

# The impact of welfare reform across Britain

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# Publications

- *Hitting the Poorest Places Hardest: the local and regional impact of welfare reform*

by Christina Beatty and Steve Fothergill

available at [www.shu.ac.uk/cresr](http://www.shu.ac.uk/cresr)

- Scotland (x4), Wales and Northern Ireland reports; Sheffield household impact study
- Interactive map on *Financial Times* website
- Academic article in CJRE

# The pre-2015 reforms

- Housing Benefit: Local Housing Allowance
- Housing Benefit: Under-occupation ('bedroom tax')
- Non-dependant deductions
- Household benefit cap
- Council Tax Benefit
- Disability Living Allowance
- Incapacity benefits
- Child Benefit
- Tax Credits
- 1 per cent up-rating

# The reforms (1)

- Housing Benefit: Local Housing Allowance
  - 50<sup>th</sup> to 30<sup>th</sup> percentile for setting rents in private sector
  - Cap on rents based on property size
  - Abolition of £15 'excess' payments
  - Age limit for shared accommodation up from 25 to 35
  - CPI indexation
  
- Housing Benefit: under-occupation ('bedroom tax')
  - Payments to working age claimants in social rented sector set at level that reflects size and age composition of household
  
- Non-dependant deductions
  - Higher deductions from HB to reflect contribution that non-dependant household members are expected to make to housing costs

## The reforms (2)

- Household benefit cap
  - Cap on total payments to working-age claimants
  
- Council Tax Benefit
  - 10% reduction in grant from central government
  - Can be passed on only to working age households
  
- Disability Living Allowance
  - Replacement of DLA by Personal Independence Payments
  - More stringent and regular medical test
  - Reduction in number of payment categories

## The reforms (3)

### ■ Incapacity benefits

- Employment and Support Allowance (ESA) replacing previous benefits
- Tougher medical test – Work Capability Assessment
- Re-testing of existing claimants
- New conditionality in Work-Related Activity Group
- Time limiting of non-means tested benefit for ESA claimants in Work-Related Activity Group

### ■ Child Benefit

- Three year freeze
- Withdrawal from households with higher earner

# The reforms (4)

- Tax credits
  - Adjustments to thresholds, withdrawal rates, supplements, income disregards and backdating
  - Changes to indexation and up-rating
  - Reduction in childcare element of WFTC
  - Increase in working hours requirement for WFTC
  
- 1 per cent up-rating
  - Up-rating by 1 per cent rather than CPI for three years for main working age benefits and LHA element of Housing Benefit

# Not included.....

- Universal Credit
  - Essentially a re-packaging of existing benefits
  - Not expected to result in net reduction in benefit entitlement
  - Most of impact will be felt well beyond 2015
  
- Income Support for lone parents
  - Transfer to JSA at same rates
  
- RPI to CPI up-rating
  - Wider public sector accounting reform



# The new cuts in welfare

- Reductions in tax credits
- Lower household benefit cap
- Lower ESA payments for claimants in work-related activity group
- Four-year freeze in most working-age benefits
- Rent reductions in social rented sector (to cut HB payment)

But also:

- National Living Wage
- Increase in personal tax allowances

# Measuring the impacts

- Treasury estimates of the overall financial saving arising from each element of the pre-2015 reforms
- Government *Impact Assessments*
- Benefit claimant numbers and expenditure, by local authority
- Additional official statistics
- DWP evidence from pilot schemes

## Statistical issues to bear in mind....

- Some reforms target *households*, others *individuals*
- Some people are hit by more than one element of the reforms
- Almost exclusively the impact is on *working age benefit claimants*
- Impact when reforms are fully implemented
- All other factors held constant – in particular, no assumption that lower benefits lead to higher employment

## Financial loss - updated estimates for GB

	Loss (£m p.a.)	Average loss per affected claimant £ p.a.
Tax Credits	4,210	930
Child Benefit	3,030	400
Disability Living Allowance	2,870	2,600.
1 per cent uprating	2,700	270
Incapacity benefits	2,480	2,000
Housing Benefit: LHA	1,670	1,200
Housing Benefit: 'bedroom tax'	350	750
Council Tax Benefit	340	140
Non-dependant deductions	210	700
Household benefit cap	130	4,600
<b>Total</b>	<b>17,980</b>	<b>n.a.</b>

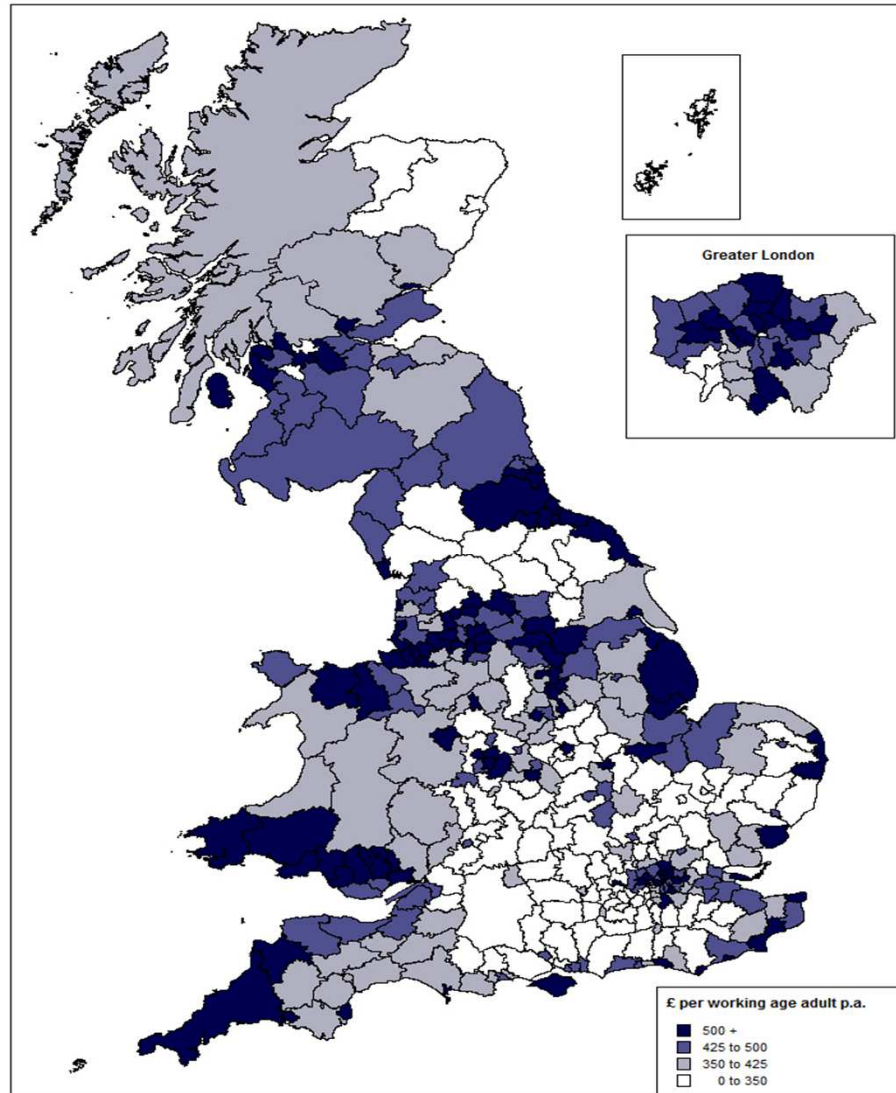
Source: Sheffield Hallam estimates based on official data

## Financial loss by region - updated estimates

	Overall loss £m p.a.	Per working age adult £ p.a.
North West	2,420	530
North East	890	530
Wales	1,010	520
London	2,750	490
Yorkshire & the Humber	1,610	470
West Midlands	1,670	470
Scotland	1,520	440
East Midlands	1,260	430
South West	1,390	420
East of England	1,440	390
South East	2,020	370
<b>GB</b>	<b>17,980</b>	<b>450</b>

Source: Sheffield Hallam estimates based on official data

# Financial loss, by local authority



# Worst-hit 30 local authority districts (updated)

## Loss per working age adult £ p.a.

Blackpool	860	Barking & Dag	640	Rhondda C T	620
Westminster	790	Thanet	640	Enfield	620
Knowsley	750	Rochdale	640	Salford	600
Middlesbrough	680	Blaenau Gwent	640	Wirral	600
Torbay	670	Blackburn	640	Caerphilly	600
Merthyr Tydfil	670	Hyndburn	630	Oldham	600
Liverpool	660	Burnley	630	St Helens	600
Hartlepool	660	Brent	630	Hull	590
Hastings	650	Stoke on Trent	630	Haringey	590
Neath Port Talbot	650	Hackney	630	Sandwell	590

Source: Sheffield Hallam estimates based on official data

## Least-hit 20 local authority districts (updated)

### Loss per working age adult £ p.a.

Mid Sussex	280	Winchester	260
Shetland	270	South Buckinghamshire	260
Waverley	270	South Northamptonshire	260
Harborough	270	Rutland	260
Cotswold	270	South Oxfordshire	260
Horsham	270	Guildford	260
Surrey Heath	270	Wokingham	250
South Cambridgeshire	270	Hart	240
Chiltern	260	Cambridge	230
Mole Valley	260	City of London	140

Source: Sheffield Hallam estimates based on official data



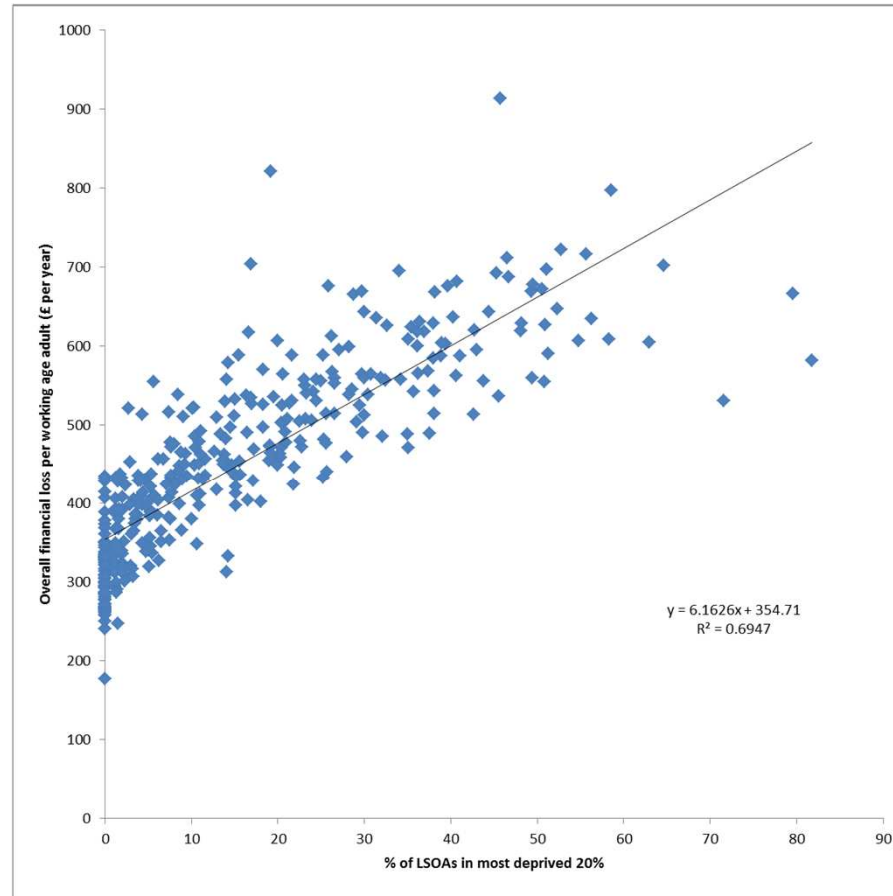
## Core cities

### Loss per working age adult £ p.a.

Liverpool	660
Glasgow	580
Birmingham	580
Manchester	560
Nottingham	530
<i>London</i>	<i>490</i>
Newcastle upon Tyne	460
Bristol	450
Cardiff	450
Sheffield	440
Leeds	440

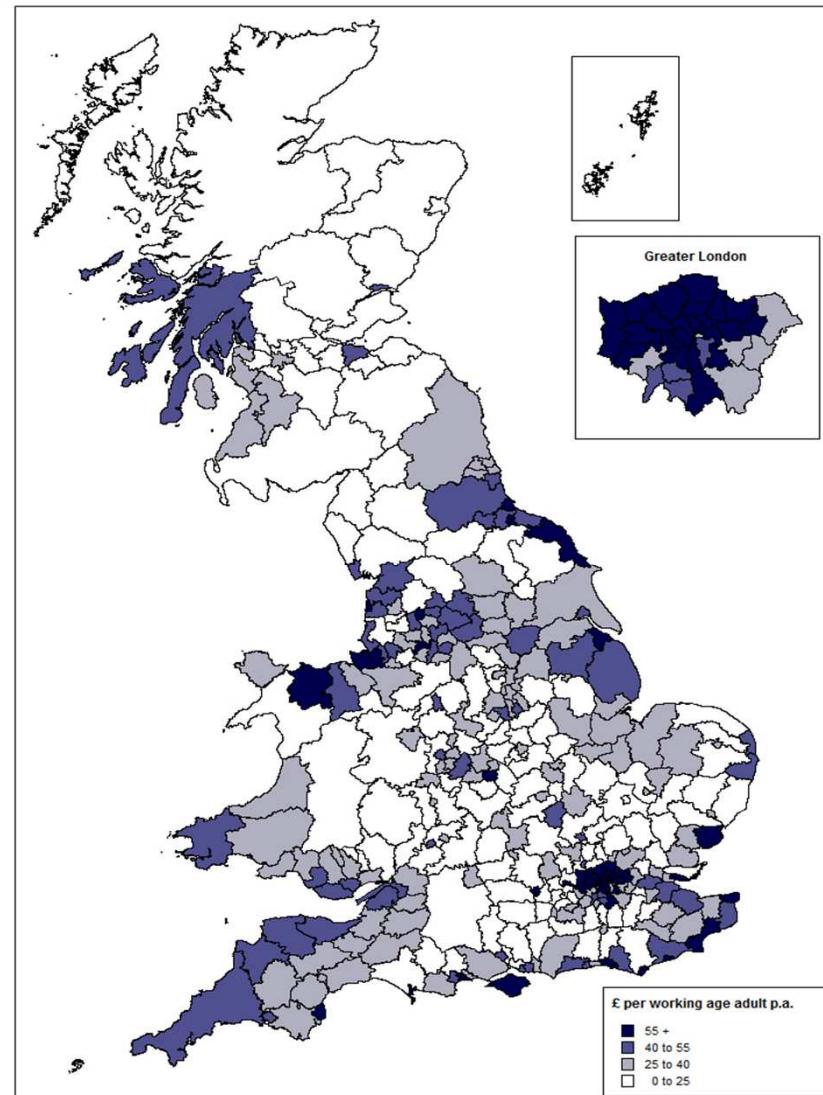
Source: Sheffield Hallam estimates based on official data

# Relationship to deprivation, by district

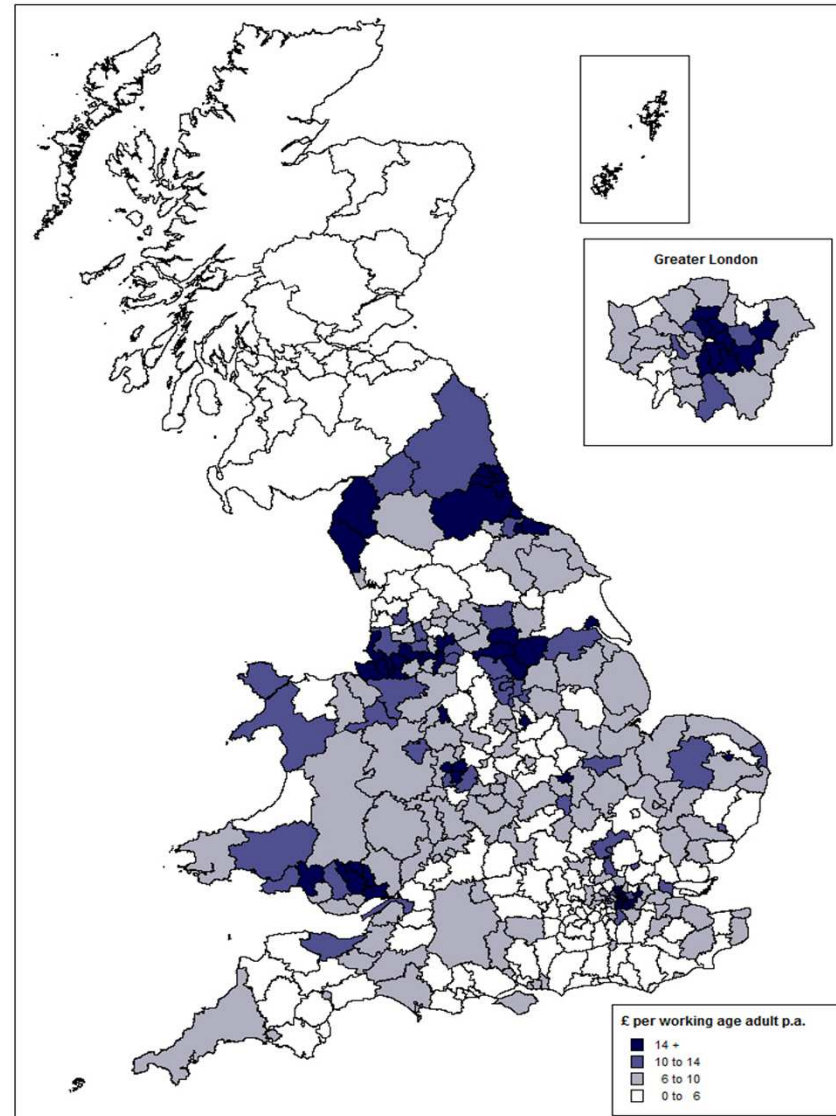


Sources: Sheffield Hallam estimates and Payne and Abel (2012) based on Indices of Deprivation for England, Wales and Scotland

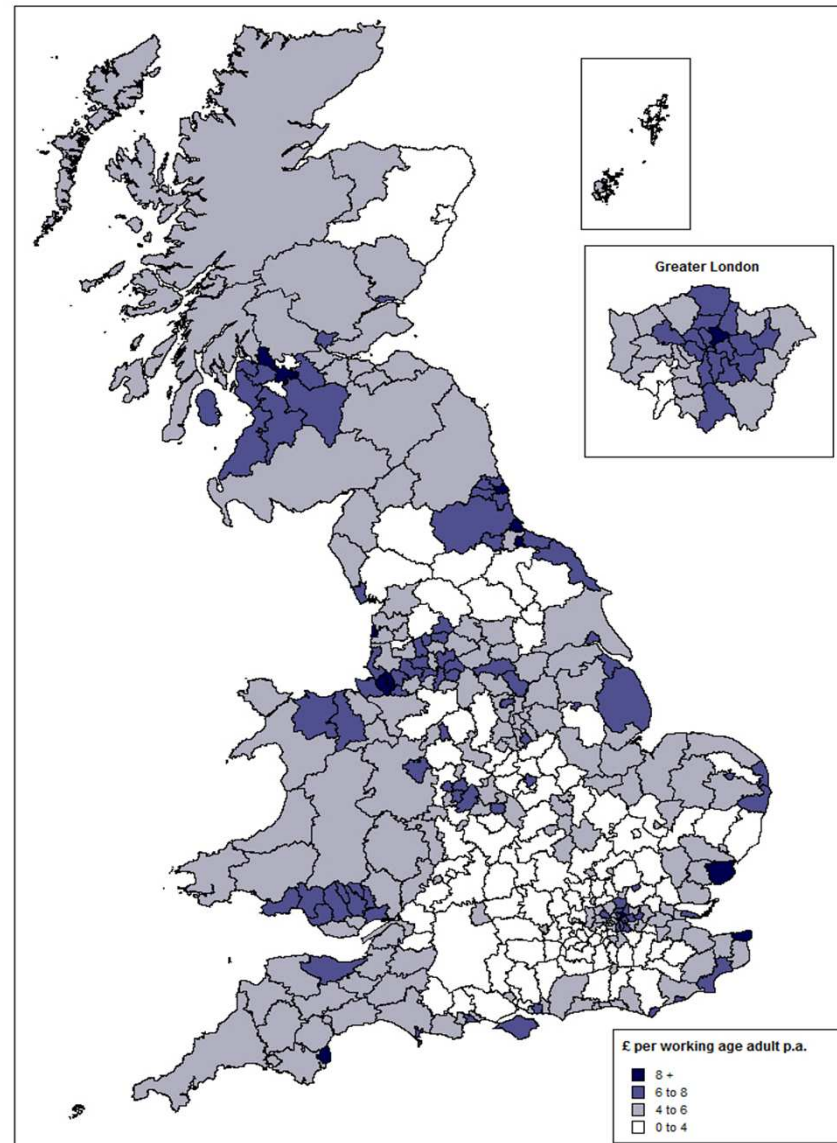
# Housing Benefit: LHA



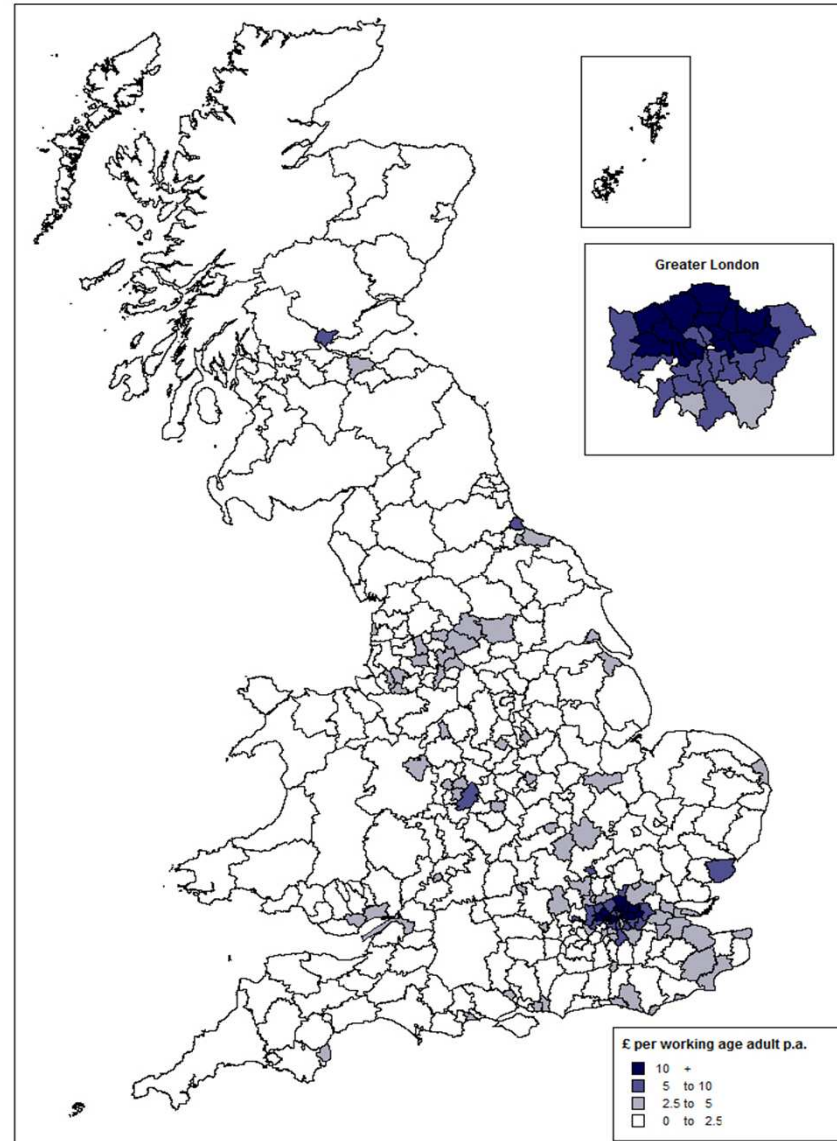
# Housing Benefit: 'bedroom tax'



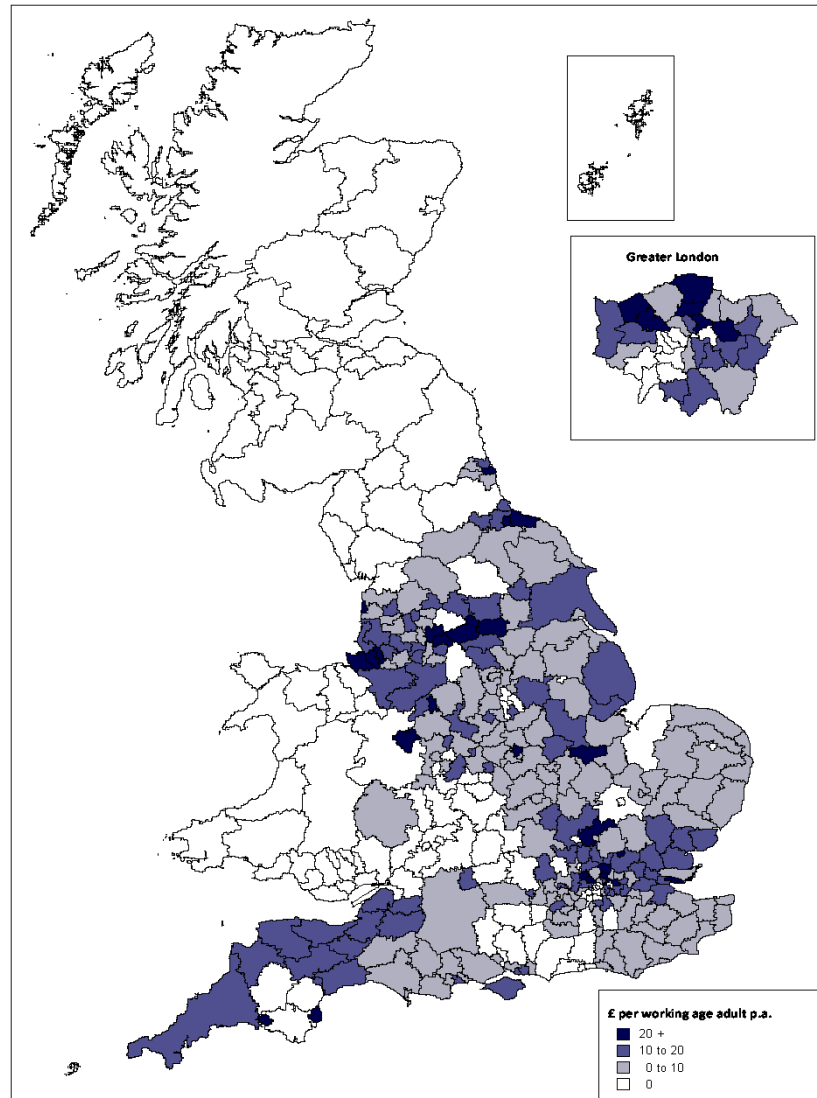
# Non-dependant deductions



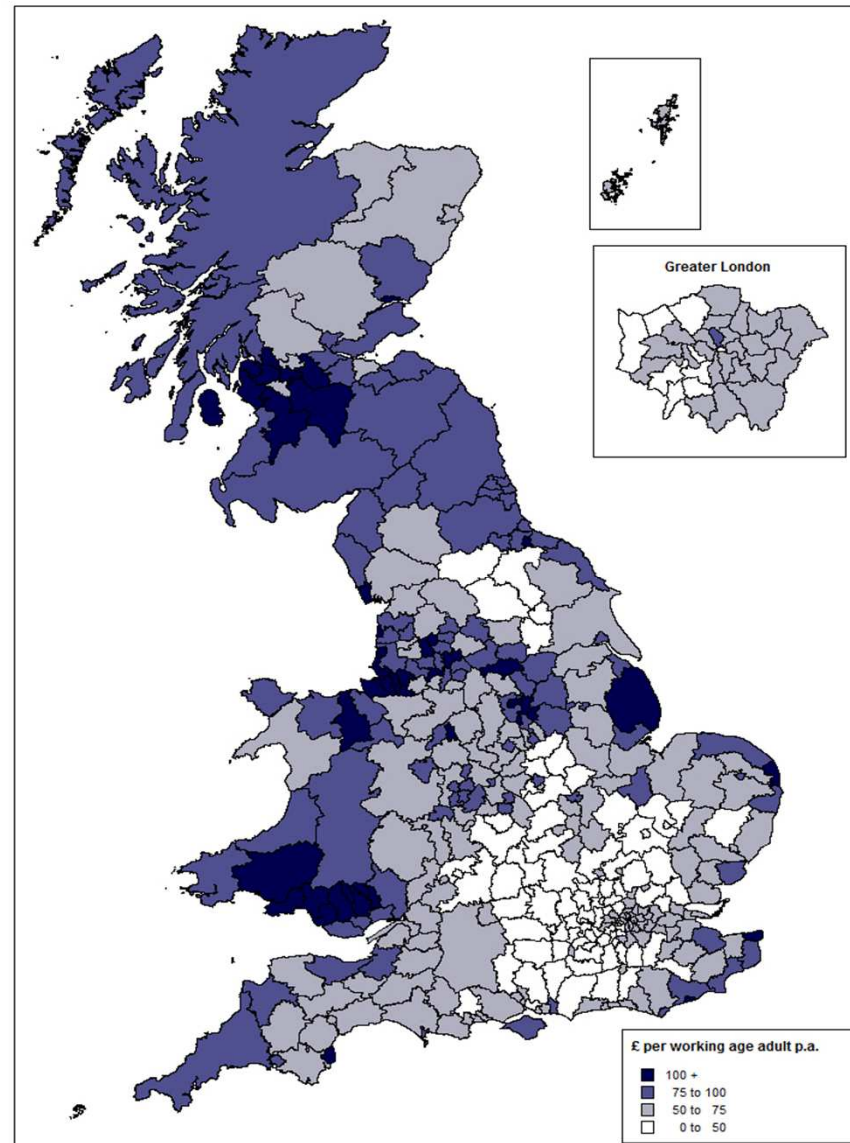
# Household benefit cap



# Council Tax Benefit

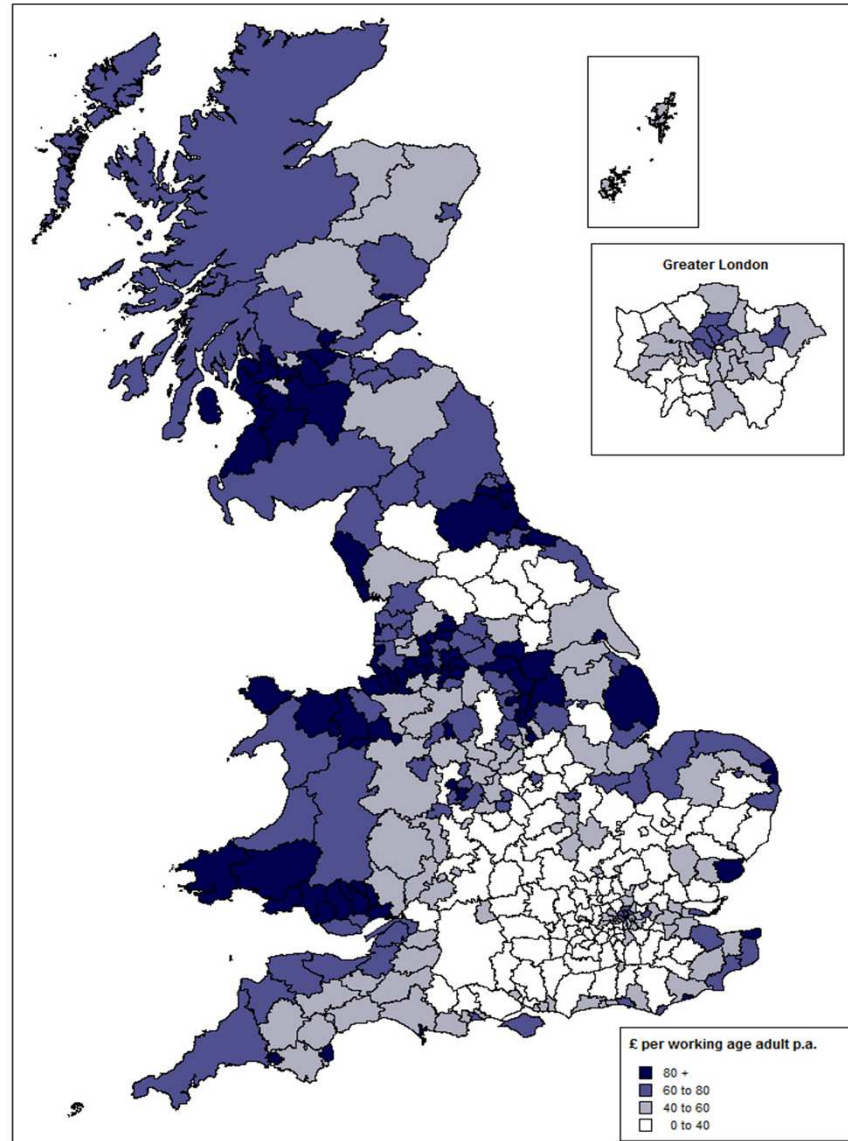


# Disability Living Allowance

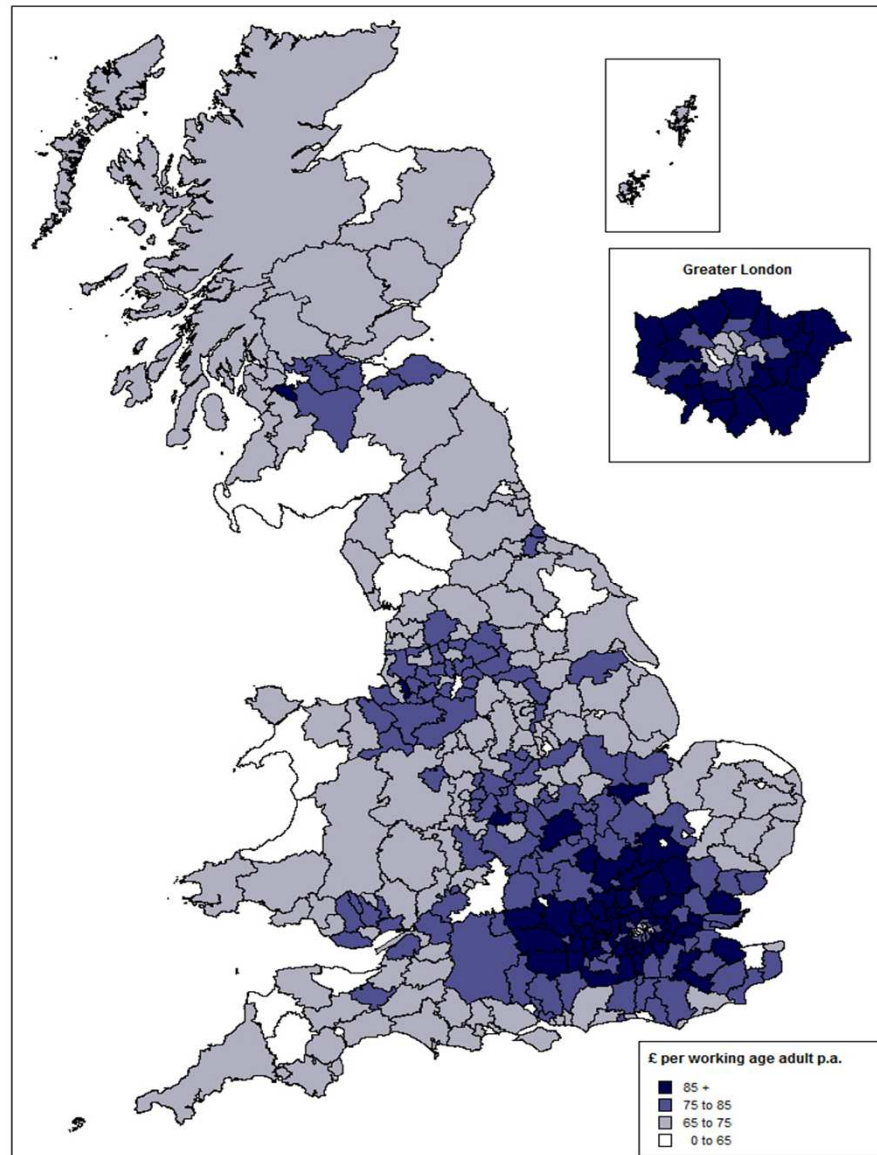




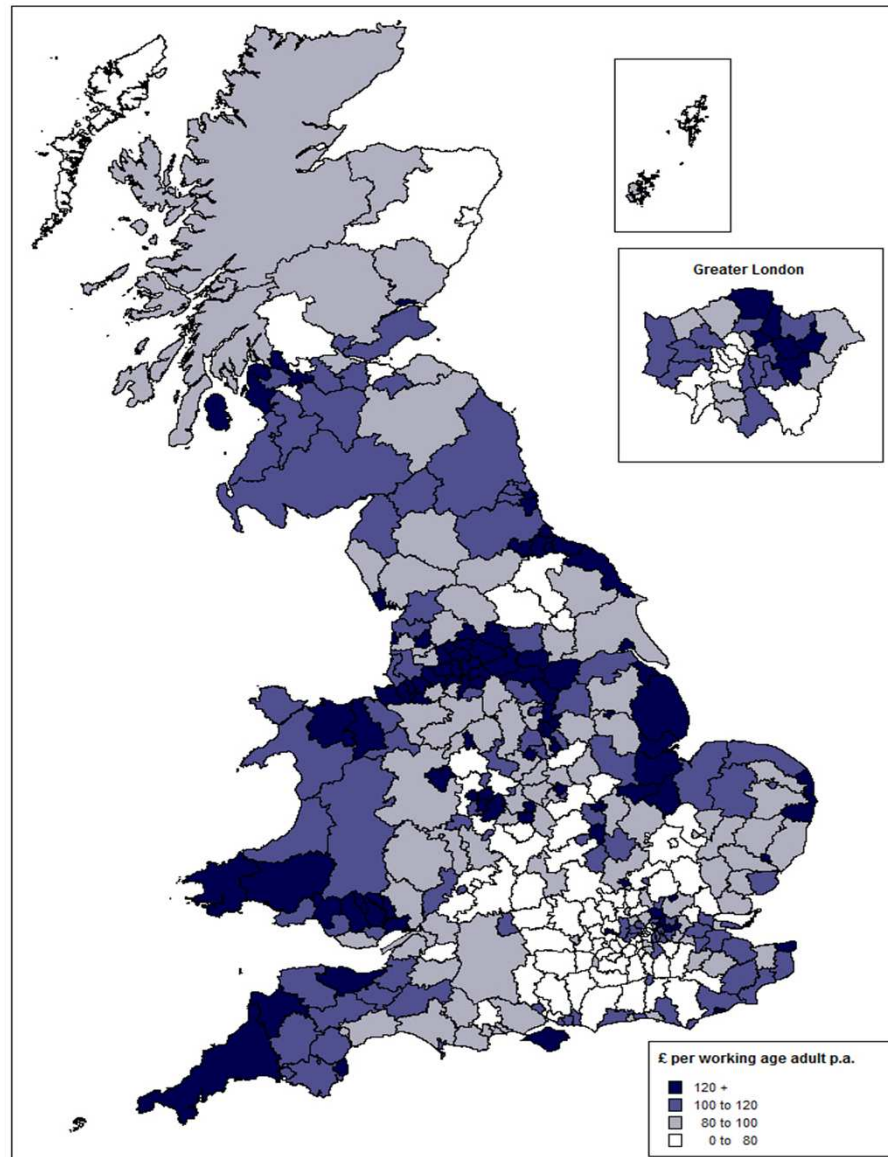
# Incapacity benefits



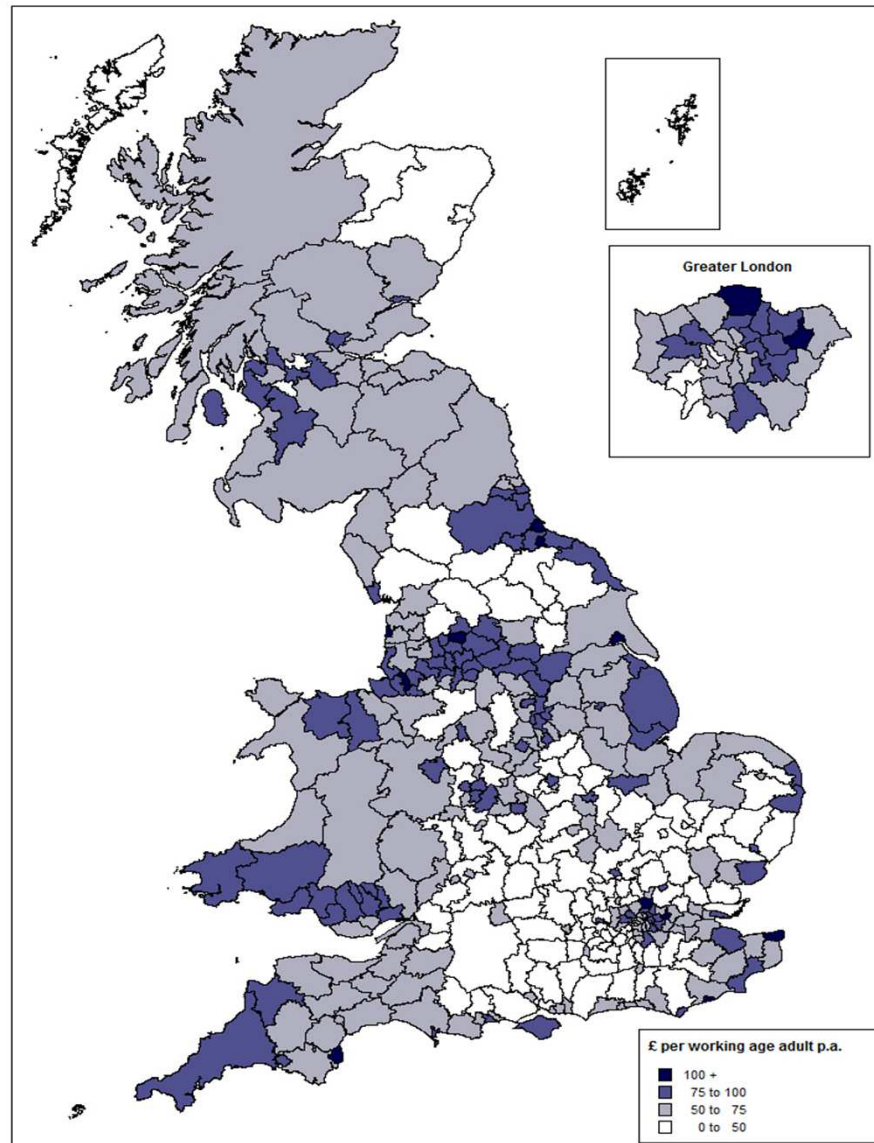
# Child Benefit



# Tax Credits



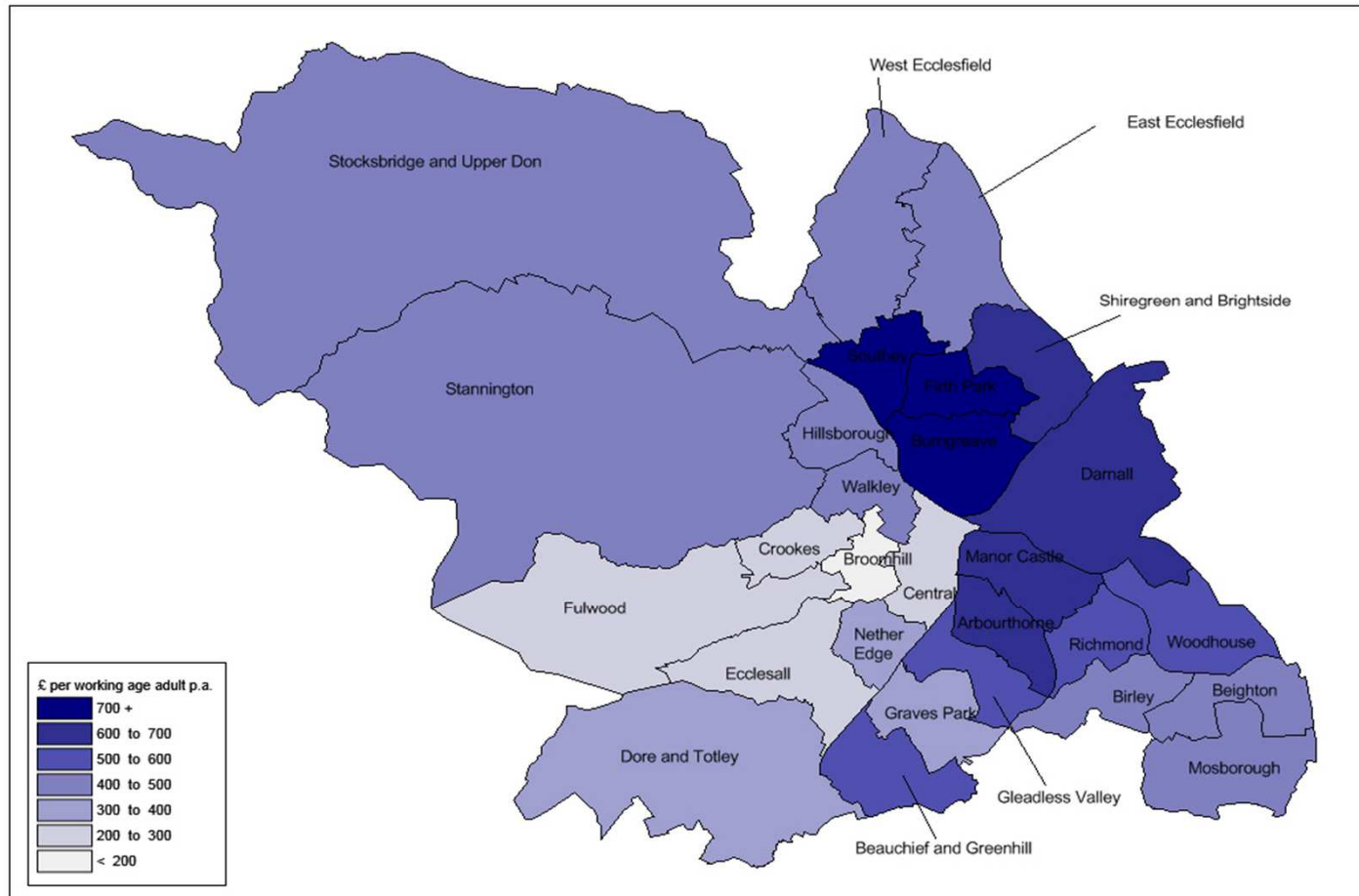
# 1 per cent uprating



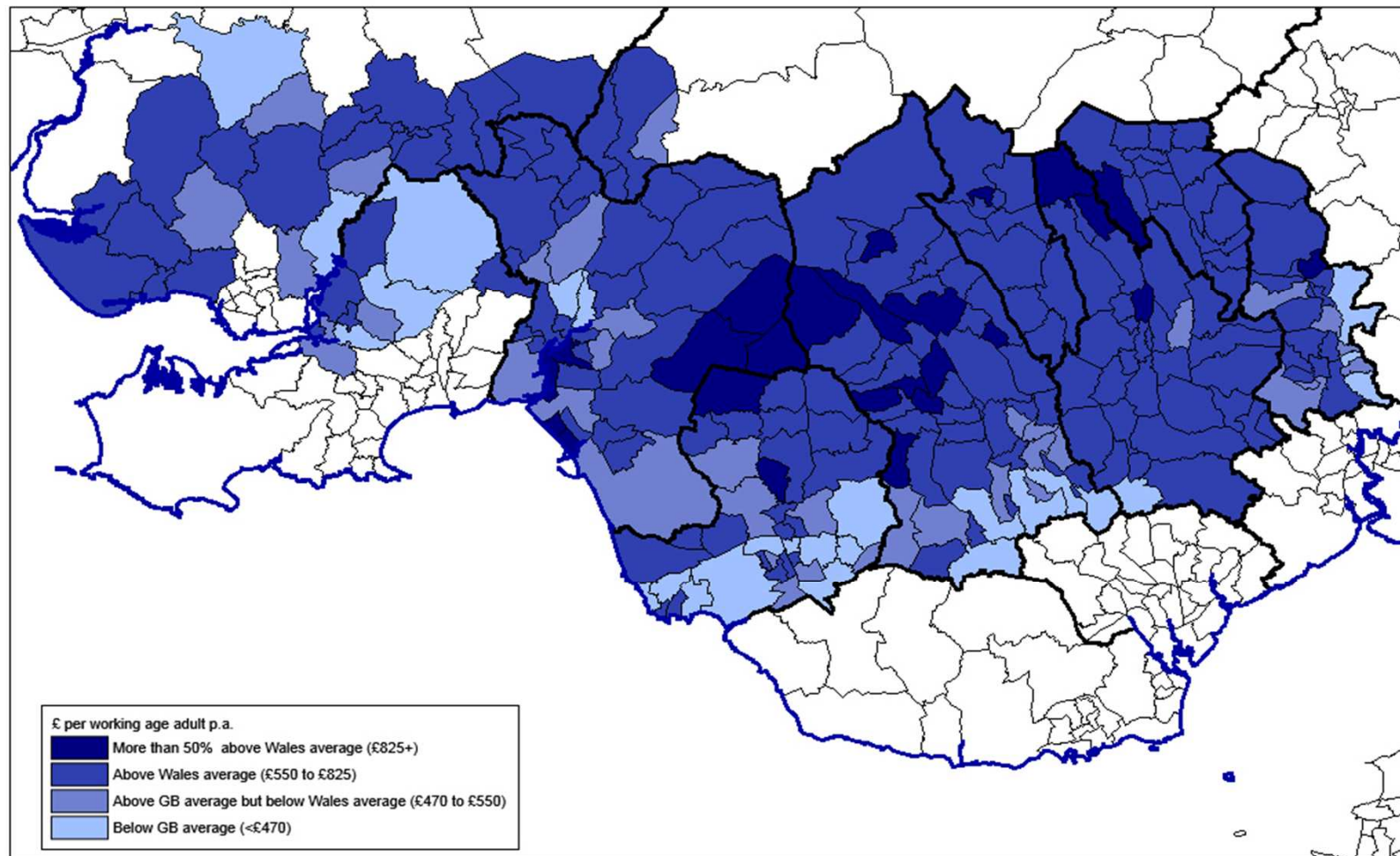
## Impact on local areas and households

- Within each local authority, the poorest areas are generally hit hardest
- Financial loss varies between individual households but some types are harder hit than others

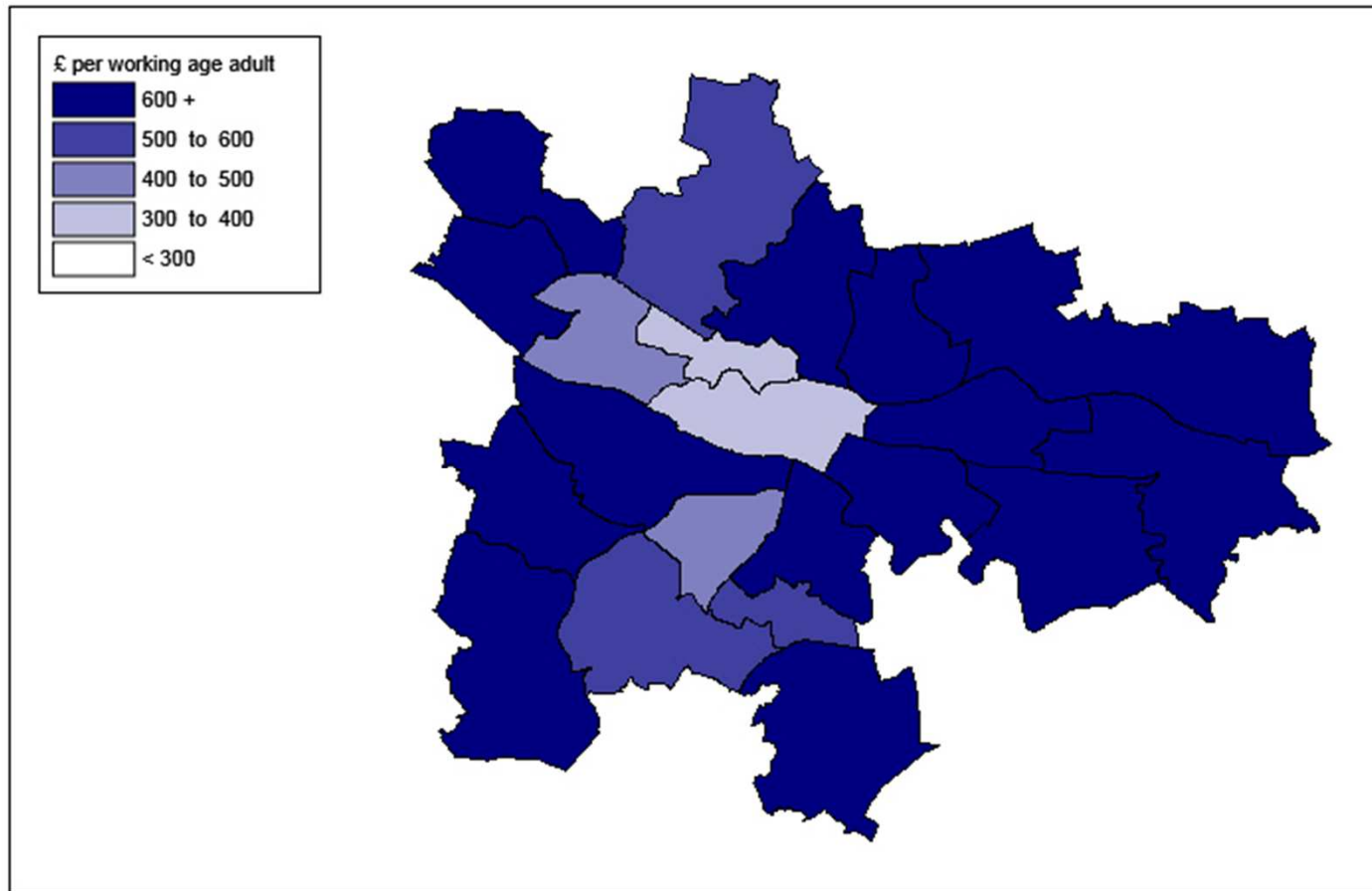
# Financial loss by ward - Sheffield



# Financial loss by ward – Welsh Valleys

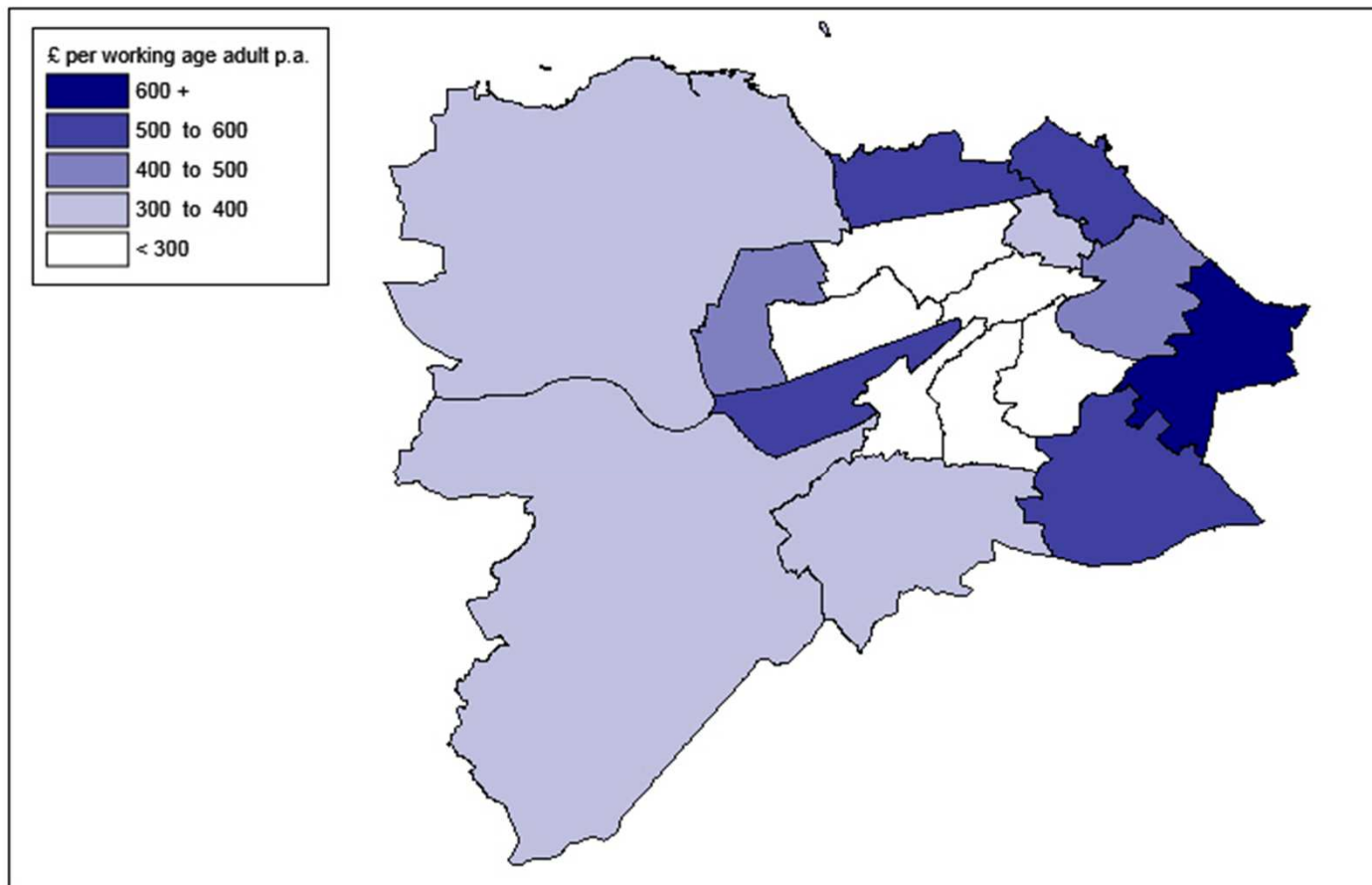


# Glasgow

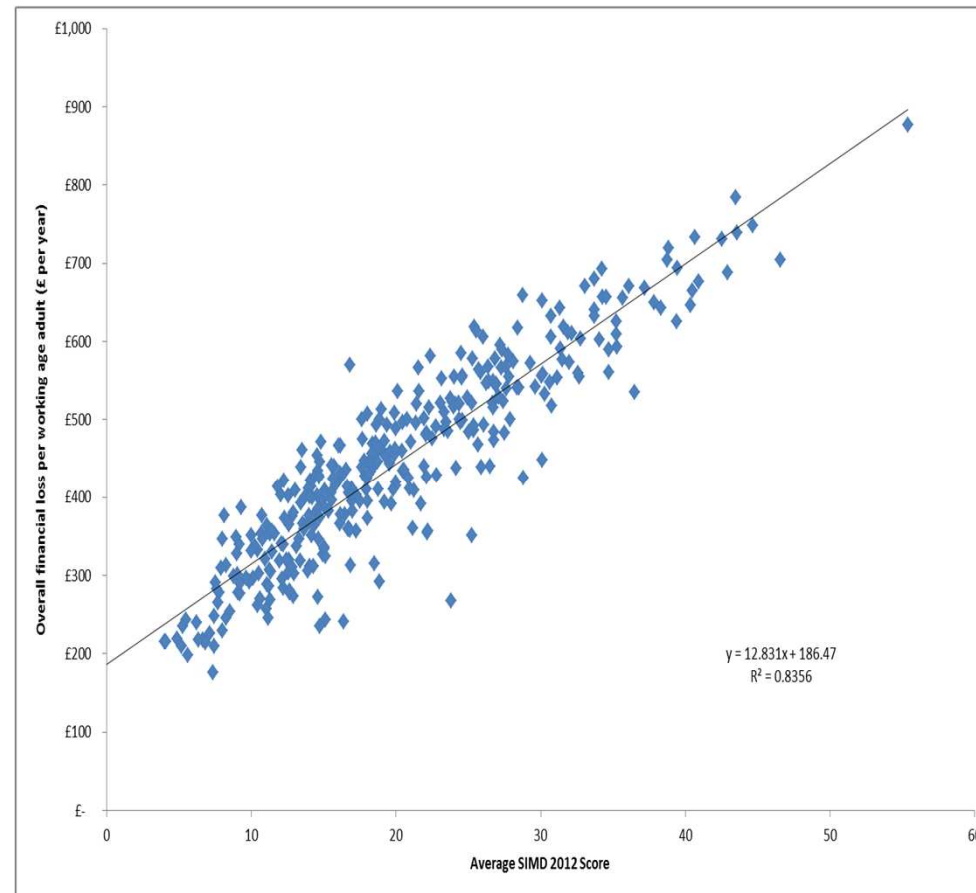




# Edinburgh



# Relationship to deprivation by ward, Scotland



Sources: Sheffield Hallam estimates and Scottish Indices of Deprivation 2012

# The groups typically most affected (1)

- Housing Benefit: LHA
  - Low-income households in the private rented sector
- Housing Benefit: 'bedroom tax'
  - Older, low-income working age tenants in social rented sector whose children have moved away
- Non-dependant deductions
  - Low-income households with grown-up children living at home
- Household benefit cap
  - Large out-of-work families in high rent areas
- Council Tax Benefit
  - Low-income working age households

## The groups typically most affected (2)

- Disability Living Allowance
  - Less severely disabled of working age, mostly older, mostly out-of-work
- Incapacity benefits
  - Out-of-work, mainly older adults with ill health or disability, except the most ill/disabled
- Child Benefit
  - All households with children (a little)
  - Households with higher earners (a lot)
- Tax Credits
  - Low-to-middle income families with children, including working households
- 1 per cent up-rating
  - Everyone on the main working age benefits

# Financial loss by household type - Sheffield

## Average financial loss £ p.a.

Pensioner couple	35
Single pensioner	50
Couple – no children	400
Couple – one dependent child	1,530
Couple – two or more dependent children	1,560
Couple- all children non-dependent	430
Lone parent – one dependent child	2,020
Lone parent – two or more dependent children	2,120
Lone parent – all children non-dependent	730
Single person household	620
Other – with one dependent child	1,540
Other – with two or more dependent children	1,620
Other – all full-time students	0
Other – all aged 65+	35
Other	570

**Source: Sheffield Hallam estimates based on official data**

## Financial loss – Glasgow & Edinburgh

	Glasgow £ p.a.	Edinburgh £ p.a.
Pensioner couple	30	30
Single pensioner	50	60
Couple – no children	520	300
Couple – one dependent child	1,830	1,380
Couple – two or more dependent children	1,900	1,420
Couple- all children non-dependent	540	320
Lone parent – one dependent child	2,280	1,720
Lone parent – two or more dependent children	2,360	1,880
Lone parent – all children non-dependent	720	450
Single person household	680	440
Other – with one dependent child	1,840	1,300
Other – with two or more dependent children	1,950	1,380
Other – all full-time students	0	0
Other – all aged 65+	30	30
Other	660	440

**Source: Sheffield Hallam estimates based on official data**

## Households affected by each reform - Sheffield

	% of households of each type	
	Lone parent – one child	Couple – no children
Child Benefit: freeze	99	0
1 per cent uprating	99	12
Tax Credits	92	2
Council Tax Benefit	65	8
Housing Benefit: LHA	16	1
Incapacity benefits	9	5
Housing Benefit: 'bedroom tax'	8	1
DLA	6	5
Non-dependant deductions	4	0
Child Benefit: higher earners	2	0
Household benefit cap	0	0

Source: Sheffield Hallam estimates based on official data

## Impact on sub-groups - Sheffield

- Approaching two-thirds of the total financial loss falls on households with dependent children
- Around one-third falls on the sick or disabled via DLA and incapacity benefit reform – and they lose from other reform too
- Around 45 per cent of the loss falls on in-work households

(NB. There is some overlap between these groups)



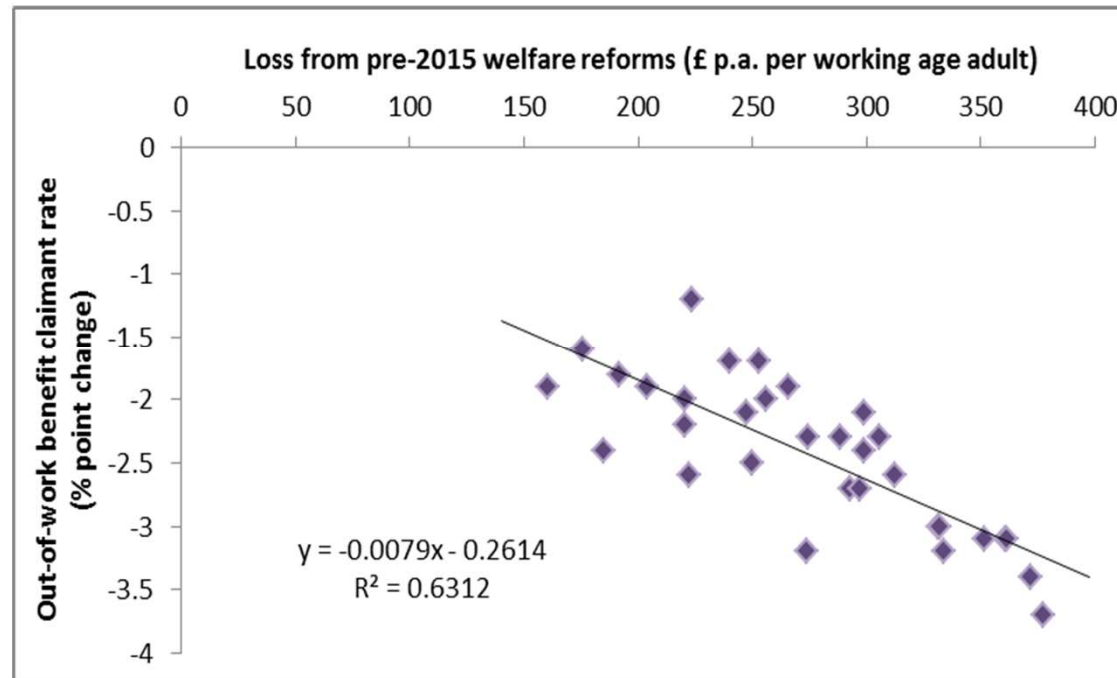
# Prospects for recovery

- Westminster ministers: financial incentive to find work is greater, therefore more people will look for work and find work

But:

- In vast majority of cases, claimants were already financially better off in work
- Biggest impact is mainly in places where the local economy is weakest
- Out-of-work claimants also tend to have low skills, poor health

# Out-of-work benefit claimant rate Feb 2011 - Nov 2014, Scottish local authorities

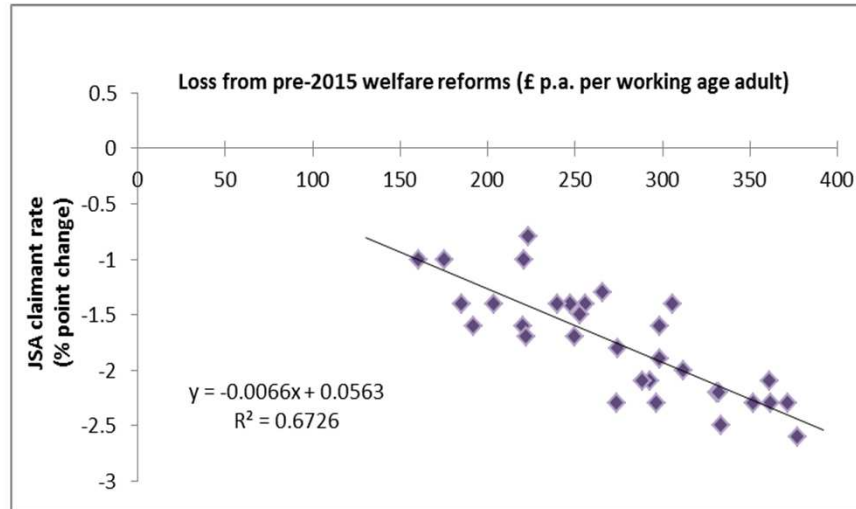


Sources: DWP and Sheffield Hallam estimates

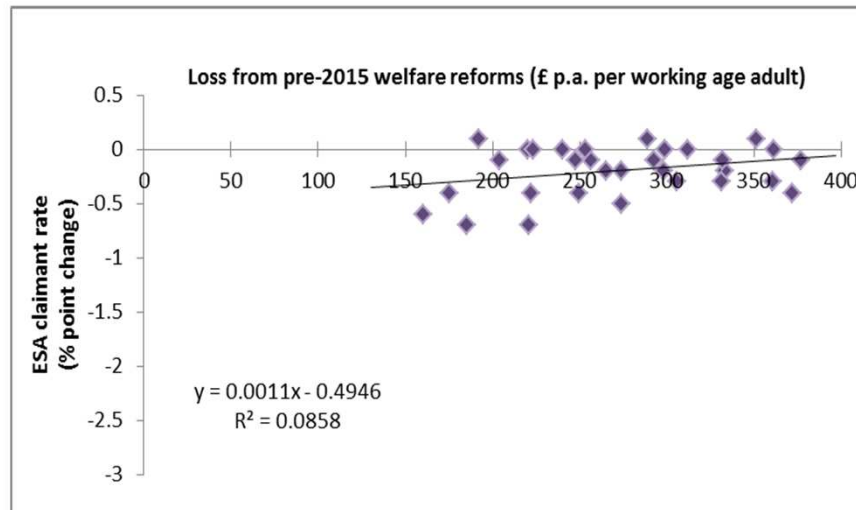
# JSA and ESA claimant rates

Feb 2011 - Nov 2014, Scottish local authorities

JSA



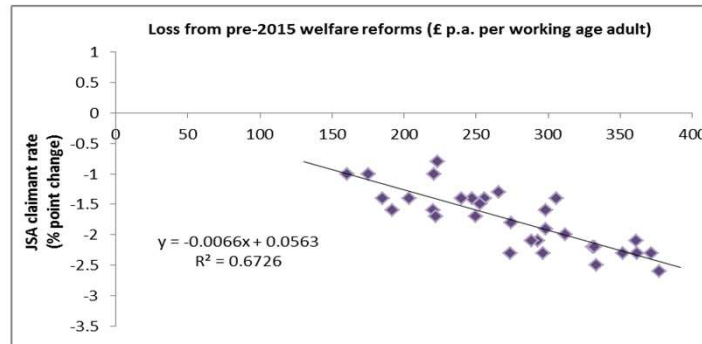
ESA



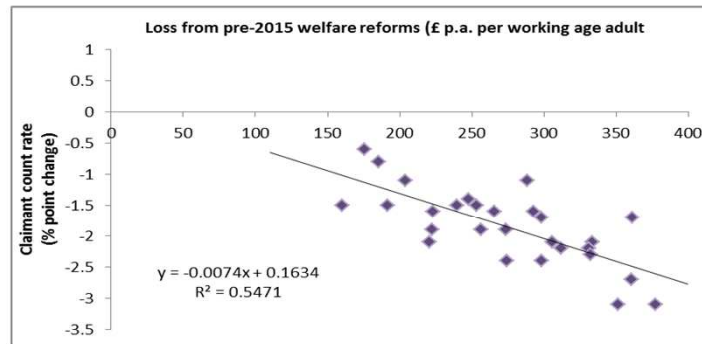
Sources: DWP and Sheffield Hallam estimates

# Comparisons between upturns, Scottish LAs

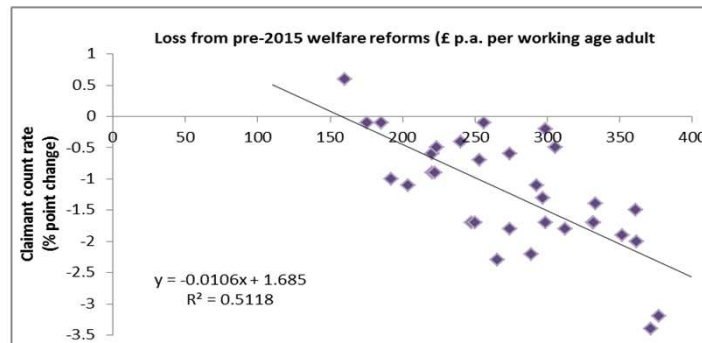
Feb 2011 – Nov 2014



Feb 1998 – Nov 2004



Aug 1993 – Aug 1996



Sources: DWP and Sheffield Hallam estimates

# A better way forward

## Estimated financial saving to UK Exchequer of 100,000 new jobs in Wales

		£m p.a.
	Savings on out-of-work benefits	500
<i>Plus</i>	Savings on Housing Benefit	200
<i>Plus</i>	Savings on Council Tax Benefit	50
<i>Plus</i>	Income Tax revenue	200
<i>Plus</i>	Employees NI contribution	80
<i>Less</i>	Tax Credits	30
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<i>Equals</i>	NET SAVING TO EXCHEQUER	1,000

(Estimated financial loss in Wales arising from welfare reform = £1,010 p.a.)

**Source: Sheffield Hallam University**

## Some conclusions

- The impacts of welfare reform are substantial
- Many deprived parts of Britain are hit hardest
- Little evidence so far of positive labour market impact
- Key effect of reforms will be to widen the gaps in prosperity between the best and worst local economies
- Economic growth is the alternative