likely to be linked to a range of issues with social security benefits. At the same time, rough sleeping and statutory homelessness in England increased, with more households at risk of homelessness due to increasing shortfalls in rent, following the freeze on Local Housing Allowance and the revised benefit cap.

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 increased employment, a key aim. The effect of the delay in receiving the first payment (or deductions to pay back advances), and the levels of income received on Universal Credit 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. Studies have found increased conditionality to be associated with negative impacts on mental health.

Policy challenges looking forward

The December 2019 Conservative election Manifesto made few new social security announcements. It confirmed the cash freeze on working-age benefits would end, with an increase linked to prices in April 2020. But more than a quarter of the £12 billion cuts planned in 2015 were yet to be implemented, including more families affected by the two-child limit (Gardiner, 2019) and withdrawal of the 'family premium' in UC and tax credits for children born since April 2017. As more transition to UC there will be big changes in amounts of benefit entitlements (with winners and losers), and fewer people helped by 'transitional protection' for those previously receiving tax credits. However, previously announced changes to the National Living Wage will increase earnings of low-wage employees. The Manifesto said that disabled people whose condition was unlikely to change would face fewer reassessments.

In outlining a new immigration system the Manifesto promised restrictions for people coming into the country from the EU, implying only being able to access unemployment, housing and child benefits after five years (as now for non-EEA migrants), as well as increasing the health surcharge. The Manifesto promised not to raise income tax, National Insurance or VAT and to raise the National Insurance threshold. The 2017 manifesto's plan to move to a less generous 'double lock' on pensions was reversed with a promise to keep the triple lock.

Ageing and sustainability

The first long-term challenge 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, but is now almost over, so rising pensioner numbers will combine with the increasing generosity of pensions from the 'triple lock' to increase pressures on the overall social security budget.

Total social security and tax credit spending fell as a share of GDP after 2012 through cutting the real value of working-age benefits and more specific cuts. The gap in treatment of pensioners and non-pensioners has widened considerably, especially after 2015. Even without shortfalls, the real minimum income for non-pensioners without children in 2019-20 was lower than 25 years before.

The challenge is whether it is sustainable to continue to contain overall spending by continued diminution of the relative value of working-age benefits, especially for children, so the system contributes less and less to ameliorating poverty. The 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.

The pension reforms since 2005 relied on a political consensus that may no longer exist, following the accelerated increase in State Pension Ages introduced by the Coalition as an austerity measure and the 'pension freedom' for use of accrued pension without consultation or consensus. The reforms highlight the unanswered question of why pension saving should receive such favourable tax treatment.

The treatment of the non-pensioner population

The effect of the reforms of the 2010s yet to come were projected by the Resolution Foundation before the pandemic to imply 600,000 more children in poverty by 2023-24 than in 2017-18. Part of the background to family hardship has been the growing number of families with children in the private rented sector facing shortfalls in Housing Benefit compared to their rents. 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.

The spread of Universal Credit will mean increasing numbers affected by its design issues including: payment in arrears (or repayment of advances); the need for budgeting to cope with single monthly payments; effects on landlords and their willingness to house UC recipients in the face of potential rent arrears; and effects within some couples from the move to a single household payment.

In principle, those still receiving 'legacy benefits' were to be moved onto Universal Credit by 2025 through 'managed migration'. It is possible that 'legacy' systems may in fact be left to wither on a very extended vine to avoid the painful jolt in treatment for existing recipients. This would leave parallel – and very different – administrative systems in place for years to come.

Successive reforms to disability and incapacity benefits have not reduced overall spending, despite increasing harshness of testing. Many of the roots of this lie outside social security, in the effectiveness of the labour market to adapt to people with different needs and in profound inequalities in health and disability status.

The implications of Brexit

A companion paper has looked in detail at the implications of Brexit for social policies more widely, pointing to four challenges for the social security system:

- The economic outcomes, which at the time of writing are 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 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. 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. 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).

The overall state of the social security system on the eve of the coronavirus pandemic

Social security systems are designed, in varying degrees, to address four aims which give 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 also pointing to areas where it fell short.

Prevention and relief of poverty

Pension Credit should keep most pensioners at least either just above or only just below the conventional relative poverty line. Most future retirees with good National Insurance records will receive a state pension above this. However, the minimum incomes given by Universal Credit (or legacy benefits) for working-age people and children are far less generous, for some far below the poverty line.

The immediate response to the COVID-19 crisis included a temporary flat rate increase for each family in the rate of Universal Credit (or tax credits), funding to increase Council Tax support, and reversal of some of the cuts in Housing Benefit limits since 2013. Those changes did not reflect family size and the two-child limit remains in place. The online claiming system proved a strength of the UC system for many of those who had the IT skills to do so, some of whom also had the resources to cope with payment delays. It remains to be seen 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 very concerning.

Protecting accustomed living standards against unexpected events

Earnings-related additions to working-age social security were abolished in the 1980s, and the scope of 'insurance-based' unemployment benefits dwindled further over the 2010s. The system no longer has a mechanism to protect accustomed living standards for those previously in work. It was the 'furlough' scheme, based on 80 per cent of previous earnings or self-employed profits, that has attempted to protect the previous living standards of those unable to work because of the crisis, rather than the social security system.

Smoothing incomes over the life cycle

A central function of social security is to smooth out incomes over more predictable changes across the life cycle, notably between working careers and retirement, and towards when people have children or other caring responsibilities. The system has increasingly been aimed at the first, with spending on pensioners rising to 56 per cent of the total by 2019-20. Pensioner poverty rates have fallen over the long term and median pensioner incomes were much closer to the overall median by the mid-2010s than 20 years before. By contrast, support for families with children fell over the last decade, by a quarter for each child. The system does much less than it did to even out that part of life cycle variation.

Reducing horizontal inequalities between those with different needs

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 it had been in 1995-6. If 'extra costs' benefits are discounted to allow for those needs in calculating resources, the Social Metrics Commission calculates that nearly half of people living in poverty on their measure live in families containing a disabled member.

Conclusion

The current public health emergency and economic crisis have shown some strengths but also exposed alarming weaknesses in Britain's social security system. There has been no immediate crisis in pensioner incomes. For those not covered by 'furlough' support, actually claiming safety net support through Universal Credit has proved much easier for many new claimants than it would have been under previous systems. 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. 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.

Further information

The full version of this paper *The Conservative Governments' Record on Social Security: Policies, Spending and Outcomes, May 2015 to Pre-Covid 2020* (including references) is available at
https://sticerd.lse.ac.uk/dps/case/spdo/spdorp10.pdf

This is one of a series of papers produced as part of CASE's research programme *Social Policies and Distributional Outcomes in a Changing Britain* (SPDO) funded by Nuffield Foundation. The research examines what progress has been made in addressing inequalities through social policies, looking across ten major social policy areas. The views expressed are those of the authors and not necessarily those of the funders.