

## **Distribution Sub-Group (2019) Paper 17 – Assessing the impact of universal credit on the Dependent Children in Out of Work Families data**

**This discussion paper has been written by officials of the Welsh Government. Ministers have not had an opportunity to comment on the contents. Exemplifications of changes are provided simply to inform discussion by DSG members. They are not Welsh Government proposals or statements of Government policy for or against changes.**

### **Assessing the impact of universal credit on the Dependent Children in Out of Work Families data**

#### **Summary**

1. This paper undertakes analysis to determine if the staggered roll out of universal credit has caused a distributional change in Dependent Children in Out of Work Families data.

#### **Views sought**

2. This paper is for DSG to be aware of an impact of updating the data source for the 2020-21 settlement and consider and share other potential options ahead of the September DSG meeting.

#### **Related papers**

3. Distribution Sub-Group (2019) – paper 16: The impact of universal credit on the 2019 PLASC FSM data

#### **Background**

4. The Settlement indicators relating to number of dependent children in out of work families are updated on an annual basis using the personal tax credits produced by HMRC.
5. The tax credits that the data indicator is made up of are Working Tax Credits (WTC) and Child Tax Credit (CTC).
6. Universal Credit is replacing these legacy benefits:
  - Working Tax Credit
  - Child Tax Credit
  - income-based Jobseeker's Allowance
  - Income Support
  - income-related Employment and Support Allowance
  - Housing Benefit.

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7. Universal Credit has been transitionally rolled out across the UK since July 2017 and since December 2018, all Welsh local authorities have fully rolled onto universal credits.
8. This means that individuals in Welsh authorities can no longer make new claims for the legacy benefits outlined above.
9. Those on legacy benefits only migrate to universal credit if:
  - they make a new claim because of a change in circumstances;
  - the Department for Work and Pension migrate them to Universal Credit.
10. The transitional rollout, in Wales, ranged from Flintshire in April 2016 to Carmarthenshire/Ceredigion/Gwynedd/Isle of Anglesey in December 2018.
11. This transitional roll-out has seen a distributional impact on other data items across the local government funding formula, such as benefits data (DSG (2016) - paper 17) and the recent concern the group have expressed about eligibility for free school meals (DSG (2019) – paper 16).
12. The dependent children in out of work families indicator distributes 6.7% (or £390m) of the overall settlement calculations, the fourth highest indicator within the model, with a Standard Spending Assessment for 2019-20 of £3,074 per unit.
13. This paper investigates the impact of updating the 2017/18 data to assess if the rollout of universal credit has had a distributional impact on the dependent children in out of work families dataset.

### **Analysis**

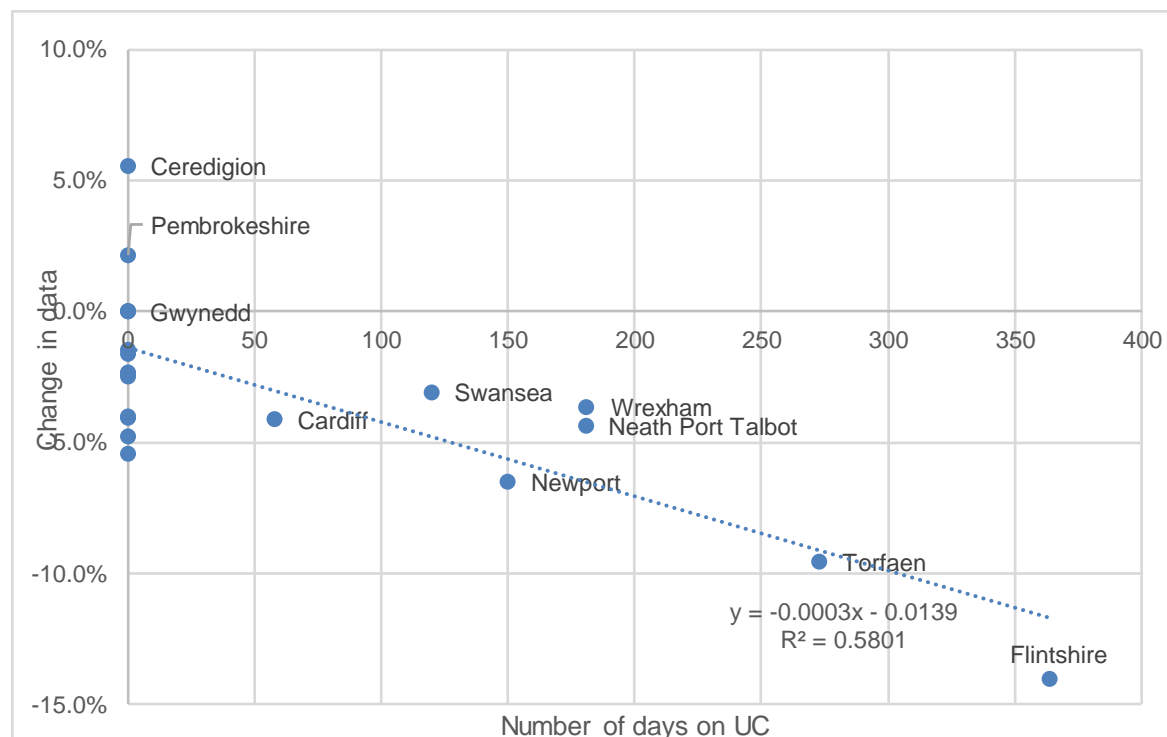
14. The table in Annex A displays the indicator since 2013/14, by number, percentage share and percentage change. The table shows a gradual decrease in the Wales totals since 2013/14.
15. Across local authorities for 2017/18 compared to the previous year, Flintshire had the largest percentage decrease at 14% on the rounded figures or a 0.4 percentage point reduction in their Wales share, this is followed by Torfaen down 9.5% (or down 0.2 percentage points of the Wales share).
16. The largest percentage increase was in Ceredigion up 5.6% or (up 0.1 percentage points of the Wales share) followed by Pembrokeshire up 2.2% (or 0.2 percentage points). The financial impact of updating the data is shown in table 3 in annex B.
17. Flintshire and Torfaen's large decreases raise concerns as to whether the gradual rollout of universal credit is impacting the distribution of the dataset.

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18. Chart 1 below shows the change in the dependent children data compared to the number of days on universal credit.

19. The chart demonstrates that there is some correlation between the number of days on universal credit and the change in the dependent children data. Hence, this suggests that universal credit is having a distributional impact on the data

**Chart 1 – Change in the dependent children between 2017-18 and 2016-17, and the number of days on universal credit.**



### Options

20. Given universal credit seems to be impacting the distribution of the data, this paper is to ensure the group have time to digest the information and consider alternative options for the 2020-21 settlement.

21. A decision will be required at the September DSG on the treatment of the indicator for the 2020-21 settlement, to be included in the final DSG report ahead of the Finance sub-group (FSG) on 25 September. To aid the group's decision-making, a more detailed options paper will be presented at the September DSG. This paper will outline the financial implications of all the options currently considered. These options are:

- Freeze/average the data
- Replace with a new data source
- include an element of the universal credit dataset within the current data item

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- Reverse out the impact through the regression model.
22. Members are asked to circulate any other options they consider to be fit for purpose ahead of the meeting to potentially be included in the paper.

### **Conclusion**

23. The staggered rollout of universal credit is having an impact on the distribution of the dependent children in out of work families indicator, with Torfaen and Flintshire potentially losing the largest amounts of funding, if the data is updated for the 2020-21 settlement.
24. In the longer-term, it may be possible to consider different indicators for inclusion in the settlement; however, for 2020-21, with little time to test and implement significant changes, DSG members need to consider a potential way forward. Among other options, this may be to freeze the data, include an element of the universal credit dataset, use an average of the data or some combination of these options.

**Local Government Finance and Workforce Partnerships**  
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Table 1: The number of children in recipient of out of work families, local authority shares and the relative shares by year

Unitary Authority	Number of Children in recipient out of work families					Local Authority Proportions					Percentage Point difference compared with previous year				
	2013/14	2014/15	2015/16	2016/17	2017/18	2013/14	2014/15	2015/16	2016/17	2017/18	2013/14	2014/15	2015/16	2016/17	2017/18
Anglesey	2,800	2,600	2,600	2,500	2,400	2.0%	1.9%	2.0%	2.0%	2.0%	0.0%	-0.1%	0.1%	0.0%	0.0%
Gwynedd	3,700	3,500	3,600	3,500	3,500	2.7%	2.6%	2.8%	2.8%	2.9%	0.0%	0.0%	0.2%	0.0%	0.1%
Conwy	4,400	4,300	4,100	4,000	3,900	3.2%	3.2%	3.2%	3.2%	3.2%	0.0%	0.1%	-0.1%	0.0%	0.0%
Denbighshire	4,400	4,400	4,200	4,200	4,100	3.2%	3.3%	3.2%	3.3%	3.3%	0.0%	0.1%	-0.1%	0.1%	0.0%
Flintshire	5,600	5,400	5,200	5,000	4,300	4.0%	4.0%	4.0%	3.9%	3.5%	0.0%	0.0%	0.0%	-0.1%	-0.4%
Wrexham	5,800	5,700	5,500	5,500	5,300	4.2%	4.3%	4.3%	4.3%	4.3%	-0.1%	0.1%	0.0%	0.1%	0.0%
Powys	3,300	3,100	3,000	2,900	2,900	2.4%	2.3%	2.3%	2.3%	2.4%	0.0%	-0.1%	0.0%	0.0%	0.1%
Ceredigion	1,800	1,800	1,800	1,800	1,900	1.3%	1.3%	1.4%	1.4%	1.6%	0.0%	0.1%	0.0%	0.0%	0.1%
Pembrokeshire	4,700	4,500	4,400	4,600	4,700	3.4%	3.4%	3.4%	3.6%	3.8%	-0.1%	0.0%	0.0%	0.2%	0.2%
Carmarthenshire	7,200	7,100	6,900	6,900	6,800	5.2%	5.3%	5.3%	5.4%	5.6%	0.1%	0.1%	0.0%	0.1%	0.1%
Swansea	10,300	10,000	9,800	9,800	9,500	7.4%	7.5%	7.6%	7.7%	7.8%	0.0%	0.1%	0.1%	0.1%	0.0%
Neath Port Talbot	7,200	7,000	6,900	6,900	6,600	5.2%	5.2%	5.3%	5.4%	5.4%	0.0%	0.1%	0.1%	0.1%	0.0%
Bridgend	7,100	6,700	6,500	6,300	6,200	5.1%	5.0%	5.0%	5.0%	5.1%	0.1%	-0.1%	0.0%	-0.1%	0.1%
Vale of Glamorgan	4,800	4,600	4,400	4,300	4,200	3.5%	3.4%	3.4%	3.4%	3.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Rhondda Cynon Taf	13,400	12,900	12,500	12,300	11,800	9.7%	9.7%	9.7%	9.7%	9.6%	0.0%	0.0%	0.0%	0.0%	-0.1%
Merthyr Tydfil	3,600	3,400	3,300	3,200	3,200	2.6%	2.5%	2.6%	2.5%	2.6%	0.0%	0.0%	0.0%	0.0%	0.1%
Caerphilly	9,700	9,200	8,900	8,500	8,300	7.0%	6.9%	6.9%	6.7%	6.8%	-0.1%	-0.1%	0.0%	-0.2%	0.1%
Blaenau Gwent	4,300	4,100	3,900	3,700	3,500	3.1%	3.1%	3.0%	2.9%	2.9%	0.0%	0.0%	-0.1%	-0.1%	-0.1%
Torfaen	4,800	4,600	4,400	4,200	3,800	3.5%	3.4%	3.4%	3.3%	3.1%	0.1%	0.0%	0.0%	-0.1%	-0.2%
Monmouthshire	2,300	2,200	2,200	2,100	2,000	1.7%	1.6%	1.7%	1.7%	1.6%	-0.1%	0.0%	0.1%	0.0%	0.0%
Newport	8,700	8,400	8,000	7,700	7,200	6.3%	6.3%	6.2%	6.1%	5.9%	0.1%	0.0%	-0.1%	-0.1%	-0.2%
Cardiff	18,800	17,900	17,300	17,000	16,300	13.6%	13.4%	13.4%	13.4%	13.3%	0.0%	-0.1%	0.0%	0.0%	-0.1%

Table 2: Change in 2019-20 AEF when updating the children in out of work families data

	Actual 2019-20 AEF before floor (1)	Updated 2017/18 Dependent children data (2)	Difference (£000s) (2)-(1)	Percentage change (2)/(1) - 1
Isle of Anglesey	95,522	95,486	-36	0.0%
Gwynedd	176,552	176,947	396	0.2%
Conwy	153,501	153,634	133	0.1%
Denbighshire	143,637	143,793	156	0.1%
Flintshire	188,444	186,778	-1,666	-0.9%
Wrexham	175,252	175,236	-16	0.0%
Powys	173,077	173,405	328	0.2%
Ceredigion	102,091	102,614	522	0.5%
Pembrokeshire	162,448	163,286	839	0.5%
Carmarthenshire	260,388	260,850	461	0.2%
Swansea	322,211	322,362	151	0.0%
Neath Port Talbot	214,796	214,619	-176	-0.1%
Bridgend	191,807	192,200	393	0.2%
The Vale Of Glamorgan	152,070	152,238	167	0.1%
Rhondda Cynon Taf	367,339	367,136	-203	-0.1%
Merthyr Tydfil	91,304	91,666	362	0.4%
Caerphilly	268,614	268,938	323	0.1%
Blaenau Gwent	110,815	110,596	-219	-0.2%
Torfaen	132,650	131,850	-800	-0.6%
Monmouthshire	92,470	92,388	-81	-0.1%
Newport	214,343	213,620	-723	-0.3%
Cardiff	444,629	444,320	-310	-0.1%
Total Unitary Authorities	4,233,961	4,233,961		