

## **Distribution Sub-Group (2019) Paper 18 – 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.**

### **Summary**

1. This paper provides a series of options to agree given the staggered roll out of universal credit is causing a distributional change in Dependent Children in Out of Work Families data.

### **Views sought**

2. This paper is for DSG agree the treatment of the indicator ahead of the 2020-21 settlement.

### **Related papers**

3. Distribution Sub-Group (2019) – paper 17: The impact of universal credit on the dependent children indicator.

### **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.
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 credit.

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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 April 2016 in Flintshire to December 2018 in Carmarthenshire, Ceredigion, Gwynedd and Isle of Anglesey.
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 provides further options of the treatment of the indicator for the 2020-21 settlement given DSG (2019) paper -17 shows that universal credit has had a distributional impact on the dependent children in out of work families' dataset.

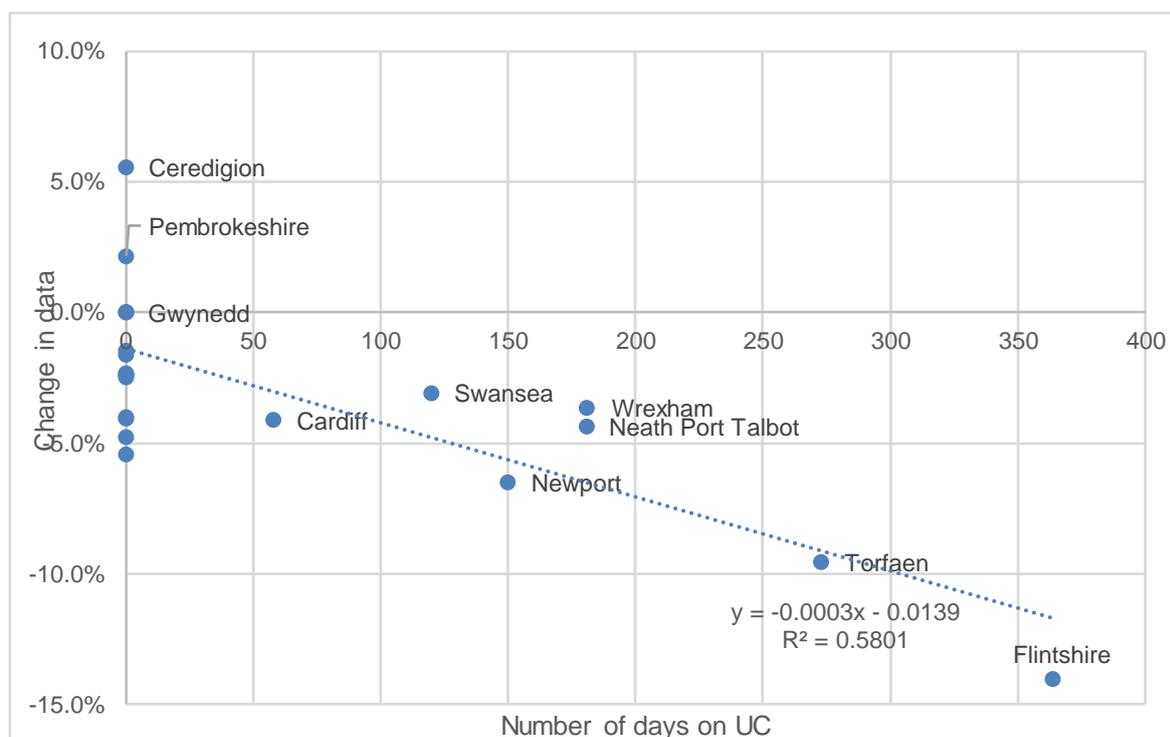
### **Analysis**

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

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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 is impacting the distribution of the dataset, this paper provides further options ahead of the 2020-21 settlement.
21. A decision will be required on the treatment of the indicator for the 2020-21 settlement ahead of the submitting the final DSG report to the Finance sub-group (FSG) on 25 September. To aid the group's decision-making, the more detailed options presented below outline the financial consequences of choosing these options. These options are:

#### Option 1: Freeze

22. Freezing the data means that there would be no financial impact compared to 2019-20 settlement. This would allow the group further time to considered alternative options, if they feel the other options presented in this paper do not reflect an equitable distribution.
23. While there may be some impact of UC on the data used in the 2019-20 settlement, as the data is from 2016-17, the effects are not pronounced enough for us to be able to disentangle them from normal fluctuations in the data.

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### **Option 2: Update to the latest data**

24. This option should be considered if the group feel that the distributional impact of using the latest data, even with the large financial implications, reflect the need to spend (See annex B – column (2)).
25. This option would mean that Flintshire would have the largest monetary decrease, down £1.666m, followed by Torfaen (down £0.8m). Pembrokeshire would have the largest monetary increase (up £0.8m).

### **Option 3: Using a three year average**

26. The third option to attempt to alleviate or remove the distributional issues would be to use an historic average. This option should reduce the volatility in the year-on-year changes, making the financial changes more stable across local authorities (See annex B – table 2).
27. Column (3) in annex B demonstrates the impact of taking a three year average, including 2017-18, of the dependent children data.
28. The table shows that using this option that Flintshire would have the largest financial decrease, down £0.4m, followed by Neath Port Talbot (down £0.2m). Caerphilly would see the largest monetary increase, up £0.3m, followed by Bridgend (up £0.2m).
29. This would provide some further stability and act as a temporary solution to the treatment of the indicator for the 2020-21 settlement. However, the clear impact of UC would still be picked up in the figures.
30. The indicator going forward will not include those on Universal credit, so the distribution of the indicator is still going to be skewed in future years, with the dependent children indicator reducing and the universal credit caseload becoming larger, hence this option would not be a long term solution.

### **Option 4 – include the universal credit data**

31. Given the current indicator will be captured within Universal credit going forward, we could combine with some universal credit data in the estimates, similar to the benefits data set, to ensure that the indicator remains more reflective.
32. The Department for Work and Pensions (DWP) collect and publish data on universal credit on their data dissemination website – [Stats-Xplore](#).
33. One dataset that might match the current indicator would be households on Universal Credit broken down by family type and entitlement type. From this dataset, selecting family types (those with child dependents), Entitlement (those in receipt of Child

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entitlement) and month (calculating a 12 month average). We can then combine with the current data. See annex C for more information.

34. Note there are two distinct differences between these datasets:

- the universal credit doesn't allow us to distinguish whether the household is unemployed or not;
- the universal credit counts households, whilst the current indicator counts the number of children. *(Note: a multiplication factor can be incorporated if the group deems this to be necessary, in essence this would increase the relative share for those with high numbers of Universal credit counts).*

35. The financial implication of incorporating the households on universal credit data is seen in column (4) of annex B.

36. The financial changes in this option range from nearly a £0.6m increase in Flintshire to nearly a £1.2m decrease in Cardiff.

37. This option only compares the combined latest children in out of work families data and universal credit data to the dependent children in out of work families' data used in the 2019-20 settlement. This therefore assumes that the 2019-20 data was not influenced by universal credit, hence these financial changes could be as a result of universal credit having 2 years of impact on the data but more extreme in the latest 2017-18 dataset.

38. This could provide a long term solution of the treatment of the indicator, but would mean in theory that the regression modelling for calculating the underlying indicator weightings would have to be re-run.

### **Options 5 – take a three year average of both the indicator and universal credit data**

39. To reduce the financial volatility of option 4, option 5 takes a three year average of the combined dependent children in out of work families and households on universal credit with child entitlement data.

40. The financial difference compared to the 2019-20 settlement ranges from nearly a £0.5m increase in Flintshire to nearly £0.5m decrease in Cardiff (see annex B column (5)).

41. This option would reduce the volatility in the indicator going forward, meaning that this could be long term option for future settlements.

### **Option 6 - Reverse out the impact through the regression model.**

42. There is potential in using the regression model to reverse out the effect of universal credit, but due to the lack of data points in 2017-18 it would also not be a statistically robust to base further assumptions on this model. This would also add an additional

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layer of complexity to the current complexities in the formula and would not help aid individuals understanding of the formula.

### **Option 7 – Find a new data source**

43. Other data sources, such as the children looked after data collection, could be used to replace the indicator in some cases in the future. It is important that the group have enough time to make an evidence based decision and fully consider the implications of making such a change. For example if the children looked after data was used, it would mean that the formula would reward LAs who take more children into care and penalises those who reduce their cohorts, so authorities could see a financial consequence of reducing their children looked after figures.

### **Recommendation**

44. The group are recommended to discuss the options outlined in this paper and agree either option 1, 3 or option 5 for the 2020-21 settlement. (Option 1 could also be combined with a 3-year average, if we wanted to smooth the data further).

### **Conclusion**

45. The options in this paper should allow the DSG to make an informed decision of this indicator going forward.

46. Universal credit has been affecting the distribution of other underlying settlement data for 2020-21, such as the eligible for free school meals (DSG (2019) - Paper 19) and the housing benefits (DSG (2019) – Paper 20) indicators.

47. Given the group have also been given options on these other datasets, which similarly attempt to reduce or remove the distributional effects that universal credit has had on the data, it would be beneficial in considering a consistent approach across all three indicators.

48. The different indicators outlined have a varying financial impact, but it's important that DSG consider the consistency across indicator in making these decisions.

49. The group are asked to consider these three papers together and whether each indicator requires a different option applied to them or if similar approaches can be used across the suite of indicators.

50. DSG members are required to make a decision of treatment of the dependent children indicator ahead of the 2020-21 settlement.

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Annex A

**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%

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**Annex B**

**Table 2: The financial impact of updating/amending the data source**

*£000s*

	Actual 2019-20 AEF before floor (1)	Updated 2017/18 Dependent children data (2)	Three year averaged Dependent children data to 2017/18 (3)	Latest dependent children data and households on universal credit with child entitlement 17-18 (4)	Three year average of dependent children data and households on universal credit with child entitlement data (5)	Difference (2)-(1)	Difference (3)-(1)	Difference (4)-(1)	Difference (5)-(1)
Isle of Anglesey	95,522	95,486	95,562	95,414	95,540	-36	41	-107	18
Gwynedd	176,552	176,947	176,712	176,786	176,655	396	160	235	103
Conwy	153,501	153,634	153,566	153,491	153,522	133	65	-10	21
Denbighshire	143,637	143,793	143,602	143,662	143,559	156	-35	25	-77
Flintshire	188,444	186,778	188,010	189,040	188,928	-1,666	-434	597	484
Wrexham	175,252	175,236	175,135	175,656	175,278	-16	-117	404	26
Powys	173,077	173,405	173,227	173,277	173,179	328	150	200	102
Ceredigion	102,091	102,614	102,224	102,508	102,186	522	132	417	95
Pembrokeshire	162,448	163,286	162,419	163,036	162,331	839	-28	588	-117
Carmarthenshire	260,388	260,850	260,397	260,508	260,280	461	9	120	-108
Swansea	322,211	322,362	322,061	322,300	322,027	151	-150	90	-184
Neath Port Talbot	214,796	214,619	214,599	214,967	214,711	-176	-197	171	-84
Bridgend	191,807	192,200	192,012	191,901	191,908	393	205	94	101
The Vale Of Glamorgan	152,070	152,238	152,140	152,016	152,057	167	70	-55	-14
Rhondda Cynon Taf	367,339	367,136	367,230	366,501	366,988	-203	-109	-838	-351
Merthyr Tydfil	91,304	91,666	91,459	91,504	91,400	362	155	200	96
Caerphilly	268,614	268,938	268,958	268,533	268,816	323	344	-81	202
Blaenau Gwent	110,815	110,596	110,875	110,433	110,811	-219	60	-383	-4
Torfaen	132,650	131,850	132,512	132,958	132,873	-800	-138	308	223
Monmouthshire	92,470	92,388	92,504	92,300	92,473	-81	34	-170	3
Newport	214,343	213,620	214,262	213,738	214,282	-723	-81	-606	-61
Cardiff	444,629	444,320	444,493	443,430	444,158	-310	-136	-1,199	-472
<b>Total Unitary Authorities</b>	<b>4,233,961</b>	<b>4,233,961</b>	<b>4,233,961</b>	<b>4,233,961</b>					

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**Annex C**

**Table 3: The average number of households on universal credit with children and receiving child entitlement**

	2015-16	2016-17	2017-18	2018-19
Isle of Anglesey	-	9	26	78
Gwynedd	-	6	19	107
Conwy	-	15	33	528
Denbighshire	-	12	41	616
Flintshire	60	136	811	2,041
Wrexham	4	17	242	1,575
Powys	-	2	18	183
Ceredigion	-	-	5	52
Pembrokeshire	-	2	15	264
Carmarthenshire	2	11	28	195
Swansea	-	15	172	2,252
Neath Port Talbot	3	17	245	1,596
Bridgend	1	11	30	712
Vale of Glamorgan	-	2	14	206
Rhondda Cynon Taf	-	5	36	375
Merthyr Tydfil	-	2	13	313
Caerphilly	1	15	38	531
Blaenau Gwent	-	3	19	337
Torfaen	1	14	432	1,537
Monmouthshire	-	6	12	242
Newport	1	8	183	1,833
Cardiff	-	9	45	2,457
<b>Average Wales</b>	<b>82</b>	<b>315</b>	<b>2,474</b>	<b>19,209</b>
<b>Total Average LAs</b>	<b>72</b>	<b>317</b>	<b>2,476</b>	<b>18,029</b>

*Source: Households on Universal Credit, DWP*