Slashing the welfare budget versus “We are all in this together”. The cumulative effect of cuts is more serious than has yet been admitted

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*Collating the meagre information that the government has so far released on its multiple welfare cutbacks, **Jane Tinkler** argues that it will be the knock-on effects that will hit low and middle income families the hardest. The cuts will perhaps fall especially hard on families and individuals where someone becomes recently unemployed, whose numbers will swell by at least million over the next four years.*

It was difficult to get to some of the finer points of the Comprehensive Spending Review (CSR) on Wednesday. The chancellor sped through his announcement at a cracking pace, after all, he had a lot to get through. However, the small print of the welfare measures needs careful examination if only to see how an additional £7 billion reduction is to be made to the welfare bill on top of the £11 billion outlined in the budget in June.

The table below shows the biggest losers and winners from the welfare CSR. The biggest single source of savings is the pre-announced cut to child benefit for higher rate taxpayers amounting to £5.5 billion across the full four year period of the spending review. Then comes the one year time limit for contributory Employment Support Allowance (ESA) recipients, which is due to save £4.6 billion by 2015. Taking all the changes announced to working tax credits together is projected to save £4.3 billion. On the up side, the increase in the child element of the child tax credit shows an increase of £1.8 billion over the period.

£ million	2011-12	2012-13	2013-14	2014-15	TOTAL
Child Benefit cut	0	590	2,420	2,500	5,510
Contributory Employment and Support Allowance time limit	0	1,025	1,530	2,010	4,565
Working Tax Credit: all measures	465	1,115	1,310	1,400	4,290
Support for Mortgage Interest: extend temporary changes	-70	-20	0	0	-90
Cold Weather Payments: increase rate permanently to £25	-50	-50	-50	-50	-200
Child Tax Credit: increase the child element	-190	-510	-545	-560	-1,805
Welfare measures (total)	**320**	**2,555**	**5,990**	**7,040**	**15,905**
Departmental AME budget	155,600	158,200	159,100	163,700	636,000
Cuts as % of AME	0.2	1.6	3.8	4.3	

However even these scarily high figures don’t give the full picture. For many families the knock-on effects of combined changes will hit the hardest.

Much debate in the press has looked at the child benefit cut with some saying that earning over £44,000 automatically means households will be somewhat cushioned when losing child benefit payments. Others argue that for those in London and the South East, or where mortgage payments, child care costs and uncertain employment are key factors, middle income families will feel this pinch. Alan Johnson in his first statement as shadow chancellor instead focused on the importance of the universality of benefits across the board: “you interfere with it at your peril”.

A chunk of these families will also be affected by the three announcements focused on working tax credits (WTC). A major change had already been covered in the budget in June, where WTC will be linked to the consumer price index rather than the retail price index. As other posts have highlighted before in relation to pensions, this means that benefits will fall further away from the ‘real’ cost of inflation and so will be worth less to those trying to live on them.

With social housing being hit elsewhere in the Review, the proposed reduction of housing benefit payments to 90 per cent for those on jobseekers allowance for over a year will have significant impact for single worker or workless households especially in high rent areas such as London and the South East. These families will also be affected by the reduction in Council Tax Benefit of 10 per cent across local authorities by 2013-14. Councils will be given flexibility to manage spending on council tax but “the precise flexibilities . . . are yet to be determined”. So although the CSR document says that those in need will be protected, individual councils will chose to do this in different ways. And with local authority grants slashed by 26 per cent by 2014, substantial council tax increases look likely.

The source of the biggest uncertainty though is the new “single, simple” Universal Credit benefit that will replace all the current working age benefits over the next two parliamentary sessions. An indication of how this benefit may affect households might be seen from the cap on total household benefit that the chancellor announced yesterday of an estimated £500 a week for couples and lone parents and £350 per week for single people. This is taken from the median earnings after tax for working households. Press stories around families receiving £95,000 in benefits abound as alleged justification, but they all seem to be about one family. This measure will again hit middle income families who have recently become unemployed and have high mortgage payments on their existing house still to make. Although the limit on eligible mortgage capital has been increased to £200,000, CSR figures say this will only benefit 14,000 people.

Iain Duncan Smith has negotiated £2 billion to be used to set up this new benefit. However, ministers always tend to under-estimate the costs of reorganizations on which they have set their heart. (For instance, elsewhere on this blog we have explored Andrew Lansley’s NHS reorganization proposals, costed at £1.7 billion officially, but at £3.5 billion by outside experts.) In the past, DWP reorganisations have involved significant spending on IT. The department has a history of ‘big bang’ implementations that have never worked quite as smoothly as planned. They are therefore left with legacy systems dating back to the 1980s still being at the core of IT provision in 2010 and over 150 additional systems sitting perilously on top. With savings of 27 per cent required from moving services online over the next four years, this complex technology picture could eat up much of Mr Duncan Smith’s fund. It could also carry further damaging implications for service levels of DWP customers.

Many people in the public sector (at least half a million) will be losing their jobs because of these cuts. And many more jobs will go in the private sector from people working on government contracts and or public sector suppliers. For most of those affected, the safety net of social security benefits will not be as safe or as comprehensive as in the past. The multiple effects of benefit changes are difficult to model by those outside government, without access to a mass of data. We may have to wait for some time before the human consequences of these measures become clear. However, it is already clear that these effects will be adverse, deeply felt and far reaching.

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