The local impacts of welfare reform

An assessment of cumulative impacts and mitigations

A report commissioned from the Centre for Economic and Social Inclusion by the Local Government Association

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August 2013

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Executive summary

The Government's welfare reforms represent the most fundamental changes to the benefits system in a generation. However while the scale and impact of individual reforms have been documented and are generally understood, there have been no systematic attempts to understand the cumulative impacts of all of the Government's reforms, and claimants' and local areas' ability to deal with them. This research seeks to contribute to addressing these gaps in the evidence base.

The analysis, commissioned by the Local Government Association (LGA), seeks to describe the cumulative impact of all major reforms to benefits announced since the Coalition Government took office in May 2010, including Universal Credit. For each welfare reform, we have apportioned to local authority level the Government's most recent or final estimate of the fiscal impact of that measure. The analysis focuses on impacts for England and English Local authorities, covering £11.8 billion in projected savings in 2015/16.

The headlines – the cumulative impacts of reforms

We estimate that the income of households claiming benefit will be on average lower by **£1,615 a year** – or £31 a week – in 2015/16 as a result of welfare reforms. This excludes the impact of Universal Credit. This is equivalent to around £1 in every £7 of household income for these households.

It is important to note that this does not represent an average cash loss of £1,615 a year – as in some cases households will move on and off benefit, and about one fifth of savings are a result of increasing benefits by less than inflation in the future (meaning spending will fall not fall in cash terms, but will fall in its real value). Rather, the average impact represents the loss in income compared with what benefits would have been in the absence of reform.

At a local authority level, the average impacts per claimant household are relatively evenly spread – with all regions except London seeing average losses between £1,500 and £1,650 per year. The reason for this is that the different impacts of different reforms largely balance each other out across the country – with larger impacts due to more people out of work and/ or on low incomes in work in the northern half of the country balanced by far higher housing costs in the southern half of the country.

As noted, the exception to this is London – where high benefit receipt and high housing costs combine to give very large impacts per household – with on average claimant household incomes lower by £1,965 per year.

Because the impacts of welfare reform are relatively evenly spread across most local authorities, it is important to look also at the share of households in each local authority that are claiming benefits. This enables us to consider where claimant households are concentrated, and therefore where impacts may be greater.

Overall, 45 per cent of households of "working age" receive one of the main state benefits (ie a department for Work and Pensions (DWP) benefit or tax credits). The 10 per cent of areas with the lowest proportions of households on benefit are overwhelmingly in outer London and the south east, while the areas with the highest proportions on benefit are in the north west, north east, West Midlands and Yorkshire and the Humber.

So the impacts of reforms are likely to be most strongly felt in areas with the highest dependence on benefit – the north east, Lancashire and the central north west, Birmingham and the Black Country, parts of London, and a swathe of coastal towns and cities including Thanet, Tendring, Great Yarmouth, Scarborough, Plymouth and Torbay.

Impacts on working and non-working households

We estimate that three fifths (59 per cent) of all welfare reform reductions fall on households where somebody works. Indeed the reductions for working households are greater than the reductions for households where no one works in 314 of the 325 Local authorities in this analysis.

These relatively higher losses for working households are accounted for by the very large proportions of projected savings that accrue from changes to tax credits (where the number of tax credit claimants in work has fallen by one third since 2011) and to the up-rating of benefits. But they also reflect the fact that most welfare reforms affect households in and out of work.

The impacts of key Housing Benefit reforms

A particular focus of this analysis is understanding the local impacts of reforms that are most likely to affect households' ability to remain in or to afford housing – particularly in households where no one works. Therefore we have focused on the local impacts of reforms affecting Housing Benefit, and specifically the impacts of:

- reforms to the Local Housing Allowance for those in the private rented sector
- the introduction of the size criteria
- the introduction of the overall benefit cap.

Overall, allowing for overlaps between the impacts of the benefit cap and the Local Housing Allowance measure, we estimate that 1.71 million households – or around one in ten of all working age households – will be impacted by one or more of these Housing Benefit reforms, with an average loss of £1,215 per year (or £23 per week).

We estimate that 1.18 million of these households (70 per cent of the total) will be households where no one works.

Households are generally more likely to be impacted in the north than the south of the country – particularly in Lancashire, Yorkshire and the north east. London is also hard hit as is Birmingham. In common with the impacts of the individual measures described, coastal towns see significant impacts – with more than 30 per cent of households in Blackpool affected, and nearly 20 per cent of households in Torbay, Thanet, Hastings, Tendring and north east Lincolnshire.

However by looking at the average impact per household, we see a different picture. Impacts per household are significantly greater in southern England – reflecting the high costs of housing in these areas. The largest impacts by far are in London: in every single London authority, the average impact is above £1,300 per year – while in just fourteen local authorities outside London the average impact is £1,300 or higher (all in the south east of England).

Excluding London, the average loss per household falls to £940 per year.

Looking at those areas outside London, there are 36 Local authorities (12 per cent of the non-London total) where both average losses and the proportion of households impacted are above the national average. Around two thirds of these are coastal towns.

Mitigating impacts

There are two ways that losses from welfare reforms can be reduced or avoided: by moving home or by finding work.

The options available, and the potential responses, will differ both for different reforms and for claimants in different circumstances. However, research suggests that responses so far will have been limited – with relatively few claimants looking for work and even fewer having success in finding it, and little evidence of claimants moving to more affordable accommodation.

In this paper, we have sought to model how claimants who are out of work may respond specifically to the Housing Benefit reforms set out above. We have modelled responses in three scenarios (high, central and low) based on the best available evidence on claimants' willingness to find work or move home for each measure.

We have also built into our modelling assumptions around claimants' ability to reduce losses in areas where there is relatively less employment or affordable housing available. This demonstrates that in the private rented sector, housing is far less affordable south of the M6 – and that for London authorities in particular there are few if any housing options that do not involve moving long distances. However many of these areas do have growing employment. Above the M6, housing is more affordable but there is a mixed picture on employment growth. Places with relatively stronger labour markets and affordable housing include the Welsh borders and an area from Yorkshire to Northumberland – so some distance from the places where housing impacts are likely to be most acute.

We estimate that in the central scenario 155,000 claimants, of the 1.18 million out of work, may mitigate their losses by finding work, and 115,000 by moving home. So in total, we estimate that 270,000 claimants – or 23 per cent of the total impacted – may be successful in taking steps to mitigate the impacts of these welfare reforms.

Even at the highest scenario, a large majority of the impacts of reforms affecting housing costs for households out of work are unlikely to be met through claimants finding work or moving home. And at more plausible estimates, at least four out of every five households are likely to need further assistance in order to deal with the impacts of welfare reform – with cumulative financial impacts in excess of £1 billion per year.

Managing the impacts of housing reforms
Local authorities are adopting a range of strategies to support claimants to manage and respond to the impacts of welfare reforms. In general responses include:

- targeted information campaigns – to raise awareness of reforms among those affected, likely impacts and sources of support
- personal support – to manage finances, avoid arrears and make choices for the future
- financial assistance – drawing in particular on Discretionary Housing Payments
- joint working and signposting – in particular with Jobcentre Plus and other employment agencies, to support people to prepare for, look for and find work.

£155 million has been made available to local authorities in Discretionary Housing Payments (DHPs) in 2013/14, to provide discretionary support to Housing Benefit claimants impacted by welfare reforms. Therefore even once plausible responses by tenants are taken into account (the central scenario above), DHPs would cover just £1 in every £7 of the impact of housing reforms on tenants.

Furthermore, because the allocation formula does not reflect the totality of housing impacts, it leads to some areas facing larger shortfalls than others. As a result there is wide variation in how far DHPs will meet the "residual" losses in local areas, after mitigations are taken into account.

Impacts of Universal Credit

Will Universal Credit increase household finances?
Overall, Universal Credit will result in a modest increase in average household incomes. This is both because more households are anticipated to take up benefits, and overall the system will be marginally more generous overall than currently.

Taken together, the Government estimates that Universal Credit will serve to reduce the losses from welfare reforms by an equivalent of **£190 per year** on average (£4 per week).

Within this overall average, the impacts are likely to vary significantly for different groups – with disabled people in particular likely to see lower awards under Universal Credit than under the current system, those working short hours generally seeing increased entitlement, and those working longer hours seeing little change. However no households will see their benefit entitlements reduced at the point of transfer to Universal Credit.

Will Universal Credit increase employment?
There is a high degree of uncertainty on what the impacts on employment may be from Universal Credit. Most estimates suggest that Universal Credit is unlikely to lead to any significant impact on employment.

To accompany this report we have developed a tool that can be used by councils and their partners to model the impacts of welfare reform in their local area. We have tested the tool with eight case study areas chosen to illustrate a range of impacts / losses for different types of local authority. These case studies illustrate that local factors may be very important in determining the detailed impact of Universal Credit on work incentives.

Recommendations

1. The Government should publish its estimates of the impact of individual measures to local authority level wherever possible.

2. The Government should publish a best estimate of the cumulative impact of welfare reforms on groups with protected characteristics, and in particular disabled people.

3. Local partners, the local government associations and central government should ensure that they understand the specific nature of the impacts within their locality, in particular for their most vulnerable residents, and ensure that support is effectively targeted – and the Government should give local partners adequate freedom and funding to do this effectively.

4. Local and central government should continue to work together to share practice on supporting households impacted by welfare reforms.

5. Local authorities should be supported (including through new burdens funding) to develop plans to support those impacted by wider welfare reforms – and in particular households in work.

6. The Government should work with the Local Government Association (LGA) LGA, Convention of Scottish Local Authorities (CoSLA) and the Welsh Local Government Associtaion (WLGA) to ensure that the Local Support Services framework for Universal Credit specifically recognises the importance and need for local areas to work together to mitigate the impacts of welfare reforms.

7. The Government should work with the LGA, CoSLA and the WLGA to urgently explore how local areas – including local authorities – can be enabled to build more affordable housing and so reduce the impacts of welfare reforms on those with high housing costs.

8. The Government should work with the LGA, CoSLA and the WLGA to explore how local areas can play a stronger role in the commissioning and oversight of training, work readiness and employment support, so that programmes meet local needs and utilise local expertise and funding.

9. Councils and their partners should look at how support can be joined up locally across employment, skills, troubled families and other services in order to support those affected – including by learning the lessons from Community Budgets.

10. The Government should review the level of Discretionary Housing Payments and the method by which this is apportioned – so that discretionary support can better meet the impacts on local areas.

1. Introduction

The Government's welfare reforms represent the most fundamental changes to the benefits system in a generation. While the reforms are intended to reduce dependency on social security and to encourage employment, they also play a key part in the Government's deficit reduction strategy – generating projected savings of more than £15 billion per year across Britain by the end of this Parliament[1].

However while the scale and impact of individual reforms have been documented and are generally understood, there have been no systematic attempts to understand the cumulative impacts of all of the Government's reforms on claimants, their households and the communities in which they live. Furthermore, there have so far been only limited attempts to understand and to quantify the ability of claimants to deal with the impacts of reforms by finding work and/ or reducing housing costs – and without these steps, the consequences of reforms could far outweigh their fiscal benefits.

This report

This research has been commissioned by the Local Government Association (LGA) in order to contribute to addressing these gaps in the evidence base on welfare reform. It begins **(Chapter 2)** by setting out the "cumulative" impact of the Government's reforms on claimant households and on local authorities in England – covering all of the main reforms introduced between the start of the Coalition Government and the introduction of Universal Credit.

It then goes on to focus in **Chapter 3** on key reforms driven mainly by high housing costs – changes to the Local Housing Allowance, the introduction of an overall benefits cap, and the introduction of size criteria in social housing – considering both the individual and combined impact of these measures, particularly on claimants who are out of work.

Following on from this, in **Chapter 4**, the report explores how claimants may seek to deal with these losses through employment and housing choices, what impact these steps may have on local areas based on different scenarios and how far Discretionary Housing Payments and other support may help to bridge the gaps.

Chapter 5 considers in more depth the impact of Universal Credit – which will serve to increase marginally household incomes overall, and to simplify the benefits system by combining in-work and out-of-work support in a single benefit. However while it will marginally improve financial incentives to work overall, this masks wide variations for different groups – with second earners and home owners in particular likely to see weaker incentives to work.

Finally in **Chapter 6**, the report makes a number of recommendations for how welfare reform impacts are monitored and households supported in the future.

1 Source: HM Treasury and Inclusion calculations

Reforms included in this report

As noted, this analysis seeks to describe the cumulative impact of all reforms to benefits announced since the Coalition Government took office in May 2010. The reforms included in this analysis are listed below, with a brief summary. In all cases, the impact described is the projected saving in the financial year 2015/16 for Great Britain.

- **Changes to tax credits:** including reductions in the basic, 30-hour and childcare elements; increases in the child element; changes to working hours requirements, thresholds, disregards and withdrawal rates – saving **£5,275 million**.
- **Changes to Housing Benefit (HB) for renters in the private sector:** restricting the maximum Local Housing Allowance payment to the thirtieth percentile of average local rents, introducing Housing Benefit caps, restricting Housing Benefit to the "Shared Room Rate" for most claimants aged under 35, and changing the formula for annual increases in benefit – with combined savings of **£1,640 million**.
- **Increases in the deductions taken from Housing Benefit and Council Tax Benefit** in respect of other adults living at the property – saving **£130 million**[2].
- **The restriction of contributory Employment and Support Allowance (ESA) to one year** for claimants in the "Work Related Activity Group" – saving **£1,600 million**.
- **The replacement of Disability Living Allowance (DLA)** with a new benefit called the Personal Independence Payment (PIP) – saving **£1,350 million**.
- **The abolition of Council Tax Benefit (CTB)** and its replacement by locally-determined Council Tax Support schemes – saving **£355 million**[3].
- **The introduction of "size criteria"** for most Housing Benefit recipients in social housing, reducing awards by 14 per cent where tenants are deemed to have one spare bedroom and 25 per cent where they have two spare bedrooms – saving **£465 million**.
- **The introduction of a cap on total benefit receipt** for most households where no adult is in work, of £500 a week for families or £350 a week for single people – saving **£185 million**.
- **The uprating of benefits and tax credits** by 1 per cent instead of the Consumer Prices Index – saving **£2,680 million**.
- **The introduction of Universal Credit**, replacing the main means-tested benefits for those on low incomes in and out of work (Housing Benefit, Jobseeker's Allowance, Income Support, Employment and Support Allowance, Tax Credits) with a single benefit paid to the head of the household. Universal Credit will begin to roll out from late 2013, with existing claimants being reassessed over the following four years. The impact of Universal Credit will be to increase entitlements by £190 per claimant household per year, or around **£1,600 million** by the time it is fully rolled out in 2017/8[4].

2 From households of "working age"

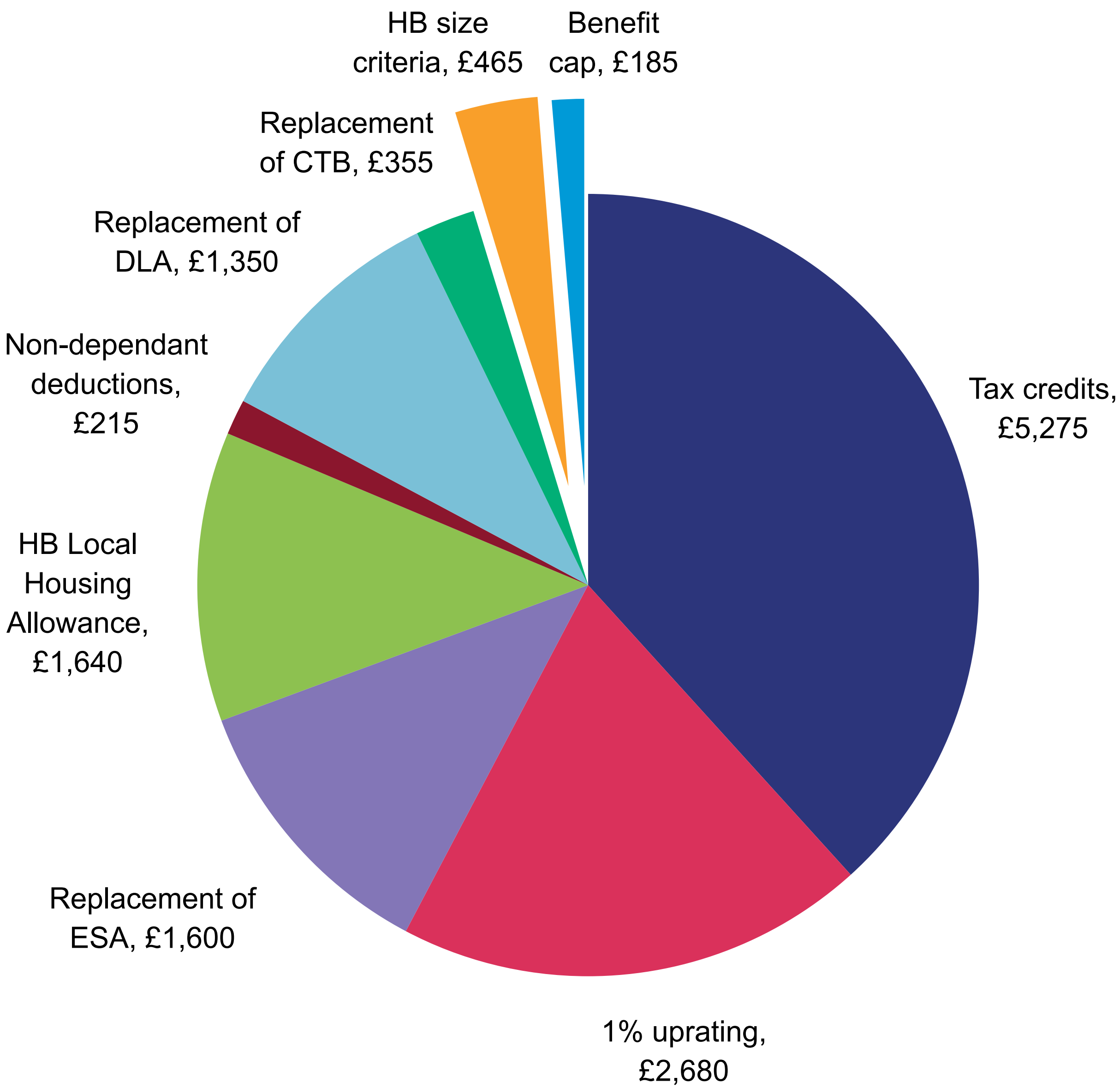
3 This excludes losses from Council Tax localisation that are not passed on to claimants – ie where local and national governments have maintained entitlements for claimants.

4 Source: Universal Credit Impact Assessment, December 2012

Figure 1 below sets out the respective projected savings from each welfare reform (excluding Universal Credit). This brings out clearly the very large contributions made by reductions in tax credits (predominantly affecting those in work) and reduced up-rating (affecting those in and out of work).

By contrast the introduction of the benefit cap and of the new size criteria in the social rented sector – which have been the focus of most attention in recent months – account for less than 5 per cent of the total reform impacts in 2015/16.

Figure 1 – breakdown of projected savings in 2015/16, Great Britain (£ million)



Source: HM Treasury and Inclusion calculations

Reforms not included in this analysis

Three reforms have been excluded from this analysis: first, the tapering of Child Benefit from families earning more than £50,000 (which saves £2,525 million in 2015/16). This has been excluded as the impacts are entirely felt among families higher up the income distribution than those affected by other welfare reforms.

Secondly, the change to the uprating of benefits from the Retail Price Index to the Consumer Prices Index (CPI), which took effect in April 2011, is excluded. The reason for this exclusion is that there has been no published estimate of the impact of this measure in isolation. However it is likely that its financial impact in 2015/16 would be substantially greater than the impact of moving from CPI to 1 per cent uprating (an impact of £2,680 million), so the figures presented in this analysis will underestimate of the cumulative impact of welfare reforms by at least 20 per cent.

In addition we have excluded the reduction in uprating of Child Benefit to 1 per cent (saving £360 million in 2015/16). There are arguments either way on whether this should be included, but on balance we consider that it is reasonable to exclude it given that it is not targeted on the basis of income or on need and therefore has a wider reach than other benefit reforms.

Estimating and attributing impacts

For each welfare reform, we have apportioned to local authority level the Government's most recent or final estimate of the fiscal impact of that measure, which are published at the time of the Budget by HM Treasury.

For ease of comparison, impacts for financial year 2015/16 were chosen as the comparison point. This year was chosen for two reasons:

- It is beyond the point at which all impacts have taken effect, and could reasonably be assumed to be a point at which reforms are in "steady state" (although rollout of the Personal Independence Payment will not be fully complete until the end of that year).
- It represents the final year of this Parliament, which is a reasonable point at which to draw conclusions on the impact of reforms so far.

The one exception to this approach is Universal Credit – where the reform will only be partially implemented by 2015/16. For this reform, we have therefore used the estimate of its steady state financial impact published in the Government's most recent Impact Assessment (December 2012).

We have used a range of methods to apportion financial impacts between areas – usually either on the basis of that local authority's share of expenditure on that benefit for that group, or on the basis of published estimates of impacts for different areas in Government Impact Assessments (where those are available) or a combination of the two. This is broadly consistent with the approach taken by others to estimating financial impacts[5]. Estimates of the number of claimant households affected for each reform have then been calculated using similar methodologies. The analysis in Chapters 2 to 6 focuses on impacts for England and English local authorities, as this was the scope of this report.

Further details on the approaches taken are set out at **Annex A**. We are confident that with the available data this analysis represents the most robust and comprehensive attempt yet to model impacts of welfare reforms to a local level, and that this generates reliable results.

The analysis presented in this report does have limitations, however. In particular, in common with all other analyses of the impacts of welfare reforms, it is not possible to model to local levels the **distribution** of impacts across different groups, nor to focus on the cumulative impacts on individuals or households with particular **characteristics** (rather than claimants of particular benefits). In other words, it is not possible to say what the cumulative impact of reforms is for lone parents for example, nor to say how many households in an area face very large or very small impacts.

The reason for this limitation is that the source data to make these sorts of assessments does not exist – we simply do not know enough about the combinations of benefits that people in different places with different characteristics claim, and therefore the combined impacts of changes to those benefits.

"Actual" and "notional" losses

It is important to note that this analysis compares future fiscal impacts of each measure with an estimate of claimant households affected based on the most appropriate claimant data (usually the most recent data, or data from when the reform was implemented). In other words, the analysis describes how much better or worse off claimants **would be** in 2015/16 compared with the relevant reform not taking place.

However this is not the same as estimating how much better or worse off a claimant **actually is** – which will depend in particular on any movements that they make on or off benefits. So for example, around one third of claimants of out-of-work benefits receive Jobseeker's Allowance (JSA), and around three fifths of these claimants will enter work within a year. So if a claimant who is on JSA leaves benefit and enters work then they no longer "lose" from lower benefit up-rating, and if they then become a new tax credit claimant they themselves are not "losing" as a result of tax credits being less generous. However they are worse off than they would have been. If they then leave work and reclaim JSA (as around 30 per cent of JSA claimants do within three months) then they would return as a new claimant of JSA – worse off than they would have been, but not technically losing themselves.

There are related issues with describing the impact of changes to uprating (which accounts for one fifth of all welfare savings) and the impacts of the abolition of Disability Living Allowance. In the case of the former, the cash value of benefits will not fall (but the "real" value will, as they will increase by less than prices); while in the case of the latter overall expenditure will increase under the replacement for DLA – but by less than had been previously forecast.

The analysis in Chapters 2 and 3 presents losses in the way described above as this gives the most accurate reflection of how expenditure on benefits, and therefore benefit income, will change as a result of welfare reforms.

Grouping welfare reforms

We consider that the welfare reforms presented above can be grouped into four broad categories, as below.

Reforms only affecting those in work
Of the £13.8 billion in projected savings

5 In particular Beatty, C. and Fothergill, S., (2013) Hitting the Poorest Places Hardest: The local and regional impacts of welfare reform, Centre for Regional Economic and Social Research

in 2015/16 described above, more than one third **(£5.1 billion)** is accounted for in savings from tax credits that only impact on those on Working Tax Credit or with earnings or income and claiming Child Tax Credit.

These impacts will predominantly fall on working households on low and low-to-middle incomes. In total, 4.75 million working families claimed tax credits in April 2011. By April 2013, this had fallen to 3.19 million – a reduction of around one third[6]. The large majority of this fall was among couple families where both adults worked[7], and will be a result of welfare reforms – in particular increases in the rate at which tax credits are withdrawn from earnings.

Tax credit receipt tends to be proportionately higher in the North of England, where pay is generally lower, but impacts are broadly based geographically – as employment tends to be higher in the south of England.

Reforms targeting those claiming benefits for a health condition or disability

The second category of reforms are those only affecting those claiming benefits due to a health condition or disability – specifically the removal of contributory ESA from most of those claiming for more than a year, and the replacement of DLA with PIP. These will lead to combined projected savings of **£3.0 billion** in 2015/16, or about one fifth of the total in this analysis.

These impacts are felt by those both in work and out of work. For example of the 700,000 contributory ESA claimants likely to be affected, the Government estimates that just under 30 per cent will have no entitlement to income-related ESA due to living in a household where someone works[8]. DLA can be claimed both in and out of work, but it is estimated that only a very small proportion of claimants are in work (perhaps as little as 6 per cent[9]).

These reforms will in the most part lead to actual changes in entitlement for current claimants – either through the exhaustion of contributory ESA, or a loss of eligibility or reduction in entitlement on assessment for the new PIP.

Reforms to Housing Benefit, affecting those in and out of work

Thirdly, a number of reforms affect those receiving Housing Benefit. In total these will lead to projected savings of around **£2.3 billion** in 2015/16. Around three quarters of these reductions affect only tenants in the private rented sector (which accounts for around 40 per cent of claimants of working age) – with the social sector size criteria accounting for just under a quarter of total housing savings.

One quarter of all Housing Benefit claimants are in work. Those in the private rented sector are much more likely to be in work than those in the social sector (34 per cent as against 20 per cent[10]). In addition, a substantial proportion of Housing Benefit claimants are likely to be affected by other welfare reforms. For example two thirds of Housing Benefit claimants also receive an out-of-work benefit from DWP[11], while one third are claimants of Disability Living Allowance or Attendance Allowance[12].

In addition to these Housing Benefit reforms, we also include the Overall Benefit Cap

6 Source: Child and Working Tax Credits Statistics, HMRC

7 Ibid

8 Source: DWP Equality Impact Assessment, ESA time-limiting, 2011

9 Berthoud, R. (2006) The employment rates of disabled people

10 Source: DWP Housing Benefit statistics, available from Stat X-Plore

11 Berthoud, R. (2006) The employment rates of disabled people

12 Source: DWP ad hoc analysis

within this category. This measure caps total household benefits, but its impact is in almost all cases a function of high rental costs – with Housing Benefit receipt pushing most families over the cap, and benefits being adjusted by reducing Housing Benefit. Just over half of those affected are in the private rented sector and just under half in the social sector. Significantly, this is also the only reform in the Government's welfare reform agenda that exclusively impacts on households where no one works.

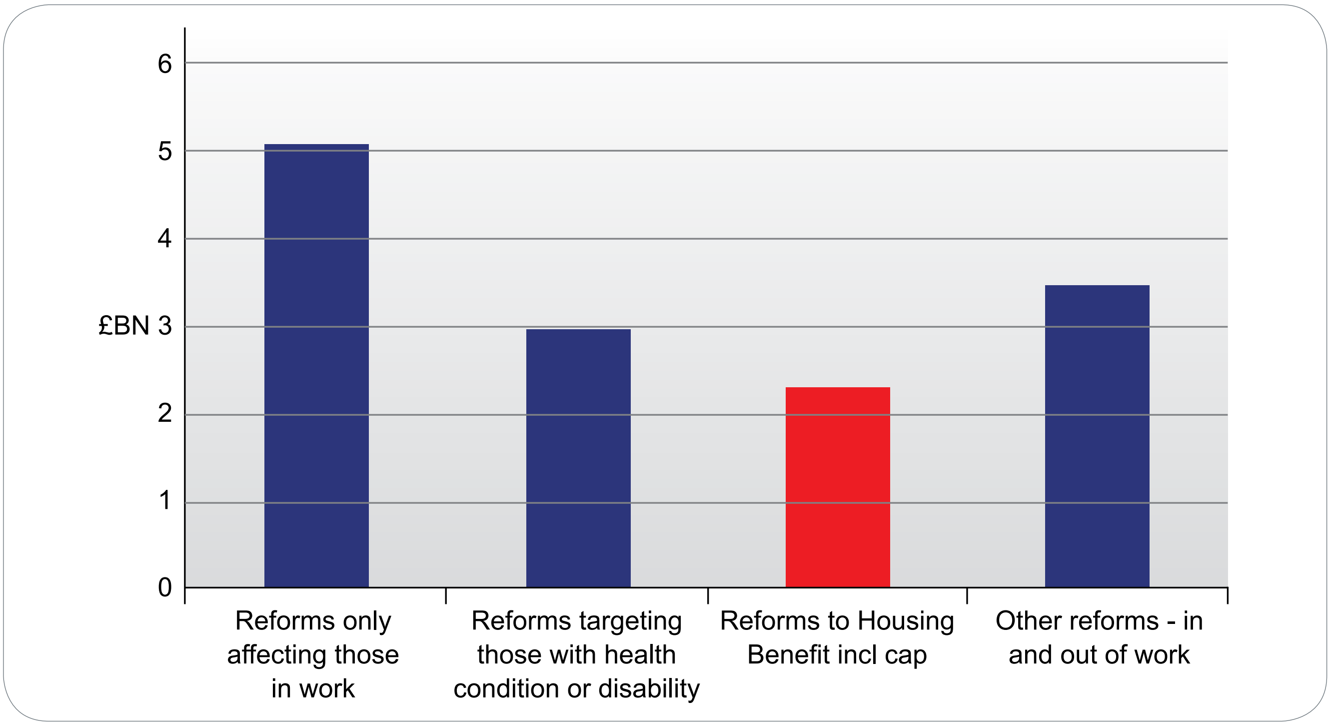
Other reforms affecting those both in and out of work

Finally, a number of further reforms affect those both in and out of work: the uprating of benefits by 1 per cent instead of inflation; the abolition of Council Tax Benefit; some Tax Credits changes; and the changes to non-dependant deductions. These have a combined impact of **£3.5 billion** in 2015/16, the large majority of these from lower uprating of benefits.

Taking these four groups together, the impacts of reforms are set out below.As this graph shows, the largest projected savings from welfare reform will fall on households where someone works. Indeed through our modelling of individual impacts, we estimate that **60 per cent of the projected savings from welfare reform will come from households where someone works**. Just over two thirds of these losses come from tax credit changes implemented in 2011.

The measures that have caused the greatest public concern are those that are related to Housing Benefit. These are shown in red above, and account for around £1 in every £6 saved. These impacts, and possible responses from claimants affected, are explored in more depth in Chapter 3.

Figure 2 – total financial impact of reforms by category, 2015/16



Source: HM Treasury and Inclusion calculations

2. Overview of impacts

Summary

- We estimate that the income of households claiming benefit will be on average lower by **£1,615 a year** – or £31 a week – in 2015/16 as a result of welfare reforms. This excludes the impact of Universal Credit. This is equivalent to around £1 in every £7 of household income for these households.
- At a local authority level, the average losses per claimant household are relatively evenly spread – with all regions except London seeing average losses between £1,500 and £1,650 per year.
- The reason for this is that the different impacts of different reforms largely balance each other out across the country – with larger impacts due to more people out of work and/ or on low incomes in work in the northern half of the country balanced by far higher housing costs in the southern half of the country.
- As noted, the exception to this is London – where high benefit dependency and high housing costs combine to give very large impacts per household – with on average claimant household incomes lower by £1,965.
- 45 per cent of households of "working age" receive one of the main state benefits (ie a DWP benefit or tax credits).
- The impacts of reforms are likely to be most strongly felt in areas with the highest dependence on benefit – the north east, Lancashire and the central north west, Birmingham and the Black Country, parts of London, and a swathe of coastal towns and cities including Thanet, Tendring, Great Yarmouth, Scarborough, Plymouth and Torbay.
- We estimate that three fifths (59 per cent) of all projected welfare reform savings fall on households where somebody works. Indeed the reductions from working households are greater than the reductions from households where no one works in 314 of the 325 Local authorities in this analysis.
- These relatively higher losses for working households are accounted for by the very large proportions of savings that accrue from changes to tax credits and to the up-rating of benefits. But they also reflect the fact that most welfare reforms affect households in and out of work.

The headlines – the cumulative impact of welfare reforms

Overall, we estimate that the reforms described in Chapter 1 will lead to a reduction in income for households claiming benefit of **£11.77 billion** in England in 2015/16.

We estimate that there are 7.29 million households claiming benefit in England[13], meaning that the income of households claiming benefit will be on average lower by **£1,615 a year** – or £31 a week – in 2015/16 as a result of welfare reforms. This excludes the impact of Universal Credit.

We estimate that in total, expenditure on key working age benefits[14] in England would have been £79.2 billion in 2015/16[15] in the absence of reform – equivalent to an average annual award of £10,825 a year. Therefore the impact of welfare reforms will be to reduce incomes for households receiving benefit by an equivalent of £1 for every £7 of income, on average.

At a local authority level, the average losses per claimant household are relatively evenly spread – with all regions except London seeing average losses between **£1,500 and £1,650 per year**. The reason for this is that the different impacts of different reforms largely balance each other out across the country – with larger impacts due to more people out of work and/ or on low incomes in work in the northern half of the country balanced by far higher housing costs in the southern half of the country (feeding through into larger impacts from housing benefit-related measures).

As noted, the exception to this is London – where high benefit dependency and high housing costs combine to give very large impacts per household – with on average claimant household incomes lower by £1,965.

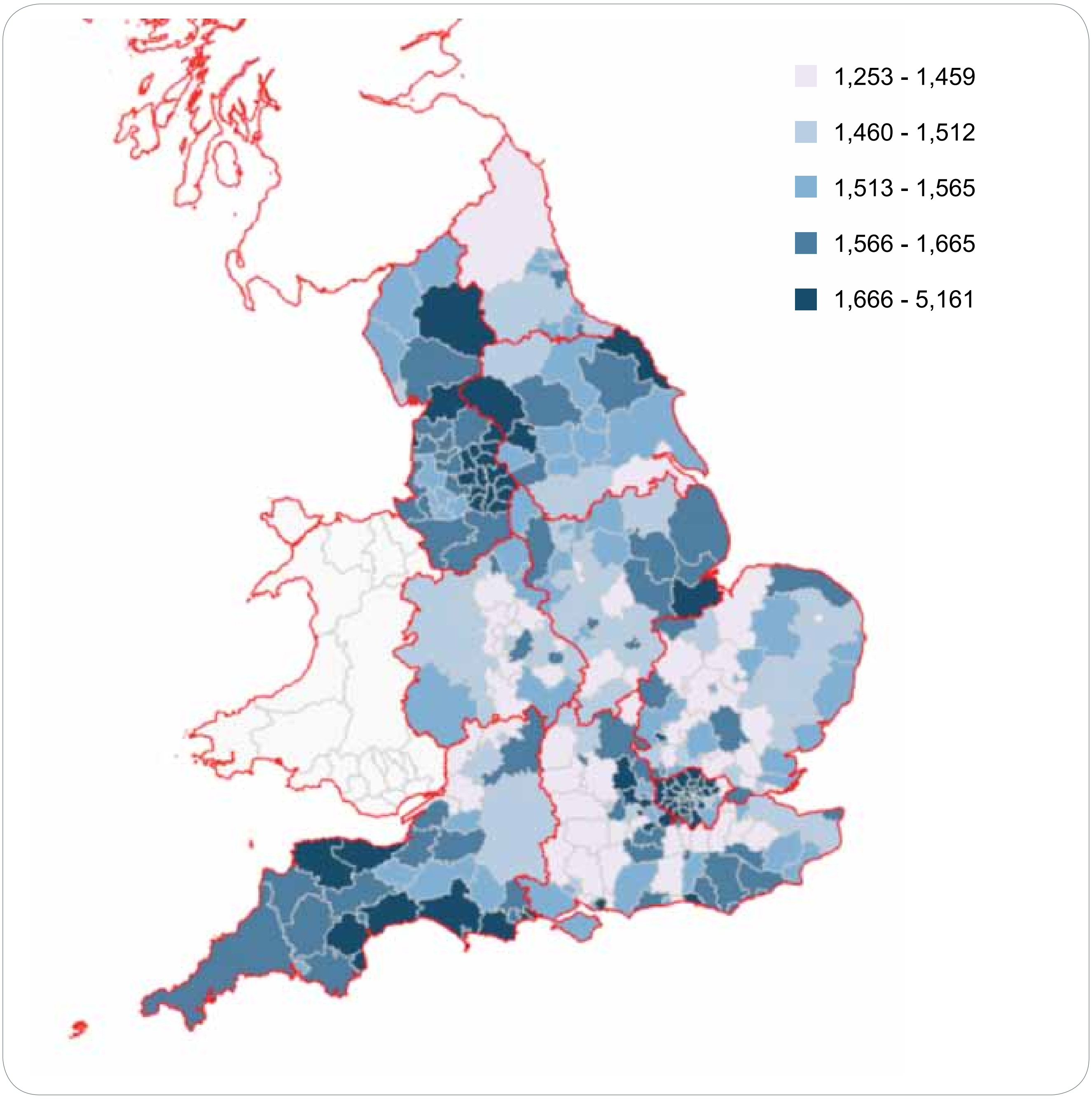
These geographical impacts are set out in **Figure 3**. In this map, and in subsequent maps, each shaded area represents one quintile of the distribution – ie 20 per cent of local authorities.

13 Source: “Non-retired households receiving cash benefits, excluding child benefit, 2000/01 - 2010/11”, Office for National Statistics, September 2012 and Inclusion calculations

14 Carers Allowance, Council Tax Benefit/ Support, Disability Living Allowance/ Personal Independence Payment, Employment and Support Allowance/ incapacity benefits, Housing Benefit, Income Support, Industrial Injuries, Jobseeker’s Allowance, Tax Credits, Universal Credit marginal costs

15 Source: “Medium term forecasts for all DWP benefits”, DWP, April 2013 and Inclusion calculations

Figure 3 – average loss per claimant household from all welfare reforms excluding Universal Credit, £/ year in 2015/16

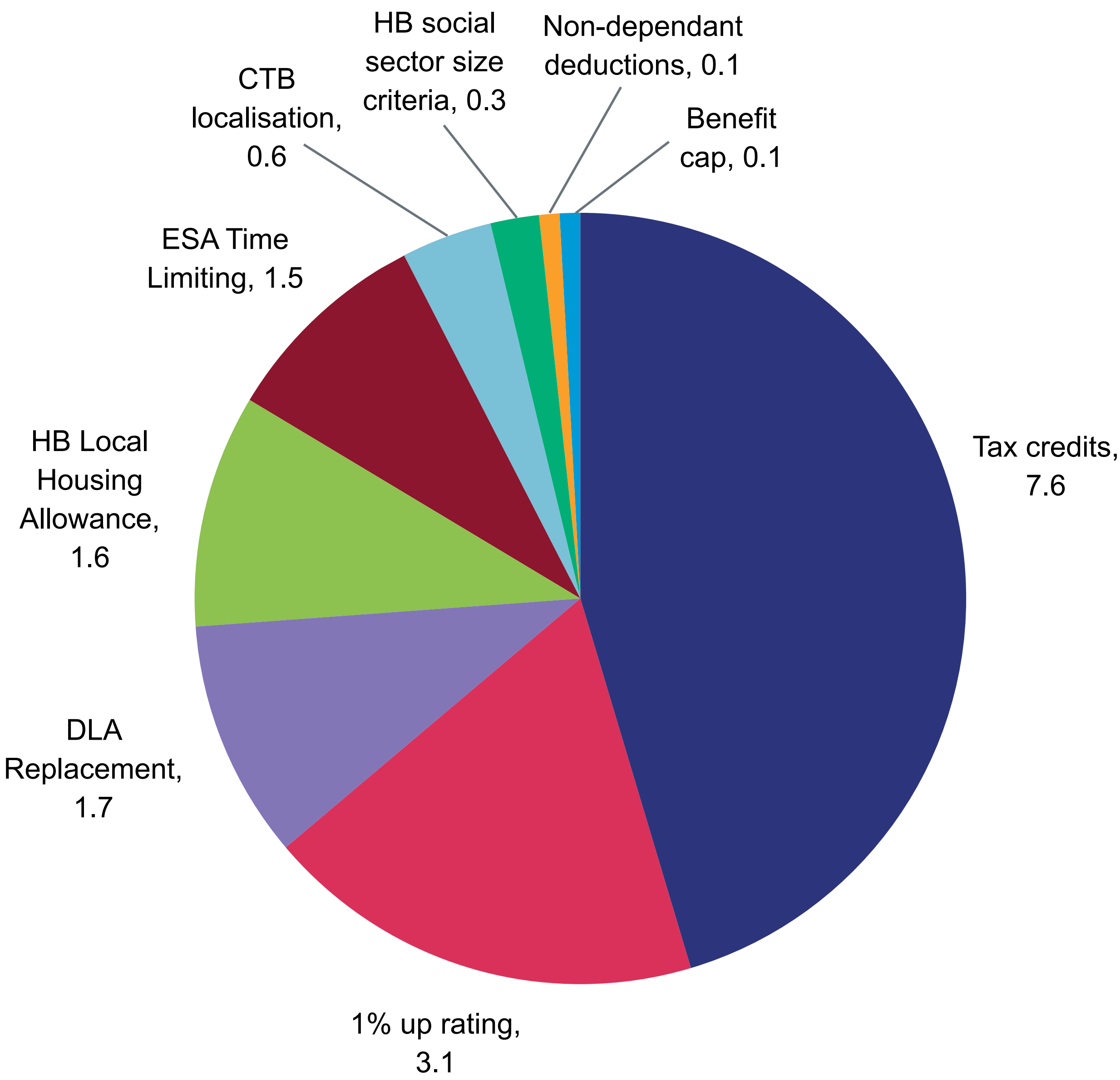


Source: HM Treasury and Inclusion calculations

The median impact per household is £1,540 per year (Mid Sussex). More than 200 Local authorities – or 65 per cent of the total – have average losses within £100 of this figure.

A summary of the impacts of welfare reforms for Mid Sussex is below, which illustrates how far losses overall are driven by reforms with a broad base: fully 45 per cent of losses are accounted for by changes to tax credits, with 18 per cent of losses from reduced uprating and 10 per cent of losses for each of the abolition of Disability Living Allowance and the reforms to the Local Housing Allowance in Housing Benefit.

Figure 4 – the composition of losses from welfare reform in Mid Sussex, 2015/16 (£m)



Source: HM Treasury and Inclusion calculations

The 10 per cent of Local authorities with the largest average losses per claimant household are set out in Table 1 below. These are typically, but not exclusively, areas in London and the south of England where the losses from reforms to Housing Benefit for private renters are having the largest impact.

Table 1 – average losses per claimant household in the 10 per cent of local authorities with the greatest average loss

Local authority	Region	Average loss per claimant household (£/ yr)	Claimant households	Overall impact (£m)
Westminster	London	5,161.14	25,038	129.2
Kensington and Chelsea	London	4,060.80	14,048	57.0
Brent	London	2,774.80	44,688	124.0
Wandsworth	London	2,242.61	29,527	66.2
Camden	London	2,194.93	26,677	58.6
Hackney	London	2,132.97	41,863	89.3
Barnet	London	2,105.62	38,664	81.4
Ealing	London	2,076.59	44,181	91.7
Harrow	London	2,046.22	25,320	51.8
Enfield	London	2,019.26	48,315	97.6
Haringey	London	2,019.10	40,487	81.7
Redbridge	London	1,881.08	34,695	65.3
Kingston upon Thames	London	1,874.66	13,400	25.1
Slough UA	South East	1,873.91	19,925	37.3
Newham	London	1,869.03	52,682	98.5
Lewisham	London	1,835.65	44,511	81.7
Pendle	North West	1,835.59	15,406	28.3
Hammersmith and Fulham	London	1,832.17	21,204	38.8
Brighton and Hove	South East	1,830.55	36,591	67.0
Blackburn with Darwen	North West	1,826.31	29,276	53.5

Hyndburn	North West	1,819.52	15,222	27.7
Croydon	London	1,792.01	51,171	91.7
Oldham	North West	1,788.95	40,652	72.7
Blackpool	North West	1,778.63	32,365	57.6
Rossendale	North West	1,771.81	10,892	19.3
Luton	East	1,770.39	31,448	55.7
Tower Hamlets	London	1,761.64	40,621	71.6
Islington	London	1,761.23	31,735	55.9
Hounslow	London	1,758.32	32,597	57.3
West Somerset	South West	1,757.22	4,526	8.0
Waltham Forest	London	1,739.64	40,487	70.4
Burnley	North West	1,736.49	16,874	29.3
Woking	South East	1,735.30	8,287	14.4

Source: HM Treasury and Inclusion calculations

As this table shows, the largest impacts are found in inner London – which accounts for all of the top ten local authorities and more than half of the top 10 per cent – but with parts of the south east and Lancashire also represented. The relatively large impacts in Lancashire are perhaps surprising, and are driven by relatively high proportions of the population being impacted through tax credits in particular, combined with moderate to high impacts from Housing Benefit reforms.

The share of the population claiming benefits

Because the impacts of welfare reform are relatively evenly spread across most local authorities, it is important to look also at the share of households in each local authority that are claiming benefits. This enables us to consider where claimant households are concentrated, and therefore where impacts may be greater.

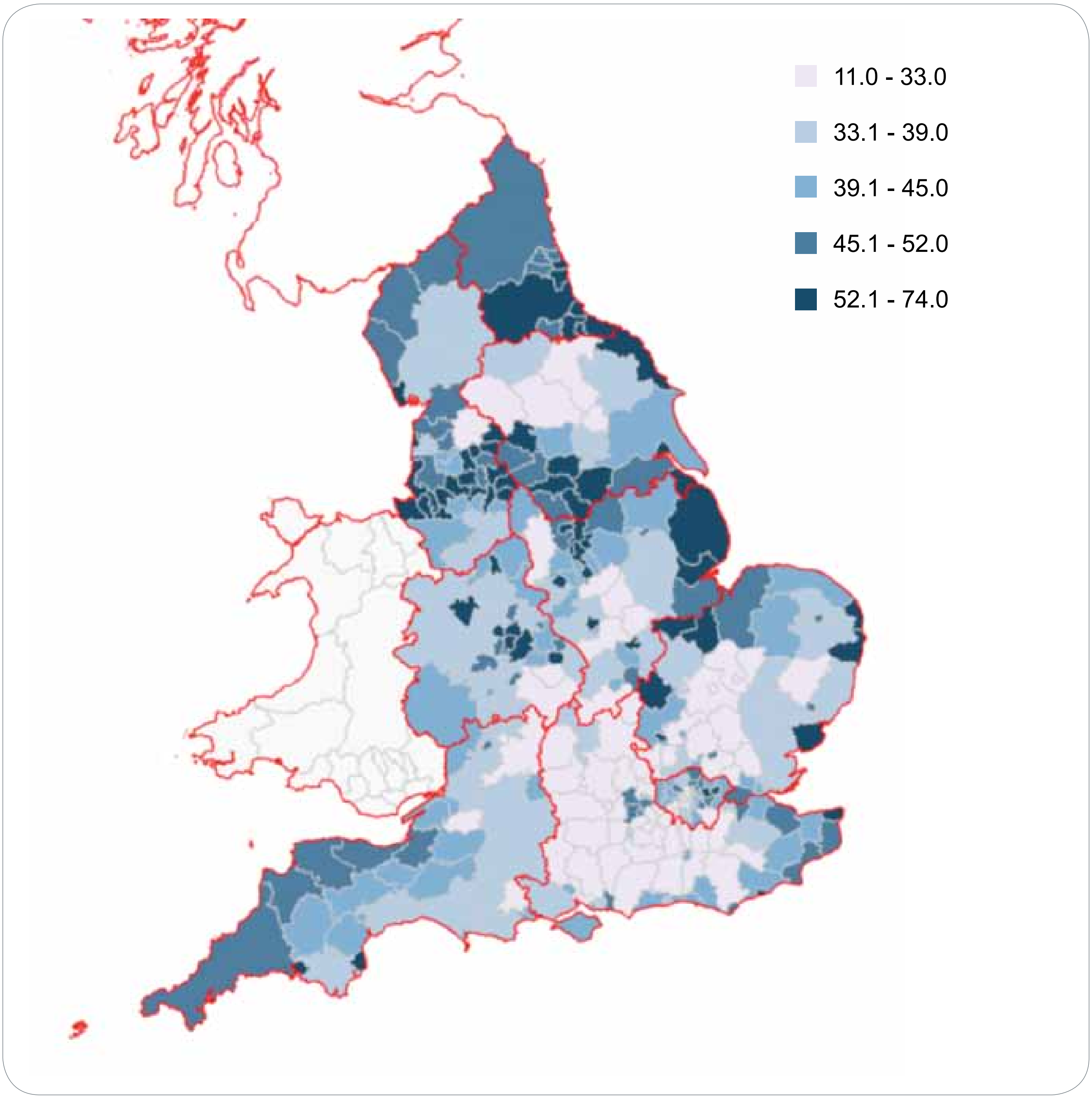
This analysis is set out in **Figure 5** below.

Overall, **45 per cent** of households of “working age” receive one of the main state benefits (ie a DWP benefit or tax credits)[16].

Based on shares of claims for these benefits, we estimate that at a local authority level the proportion of households claiming benefit varies from 20 per cent in Richmond-upon-Thames in London to 74 per cent in Knowsley in the north west. The 10 per

16 Source: “Non-retired households receiving cash benefits, excluding child benefit, 2000/01 - 2010/11”, Office for National Statistics, September 2012 and Inclusion calculations

Figure 5 – proportion of working age households claiming a DWP benefit and/ or tax credits, per cent, 2011



Source: HM Treasury and Inclusion calculations

cent of areas with the lowest proportions of households on benefit are overwhelmingly in outer London and the south east, while the areas with the highest proportions are in the north west, north east, West Midlands and Yorkshire and the Humber.

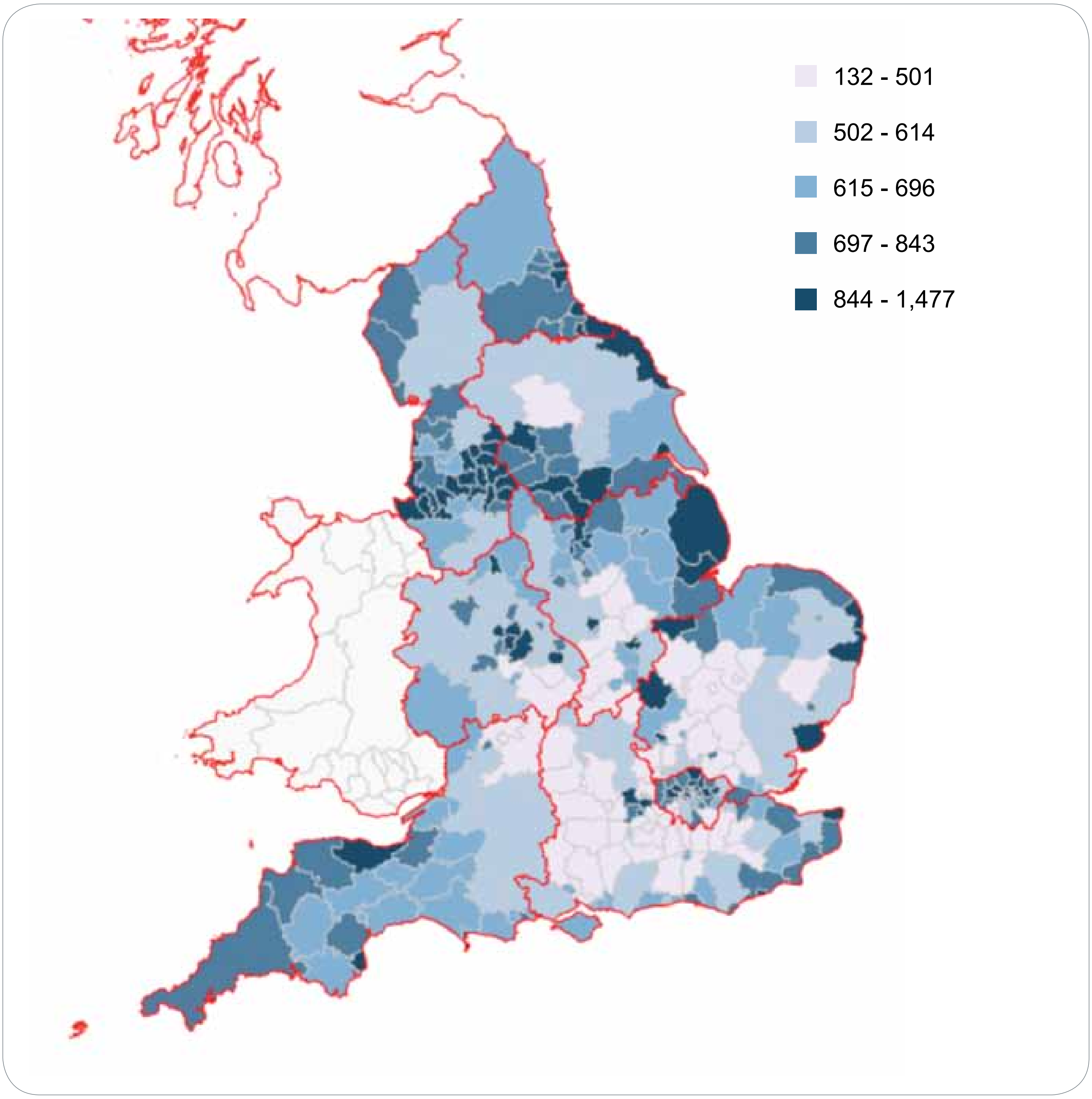
Given that in most areas, the impacts of reforms will lead to a reduction in incomes of between £1,440 and £1,640 a year, this map demonstrates that the impacts of reforms are likely to be most strongly felt in areas with the highest dependence on benefit – so the north east, Lancashire and the central north west, Birmingham and the Black Country, parts of London, and a swathe of coastal towns and cities including Thanet, Tendring, Great Yarmouth, Scarborough, Plymouth and Torbay.

Another way to consider this is by looking at the average loss per household of working age (ie the total impact of welfare reforms in an area divided by the total number of households). This gives a better reflection of the impact of welfare reforms on communities as a whole – per household impacts will be greatest where high proportions of households claim benefit and average losses are greatest, and impacts will be lowest where there are low proportions claiming benefit and lower average losses.

Figure 6 below sets out our estimate of welfare reform impacts based on all working age households in that local authority. Overall, we estimate that welfare reforms will have an impact equivalent to **£720 per household per year**.

Figure 6 also brings out clearly that the largest impacts are in the north of England (particularly Lancashire, the urban north wast, parts of Yorkshire and Humberside); Birmingham and the Black Country; London; and pockets of southern England particularly around coastal towns (again including Great Yarmouth, Thanet, Hastings and parts of the south west).

Figure 6 – average loss per household from all welfare reforms excluding Universal Credit, £/ year in 2015/16



Source: HM Treasury and Inclusion calculations

Impacts on working and non-working households

As noted, we estimate that around three fifths (59 per cent) of all projected welfare reform savings fall on households where somebody works[17]. Indeed the reductions for working households are greater than the reductions for households where no one works in 314 of the 325 local authorities in this analysis. The only areas where reductions for from workless households make up the largest share are in the north west (Knowsley, Copeland, St Helens, Blackpool, Liverpool) and inner London (Hammersmith and Fulham, Camden, Islington, Westminster, Kensington and Chelsea, City of London).

The 10 per cent of local authorities where the greatest reductions affect households in work are set out in **Table 2** below.

As this shows, areas where the impacts are greatest on working households are in relatively more prosperous areas, and relatively evenly spread – but with areas more likely to be in the south east and East Midlands. No local authorities in London or the north east feature on the list.

Table 2 – Local authorities with the greatest shares of projected savings falling on working households

		Impact on working households (£m)	Impact on non-working households (£m)	Share of losses working households
Richmondshire	Yorkshire and Humber	5.6	2.2	71%
South Northamptonshire	East Midlands	7.3	3.1	71%
Eden	North West	6.5	2.8	70%
Blaby	East Midlands	10.8	4.6	70%
Melton	East Midlands	5.1	2.2	70%
Rutland UA	East Midlands	3.0	1.3	69%
Hart	South East	5.7	2.6	69%
West Oxfordshire	South East	8.8	3.9	69%
Mid Devon	South West	10.6	4.9	69%

17 The actual proportion is likely to be slightly higher than this, for reasons set out in Annex A.

Stratford-on-Avon	West Midlands	11.1	5.2	68%
Oadby and Wigston	East Midlands	6.4	3.0	68%
Harborough	East Midlands	7.1	3.4	68%
Mid Suffolk	East	9.4	4.4	68%
South Lakeland	North West	11.2	5.3	68%
Ryedale	Yorkshire and Humber	6.0	2.8	68%
South Hams	South West	10.5	5.0	68%
Harrogate	Yorkshire and Humber	15.3	7.3	68%
East Hampshire	South East	9.2	4.4	68%
East Devon	South West	15.7	7.5	68%
Test Valley	South East	10.1	4.8	68%
Wycombe	South East	17.7	8.5	68%
Hambleton	Yorkshire and Humber	8.7	4.2	68%
Fareham	South East	9.4	4.6	67%
Vale of White Horse	South East	9.6	4.7	67%
Wealden	South East	14.1	6.9	67%
North Devon	South West	14.4	7.0	67%
Uttlesford	East	6.4	3.1	67%
Luton UA	East	37.4	18.3	67%
Broadland	East	13.0	6.4	67%
Cotswold	South West	7.2	3.5	67%
Rugby	West Midlands	11.3	5.6	67%
Boston	East Midlands	11.8	5.9	67%
Bromsgrove	West Midlands	8.1	4.0	67%

Source: HM Treasury and Inclusion calculations

We estimate that at least 60 per cent of **households** impacted by reforms are households where at least one adult works. Given that there are around 2.8 million households in England of working age where no one works[18], then even if every single one of these also claimed benefit and was affected by welfare reform they would only account for 39 per cent of all households impacted.

These relatively higher losses for working households are accounted for by the very large proportions of projected savings that accrue from changes to tax credits and to the up-rating of benefits. But they also reflect the fact that the most welfare reforms affect households in and out of work.

18 Source: “Working and Workless Households 2012”, Office for National Statistics and Inclusion calculations

3. The impacts of key Housing Benefit reforms

Summary

- This chapter focuses on the local impacts of reforms affecting Housing Benefit – specifically: reforms to the Local Housing Allowance for those in the private rented sector; the introduction of the size criteria; and the introduction of the overall benefit cap.
- Allowing for overlaps between the benefit cap and the Local Housing Allowance measure, we estimate that 1.71 million households – one in ten of all working age households – will be impacted by one or more of these Housing Benefit reforms, with an average loss of £1,215 per year (or £23 per week).
- We estimate that 1.18 million of these households (70 per cent of the total) will be households where no one works.
- Households are generally more likely to be impacted in the north than the south of the country – particularly in Lancashire, Yorkshire and the north east. London is also hard hit as is Birmingham. In common with the impacts of the individual measures described, coastal towns see significant impacts – with more than 30 per cent of households in Blackpool affected, and nearly 20 per cent of households affected in Torbay, Thanet, Hastings, Tendring and north east Lincolnshire.
- Impacts per household are significantly greater in southern England – reflecting the high costs of housing in these areas. The largest impacts by far are in London: in every single London authority, the average impact is above £1,300 per year – while in just fourteen local authorities outside London the average impact is £1,300 or higher (all in the south east of England).
- Excluding London, the average loss per household falls to £940 per year.
- There are 36 local authorities outside London (12 per cent of the non-London total) where both average losses and the proportion of households impacted are above the national average. Around two thirds of these are coastal towns.

A particular focus of this analysis is understanding the local impacts of reforms that are most likely to affect households' ability to remain in or to afford housing – particularly in households where no one works. Therefore in this chapter, we present similar analysis of local authority level impacts, focussing in on that category of losses related to Housing Benefit – and specifically the impacts of:

- reforms to the Local Housing Allowance for those in the private rented sector
- the introduction of the size criteria
- the introduction of the overall benefit cap.

Reforms to the Local Housing Allowance

The Government has made substantial reforms to the Local Housing Allowance system for households on low incomes renting in the private sector. In summary, it has:

- reduced the maximum rent payable from the median rent to the thirtieth percentile of average rents in that rental market area (from April 2011)
- introduced a maximum weekly cap for the amount of Local Housing Allowance that can be paid, based on household size (April 2011)
- for claimants aged under 35, limited entitlement to a lower "Shared Accommodation Rate" (January 2012)
- restricted the maximum annual uprating of Local Housing Allowances to the Consumer Prices Index rather than changes in rents (April 2013).

In addition from next year, the uprating of the Local Housing Allowance will be further restricted to a maximum of 1 per cent.

Taken together, these measures will lead to projected savings of **£1.51 billion** and will likely impact on all of the **1.15 million** households whose Housing Benefit is paid through the Local Housing Allowance regime. Overall the average impact of these reforms are equivalent to **£1,320** per affected household – or £25 per week.

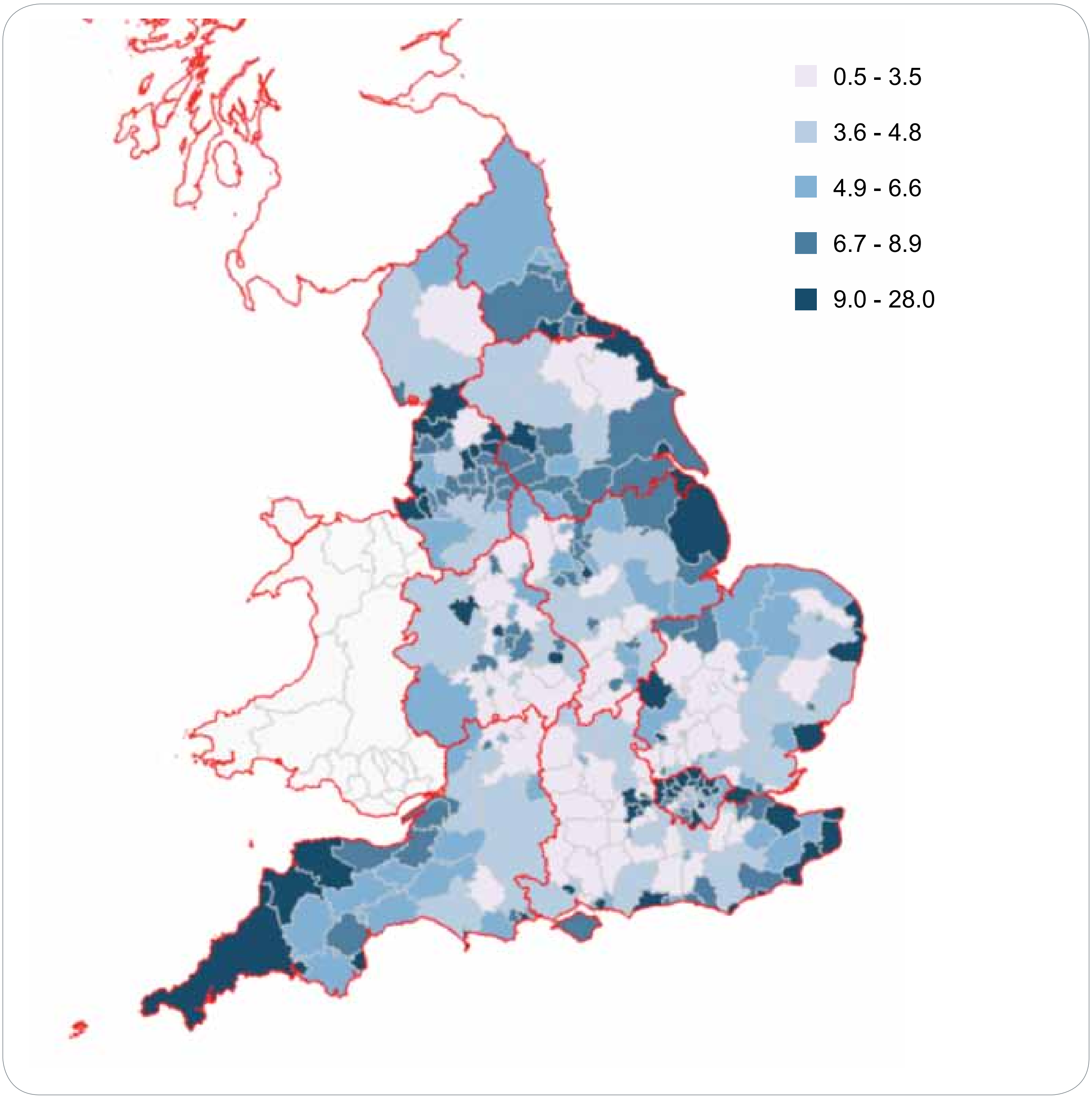
The changes to Local Housing Allowance will largely impact on households where no one works (around 65 per cent of households affected).

Looking at the impacts on Local authorities, inevitably the impacts on claimant households are greatest in areas with the highest rental costs – with overwhelmingly the largest impacts in London (where affected households are impacted by on average **£2,680 per year**) and the south east.

However, in many of these areas there are often below average numbers of households claiming Housing Benefit – so it is important also to look at the share of all working age households impacted by Local Housing Allowance reforms. This is set out in **Figure 7** below. Overall, we estimate that on average 7 per cent of working age households are impacted by reforms to the Local Housing Allowance. However far greater proportions are impacted in:

- parts of outer London (including Enfield, Brent, Haringey and Newham)
- coastal towns around the country (including Blackpool, Torbay, Thanet, Hastings).

Figure 7 – proportion of households impacted by changes to Housing Benefit Local Housing Allowance (per cent), 2013



Source: HM Treasury and Inclusion calculations

The overall benefit cap

The overall benefit cap is being rolled out nationwide between now and September 2013. The cap will limit the maximum amount that households can receive in benefit to £500 per week where there is no one in work and no one entitled to Disability Living Allowance (a lower cap of £350 per week for single households also applies).

In total, the Government estimates that **50,000 households** will be affected. We estimate that the average loss in 2015/16 will be around **£3,300 per year** – or £64 per week. Of those 50,000 households, just over half are expected to be in the private rented sector – and likely also to be impacted by the changes to the Local Housing Allowance set out above.

Figure 8 sets out the estimated proportion of all working age households affected by the benefit cap in each local authority. Once again, the largest concentrations are in those areas with combinations of high housing costs and high receipt of benefits, so:

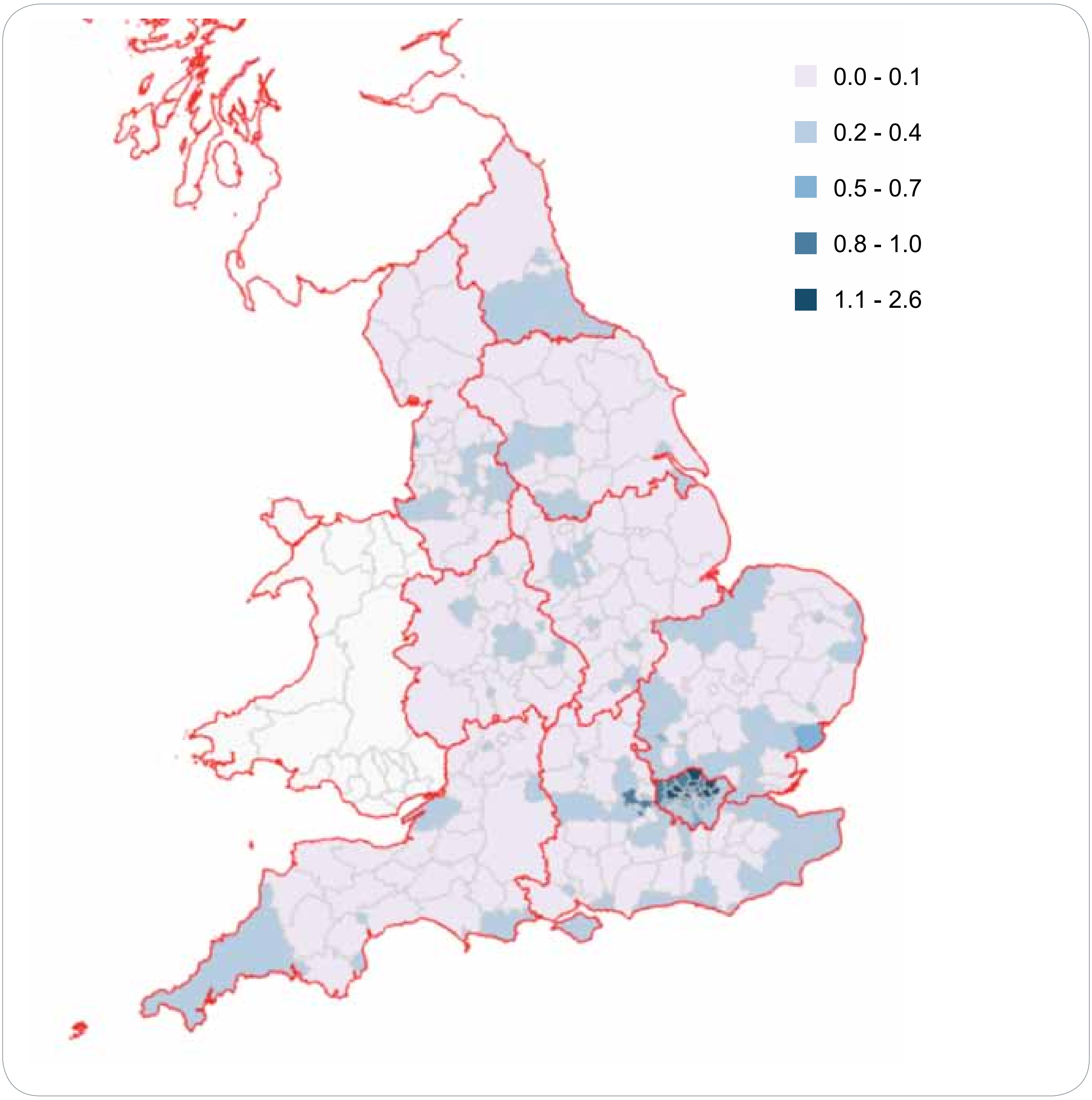
- all of London – with London authorities accounting for 24 of the top 25 Local authorities
- a number of towns and cities in the south of England including Luton, Slough, Reading and Oxford
- Birmingham and the Black Country
- a number of coastal towns including Blackpool, Southend and Tendring.

Family size is also a key determinant of whether a household is impacted by the benefit cap. Our analysis of the combined value of benefits and Local Housing Allowances for private sector tenants suggests that all couple families with four or more children and four bedrooms, and all single parent families with five or more children, will stand to lose as a result of the benefit cap – wherever in the country they live. The impacts of the cap are less extensive in the social rented sector, but nonetheless we estimate that any couple household with five or more children, and any single parent household with six or more children, is likely to be impacted.

With the data available, it has not been possible to produce reliable "per household" estimates for the impact of the benefit cap. Rather, we have assumed that the impact per household is the same for all households affected. However as noted, we would expect impacts to be greater in areas with highest rents. For example based on analysis of maximum rents payable in the private rented sector, the potential losses for a four-child couple family vary widely between areas – from less than **£20 a week** in parts of Yorkshire and Humberside to more than **£300 a week** in inner London. So our approach is likely to understate the impacts on households in areas with highest rental costs.

Finally – it is important to note that although the impacts of the benefit cap are very large in comparison to other measures, they affect only a very small proportion of households – we estimate one in five hundred households outside London, and one in one hundred within London (rising to more than one in fifty in Westminster and Brent).

Figure 8 – proportion of households impacted by overall benefit cap (per cent), 2013



Source: HM Treasury and Inclusion calculations

The social sector size criteria

The social sector size criteria were introduced in April 2013, reducing the Housing Benefit of households of "working age" in the social sector that are deemed to have more bedrooms than they need. Those with one "extra" bedroom have seen their benefit reduced by 14 per cent, and those with two "extra" bedrooms see a reduction of 25 per cent.

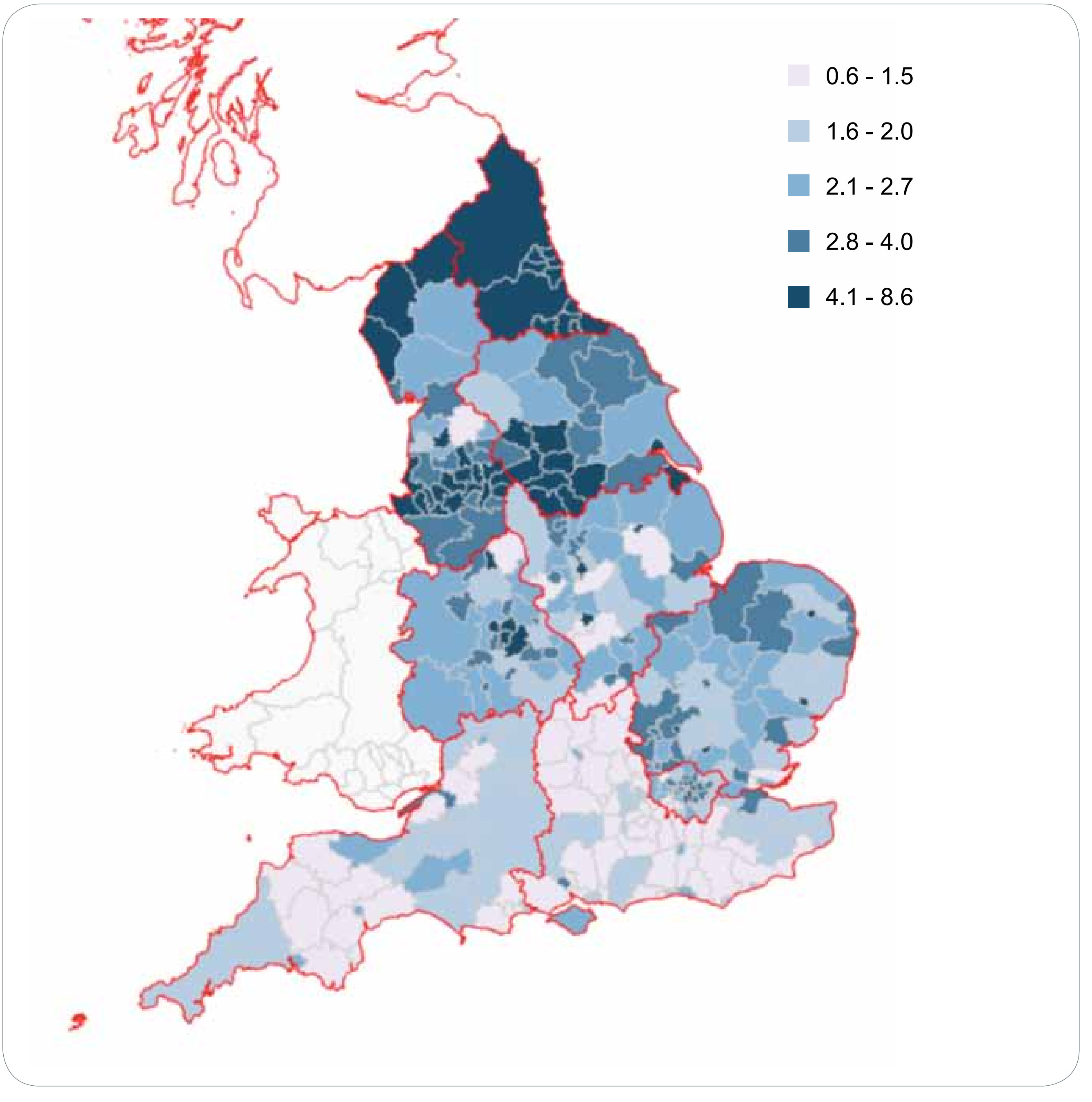
We estimate that these measures will save **£395 million** and impact **540,000 households** – with an average loss of £730 a year (or £14 per week).

We estimate that 80 per cent of households impacted will be households where no one is in work.

Local authority impacts are driven by a combination of social sector rents and the prevalence of social housing in local areas. Impacts per claimant household are generally largest in London, and above average in the south west, north east and east of England.

Meanwhile as Figure 9 shows, the highest proportions of working age households affected are overwhelmingly in the northern half of England – with households twice as likely to be impacted in ten local authorities covering Lancashire (Knowsley, Manchester, Salford, Liverpool, Halton, St Helens), the north east (South Tyneside, Middlesbrough, Newcastle) and Hull. The rest of Lancashire, Yorkshire, Birmingham and some parts of London also see significant impacts.

Figure 9 – proportion of households impacted by Housing Benefit social sector size criteria (per cent), 2013



Source: HM Treasury and Inclusion calculations

The combined impacts of Housing Benefit reforms

Overall, allowing for overlaps between the impacts of the benefit cap and the Local Housing Allowance measure, we estimate that **1.71 million** households – or around one in ten of all working age households – will be impacted by one or more of the Housing Benefit reforms set out above, with an average impact of £1,215 per year (or £23 per week).

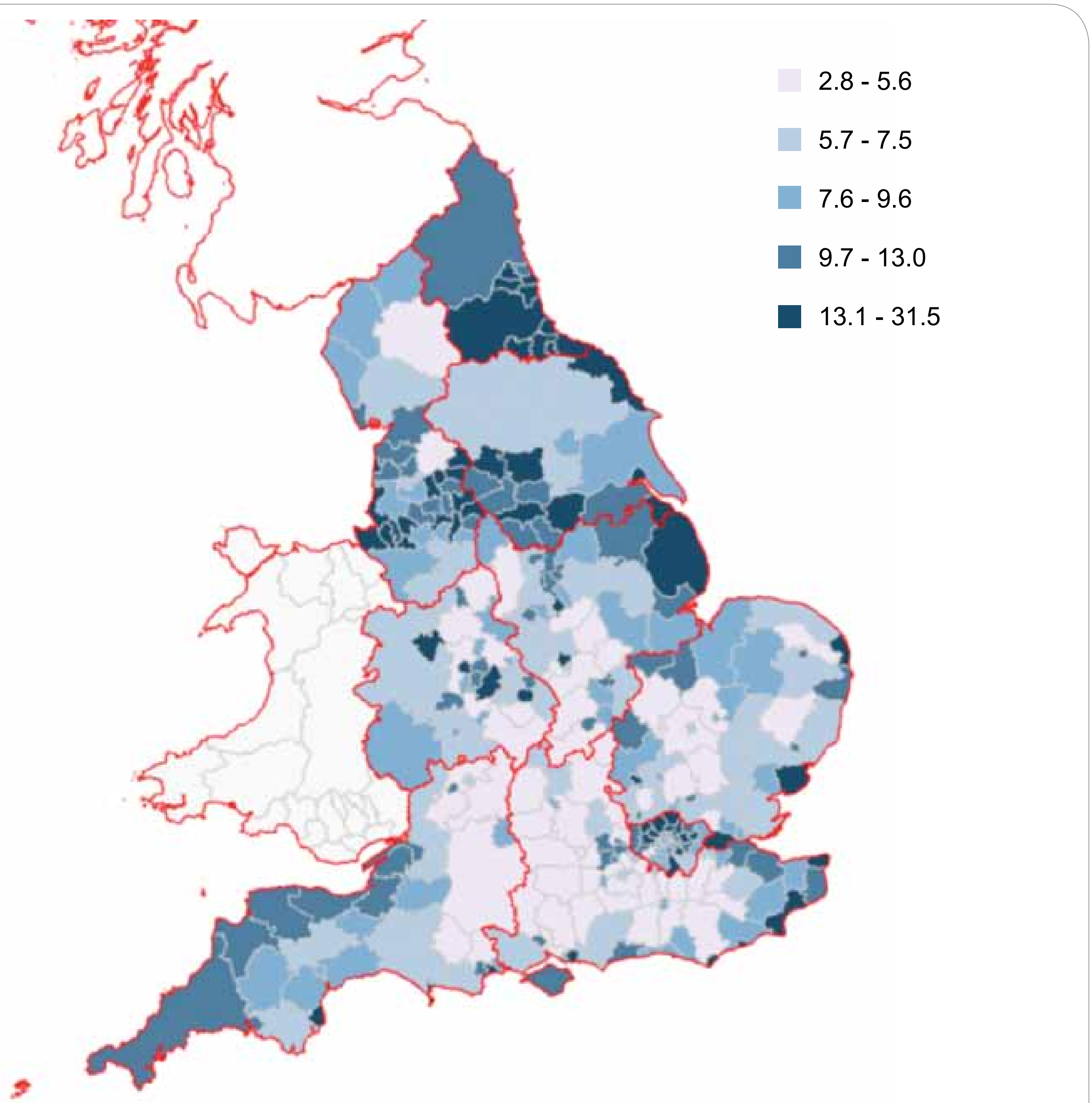
We estimate that 1.18 million of these households (70 per cent of the total) will be households where no one works.

Figure 10 below shows the spread of households impacted across the country. As this shows, working age households are generally more likely to be impacted in the north than the south of the country – particularly in Lancashire, Yorkshire and the north east. London is also hard hit as is Birmingham.

In common with the impacts of the individual measures described, coastal towns see significant impacts – with more than 30 per cent of households in Blackpool impacted, and nearly 20 per cent of households affected in Torbay, Thanet, Hastings, Tendring and north east Lincolnshire.

In fifty local authorities the likelihood of being affected by these welfare reforms is less than half the national average – all of them are in the southern half of England (Midlands or below), and predominantly in more rural areas.

Figure 10 – proportion of households impacted by key housing benefit reforms (per cent)



Source: HM Treasury and Inclusion calculations

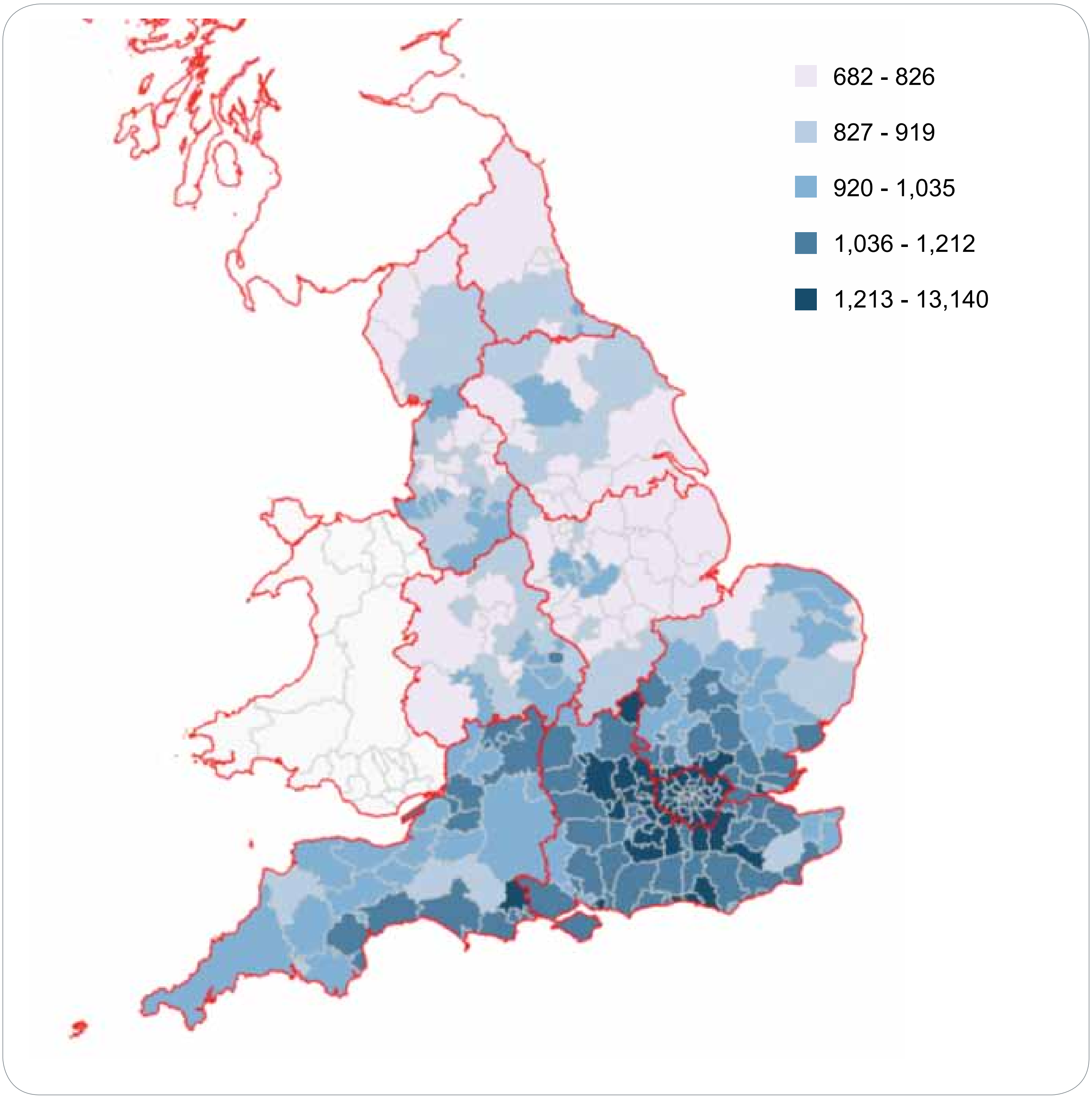
The relatively smaller proportion of affected households in southern England (excluding London and coastal towns) largely reflects the fact that relatively fewer households claim benefit in these areas.

However by looking at the average impact per claimant household, as **Figure 11** does below, we see a different picture. Impacts per claimant household are significantly greater in southern England – reflecting the high costs of housing in these areas (and in particular the far larger gaps between the maximum available Housing Benefit and likely actual rents in the private rented sector).

The largest impacts by far are in London: in every single London authority, the average impact is above £1,300 per year – while in just fourteen Local authorities outside London the average impact is £1,300 or higher (all in the south east of England).

Excluding London, the average loss per household falls to £940 per year.

Figure 11 – average loss per claimant household from key Housing Benefit reforms, £/ year 2015/16



Source: HM Treasury and Inclusion calculations

Looking at those areas outside London, there are 36 Local authorities (12 per cent of the non-London total) where both average losses and the proportion of households impacted are above the national average (when London is taken out). These are set out in **Table 3** below.

Table 3 – Non-London Local authorities where impacts are above average

		Average loss (£/ year)	Proportion of all households impacted
Slough	South East	1836	12.4%
Brighton and Hove	South East	1506	13.9%
Reading	South East	1357	11.5%
Bournemouth	South West	1166	15.8%
Thurrock	East	1164	11.1%
Southend-on-Sea	East	1119	16.4%
Weymouth and Portland	South West	1108	14.2%
Swale	South East	1100	11.0%
Southampton	South East	1090	11.2%
Luton	East	1087	13.9%
Coventry	West Midlands	1086	14.0%
Hastings	South East	1085	18.1%
Arun	South East	1074	10.7%
Tendring	East	1057	18.0%
Bristol, City of	South West	1056	11.4%
Shepway	South East	1050	13.2%
Blackpool	North West	1047	31.5%
Isle of Wight	South East	1043	13.0%
Gloucester	South West	1042	11.0%
Harlow	East	1041	11.4%
Torbay	South West	1039	19.5%

Thanet	South East	983	19.0%
Cornwall	South West	979	11.6%
Eastbourne	South East	978	14.8%
Hartlepool	North East	977	18.8%
Portsmouth	South East	976	12.5%
Liverpool	North West	973	18.0%
Wirral	North West	967	15.8%
St. Helens	North West	963	13.7%
West Somerset	South West	960	11.0%
Birmingham	West Midlands	956	14.0%
North Devon	South West	948	10.6%
Middlesbrough	North East	947	21.7%
Lancaster	North West	945	12.8%
Salford	North West	944	15.7%
Knowsley	North West	943	17.4%
Non London average		**940**	**10.2%**

Source: HM Treasury and Inclusion calculations

Whilst areas with above average losses and above average proportions of losers are more likely to be in the south of England, what stands out is the large number of coastal towns from around the country: two-thirds of all local authorities.

Overall, then, different local authorities face starkly different challenges from welfare reforms affecting Housing Benefit. In large parts of the north of England, large proportions of households will see significant changes in income. In the south of England, generally fewer households will see proportionately larger losses from welfare reforms.

However some places will see both large losses and large numbers of households affected. London stands out, with above average proportions of households affected and with average losses of more than double the average outside London. But this analysis also demonstrates that coastal towns in particular, and some relatively disadvantaged areas with high housing costs, will see above average impacts.

4. Mitigating impacts

Summary

- Research suggests that responses to welfare reform have been limited so far – with relatively few claimants looking for work and even fewer having success in finding it, and little evidence of claimants moving to more affordable accommodation.
- We have modelled responses in three scenarios based on the best available evidence on claimants' willingness to find work or move home for each measure.
- We estimate that in the central scenario 155,000 claimants, of the 1.18 million out of work, may mitigate their losses by finding work, and 115,000 by moving home. So in total, we estimate that 270,000 claimants – 23 per cent of the total impacted – may be successful in taking steps to mitigate the impacts of reform.
- Even at the highest scenario a large majority of the impacts of reforms affecting housing costs for households out of work are unlikely to be met through claimants finding work or moving home. And at more plausible estimates, at least four out of every five households are likely to need further assistance – with cumulative financial impacts in excess of £1 billion per year.
- Local authorities are adopting a range of strategies to support claimants to manage and respond to the impacts of welfare reforms. In general responses include: targeted information campaigns; personal support; financial assistance; and joint working and signposting.
- £155 million has been made available to local authorities in Discretionary Housing Payments (DHPs) in 2013/14, to provide discretionary support to Housing Benefit claimants impacted by welfare reforms. Therefore even once plausible responses by tenants are taken into account (the central scenario above), DHPs would cover just £1 in every £7 of the impact of housing reforms on tenants.
- In addition, because the allocation formula does not reflect the totality of housing impacts, it leads to some areas facing larger impacts than others. As a result there is wide variation in how far DHPs will meet the "residual" losses in local areas, after mitigations are taken into account.

So far, we have set out the estimated impacts of welfare reforms overall, and of key reforms affecting Housing Benefit, on claimants to local authority level. However we have not attempted to estimate the extent to which claimants or landlords may act to reduce their losses from welfare reform. Understanding these behavioural responses is critically important, as this in turn will determine the true extent of impacts on local areas and claimants.

There are two ways that losses from welfare reforms can be reduced or avoided:

- by reducing expenditure – in particular on rent but more generally on non-essential items, and/ or
- by increasing income – either through employment (by entering or increasing work) or through benefits.

The options available, and the potential responses, will differ both for different reforms and for claimants in different circumstances.

Reducing expenditure
Broadly, claimants can mitigate the impacts of reforms by reducing their expenditure in three ways:

- First, for those on Housing Benefit, they could **negotiate a lower rent** with their landlord. This applies mainly to those impacted by reforms to the Local Housing Allowance and by the benefit cap.
- Secondly, again for those on Housing Benefit, impacts could be mitigated by **moving home** to a lower-rent or more suitably sized property. Again this would apply to those affected by LHA reforms, as well as those in social housing affected by the under-occupation measure.
- Finally, all claimants affected can seek to reduce income by **reducing outgoings** on non-essential items. This applies to anyone impacted by welfare reforms.

In practice, the scope to mitigate impacts in these ways may be quite limited:

- Early research on the impacts of the LHA reforms[19] suggests that as little as 6 per cent of the impacts on claimants have been offset by negotiating lower rents with landlords. In effect, in a strong housing market landlords have little incentive to reduce rents, and may in fact be responding by taking on fewer tenants in receipt of Housing Benefit (in particular affecting younger tenants, and those in high-rent areas).
- While relatively large proportions of those impacted **say** that they would move home, there is far less evidence of this happening in practice. For example, the same research on the impacts of the LHA measures found virtually no evidence so far of claimants moving home, despite one third stating that they would consider doing so when surveyed before the reforms[20]. In part this may be because impacts will take time to work through (in particular as transitional support is phased out) but in part this also reflects an unwillingness to move away from family and social networks – with moving home seen as the last resort.

There is some evidence from the early evaluation of the LHA changes of claimants running up rental arrears, and of landlords accepting lower payment at least in the short term rather than starting eviction

19 Beatty,C., Cole, I., Powell, R., Crisp, R., Brewer, M., Browne, J., Emmerson, C., Joyce. R, Kemp, P. and Pereira, I. (2013) Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit, DWP Research Report 838.

20 Ibid.

proceedings. However clearly there is only limited scope to manage a permanent (and increasing) gap between Housing Benefit and rent in this way.

Increasing income

The main way in which claimants can increase their income, and so reduce the impacts of welfare reforms, is through increasing earnings[21] - either by moving into work (where the claimant or someone in the household does not work) or increasing hours or rates of pay (where a claimant works). Overall, as set out in Chapters 2 and 3, we estimate that three fifths of all households impacted by welfare reform have someone in work, and 30 per cent of households impacted by reforms affecting Housing Benefit have someone in work.

The extent to which increasing earnings can offset the impacts of reforms varies depending on the reform.

- For those impacted by reforms affecting Housing Benefit, the returns from work are generally weak – every £1 of extra earnings reduces the shortfall in rent by 35p (as the other 65p is taken off their Housing Benefit entitlement). These impacts can be increased by tax credits or further reduced through taxation, depending on eligibility.
- For those affected by the benefit cap, the incentives to work are very strong – with the entire losses from the cap offset as soon as any adult in the household works 24 hours a week.
- For those out of work and affected by lower uprating, the returns from work are also generally strong, once claimants' earnings are high enough to lift them off out-of-work benefits (typically by working more than two days a week)
- In newly localised Council Tax Support schemes, impacts vary significantly depending on local authority rules.

As with reducing expenditure, the extent to which claimants can increase income through work depends on both their willingness to look for and take up work, and the ability of the market (ie the labour market) to accommodate them.

The proportion of claimants who say that they will look for work in response to welfare reforms is generally low. Early research on the impacts of the Local Housing Allowance[22] suggested that just one third of claimants would seek work in order to make up lost income, while research on the benefit cap[23] - where the gains from entering work are substantially greater – found that an even smaller proportion had apparently sought work after being informed that they may be capped. And of those that look for work, not all will find it – with research on the Local Housing Allowance reforms suggesting that very few claimants were having success in their job search, often despite significant effort[24].

21 There is also scope to mitigate impacts by increasing benefit income – for example starting a new claim for Personal Independence Payment in order to gain exemption from the benefit cap – but these are unlikely to have anything more than a marginal impact and are therefore not considered in this analysis.

22 Beatty,C., Cole, I., Powell, R., Crisp, R., Brewer, M., Browne, J., Emmerson, C., Joyce. R, Kemp, P. and Pereira, I. (2013) Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit, DWP Research Report 838

23 (2013) Public perceptions of the Benefit Cap and pre-implementation impacts, Department for Work and Pensions

24 Beatty,C., Cole, I., Powell, R., Crisp, R., Brewer, M., Browne, J., Emmerson, C., Joyce. R, Kemp, P. and Pereira, I. (2013) Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit, DWP Research Report 838

Modelling responses

So in attempting to model how claimants may respond, we have sought to take account of these different factors – that claimants may seek to reduce the impact of reforms by increasing their income (work) or by reducing their expenditure, but that their ability to do so will be constrained by markets (ie the housing and employment markets).

We have limited this analysis to considering responses to the Housing Benefit reforms set out in Chapter 3 above for households that are **out of work**, as it is in households affected by these reforms where there is likely to be the greatest immediate pressure to mitigate losses through housing and employment choices.

Further details on the approach that we have taken to estimating the impact of responses is set out in **Annex B**.

Broadly however, we have:

- modelled responses in three scenarios **– high, central** and **low**
- estimated for each reform in each scenario: the proportion of those who seek work and the proportion who find work; the proportion who successfully find cheaper/affordable accommodation in their own area; and the proportion who find accommodation in a neighbouring area
- based these estimates on research findings on the willingness to look for work or to move home for each measure
- for simplicity, assumed that everyone who successfully finds work or more affordable accommodation mitigates all of the impact of reforms.

Modelling housing and employment availability
We have also built into our modelling assumptions around claimants' ability to reduce losses in areas where there is relatively less employment or affordable housing available.

For employment, we have assumed that claimants are more likely to be able to find work in local authorities where employment is growing and less likely to find work where employment is falling (measured using the Annual Population Survey, and comparing 2011 employment with that for 2012).

For housing:

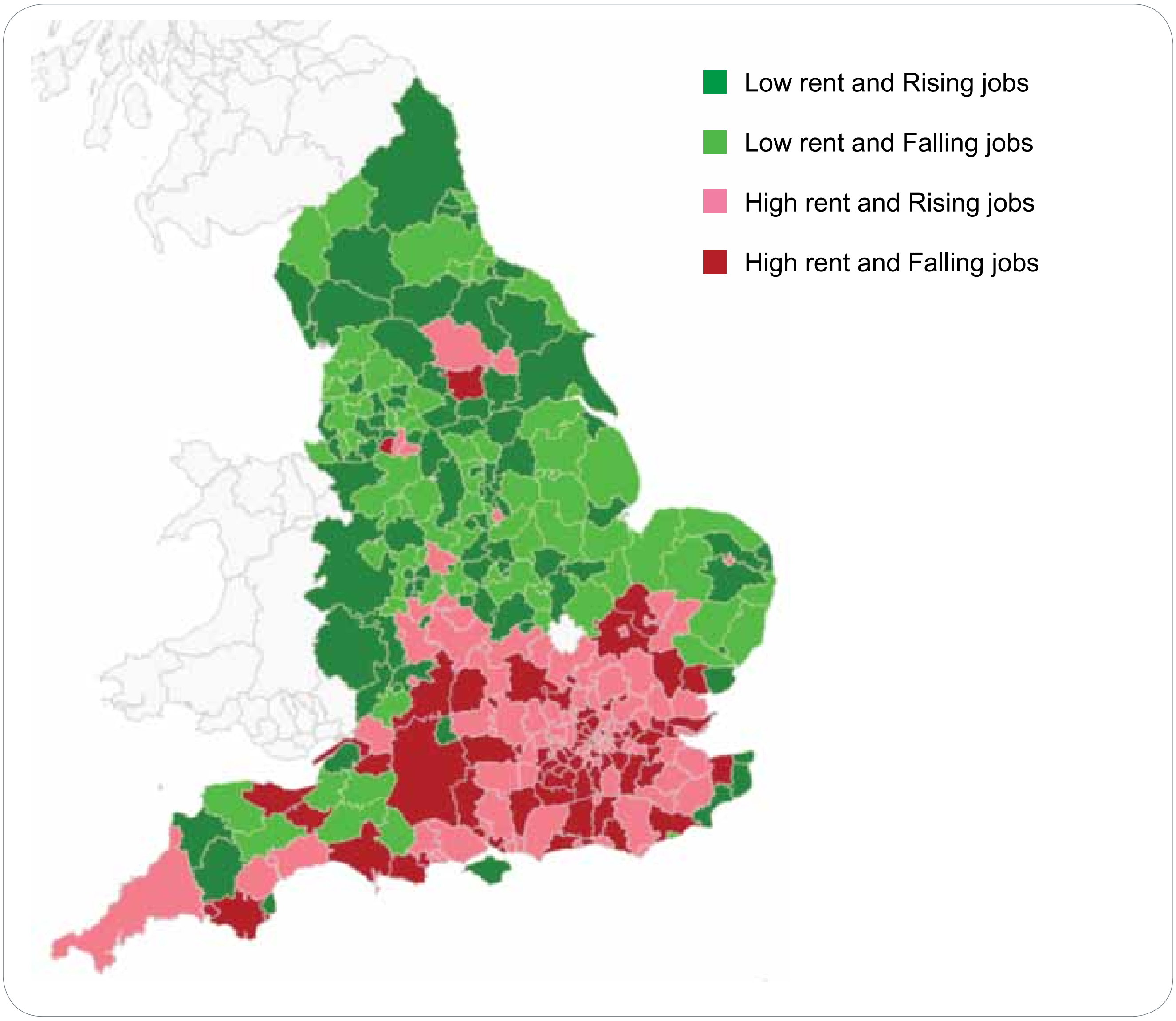
- For those in the private rented sector we have assumed that claimants can move home within their own local authority where there is a below-average cash difference between their maximum Local Housing Allowance (LHA) and the median rent in an area, but that a proportion may also move to a neighbouring authority where it has a below-average gap between maximum LHA and median rent.
- For those in social housing affected by the size criteria, we have assumed that claimants can move where the stock of social housing with one bedroom is above the national average (which we have estimated by combining local authority Housing Survey returns and National Housing Federation data), but that a proportion may also move where a neighbouring authority has an above-average stock of one bedroom housing.

The above approach gives four possible categories of local authority (for each of the private and social rented sectors):

- those with growing employment and potentially available housing – in these areas people will be more likely to find jobs and employment
- those with falling employment and potentially available housing – where people will be more likely to find accommodation but less likely to find work
- those with growing employment but less available housing – here people would be more likely to find a job but less likely to find accommodation
- those with falling employment and less available housing – where both jobs and housing will be harder to obtain.

Figure 12 below maps out local authorities according to these four criteria for private rented sector housing.

Figure 12 – relative employment growth and private rented sector affordability by local authority



Source: Annual Population Survey, LAHS, NHF and Inclusion calculations

This analysis demonstrates that in the private rented sector, housing is less affordable south of the M6 (the red and pink authorities) – and that for London authorities in particular there are few if any housing options that do not involve moving long distances. However many of these areas do have growing employment (pink), where claimants may have more opportunities to reduce or avoid the impacts of reforms by finding work.

Above the M6, housing is more affordable (green) but there is a mixed picture on employment growth. Places with relatively stronger labour markets and affordable housing include the Welsh borders and an area from Yorkshire to Northumberland – so some distance from the places where housing impacts are likely to be most acute.

High, central and low scenarios

The assumptions used in each of the three scenarios are set in detail in **Annex B** and are summarised below.

Central scenario
For the central estimate, we assume that those who are out of work and impacted by the Local Housing Allowance, social sector size criteria and benefit cap changes all look for work in the proportions estimated in relevant research[25].

In areas where employment is **rising**, we assume that of those who look for work three fifths find work – which would be broadly in line with the likelihood of finding work within a year for a new claimant of JSA. In areas where employment is **falling**, we assume that a smaller proportion find work (two fifths).

Of the remainder, we assume that in areas where there is above average availability of housing (defined above) **half** of those who say that they would move in the relevant research[26] actually go on and do so, while half of those who say that they would consider moving to another area go on and do so in areas where there is below average housing availability but a neighbouring authority has above average availability.

Overall this central scenario is likely to be somewhat optimistic. We know that relatively few of those impacted by welfare reforms are jobseekers – so they are perhaps unlikely to be as successful as JSA claimants in finding work; and we know from the early impacts of LHA reforms and the benefit cap that very small proportions so far are actively taking steps to move home.

High scenario
For the upper estimate, we have used the same approach as above but assumed that twice as many claimants seek work as the research suggests, with the same success as for the central scenario, and that 100 per cent of those who say that they would move home go on to do so (subject to the same constraints around availability of housing).

This is a highly optimistic view of the likelihood of claimants being able to reduce or avoid losses from welfare reform.

Low scenario
In the low scenario, we have assumed that a smaller proportion seek work – half of the proportion estimated in research – but that they have the same success in their job search as for other scenarios. We have assumed that a very small proportion – 5

25 Set out in Annex B
26 Ibid

per cent – move house where housing is available (and just 3 per cent move house where it is available in a neighbouring authority).

Results

Overall, we estimate that there are **1.18 million claimant households** that are out of work and are impacted by at least one of the three Housing Benefit reforms in scope for this analysis.

Based on the parameters above, we estimate that in the central scenario 155,000 may mitigate their losses by finding work, and 115,000 by moving home. So in total, we estimate that 270,000 claimants – or 23 per cent of the total impacted – may be successful in taking steps to mitigate the impacts of these welfare reforms.

The full range of estimates for the three scenarios is set out in **Table 4** below.

Table 4 – possible impacts of mitigations for out of work households

	Claimants finding work	Claimants moving home	Total claimants mitigating impacts	Proportion impacted who mitigate	Number not mitigating impacts	Financial impact in 2015/16 after mitigations
Low	75,000	40,000	120,000	10%	1,065,000	£1,330,000,000
Central	**155,000**	**115,000**	**270,000**	**23%**	**910,000**	**£1,160,000,000**
High	305,000	200,000	510,000	43%	675,000	£ 880,000,000

Source: Inclusion calculations

Overall, as Table 4 shows, even at the highest scenario a large majority of the impacts of reforms affecting housing costs for households out of work are unlikely to be met through claimants finding work or moving home. And at more plausible estimates, at least four out of every five households are likely to need further assistance – with cumulative financial impacts in excess of £1 billion per year[27].

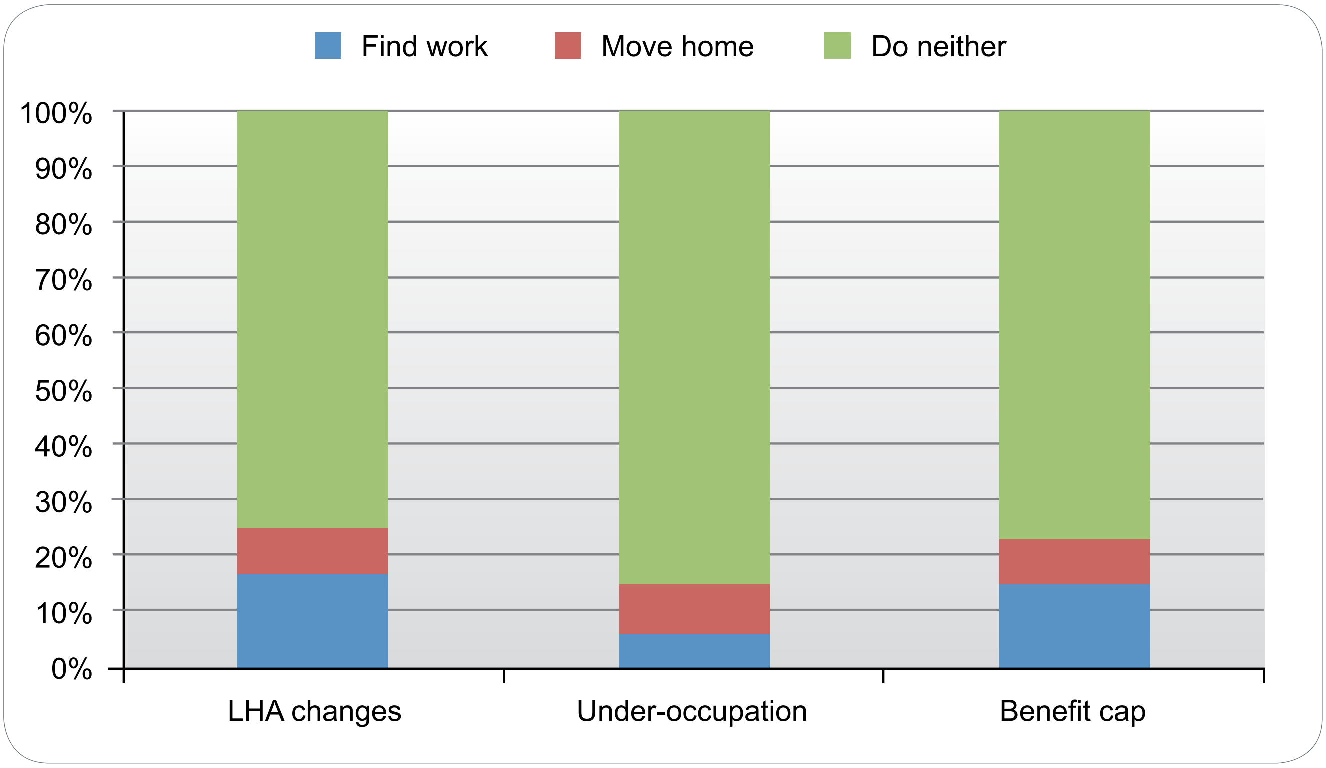
In a sense this is not surprising, given the small proportions of households that are likely to be actively seeking work, the difficulties in finding work even among jobseekers, and the many obstacles to moving home.

Figure 13 below shows for the central scenario how households impacted by individual measures may deal with their losses.

We estimate that one in four households impacted by the LHA changes will either find work or move home in response to these

27 It is important to note too that this analysis assumes that all households that mitigate their losses by finding work or moving home manage to mitigate them entirely – ie they need no further support.

Figure 13 – proportions impacted by each housing measure expected to mitigate impacts by finding work or moving home, central scenario



Source: Inclusion calculations

changes – with around twice as many finding work as moving home. Similar (slightly lower) proportions of those impacted by the benefit cap are also expected to find work or move home – although clearly a far smaller number of households are impacted by this measure.

However we estimate that just one in seven households impacted by the size criteria will find work or move home, with the large majority of these being a result of claimants moving home. This reflects the far smaller proportions of those impacted by the size criteria who say that they will seek work[28].

28 This lower likelihood of looking for work is consistent with working age social housing HB recipients having a far lower probability of being in work than LHA recipients (20 per cent compared with 36 per cent).

Managing the impacts of housing reforms

The scenarios above present plausible estimates of how claimants may seek to reduce or avoid the impacts of welfare reforms, but given the limitations set out above and in **Annex B** they should be treated as broad-brush rather than definitive. The key message, however, is clear: even in the most ambitious scenarios, a minority of claimants are likely to find work or move home as a result of welfare reforms, and on more plausible scenarios a large majority are likely to need additional support to manage impacts.

Local authorities are adopting a range of strategies to support claimants to manage and respond to the impacts of welfare reforms, including:

- targeted information campaigns – to raise awareness of reforms among those affected, likely impacts and sources of support
- personal support – to manage finances, avoid arrears and make choices for the future
- financial assistance – drawing in particular on Discretionary Housing Payments
- joint working and signposting – in particular with Jobcentre Plus and other employment agencies, to support people to prepare for, look for and find work.

As noted, the early evidence from the Local Housing Allowance reforms suggests that so far those impacted have been relatively unsuccessful in finding work, and there is little evidence yet of claimants moving home in response to changes. It is also too early to tell what effect local responses are having on claimants' abilities to manage the impacts of reform.

However it is possible to assess how far the additional financial assistance available to local areas to provide support to claimants is likely to meet needs.

Discretionary Housing Payments and new burdens funding

£155 million has been made available to local authorities in Discretionary Housing Payments in 2013/14 (across Great Britain), to provide discretionary support to Housing Benefit claimants impacted by welfare reforms. This comprises a £20 million baseline allocation (shared out based on previous DHP expenditure) plus:

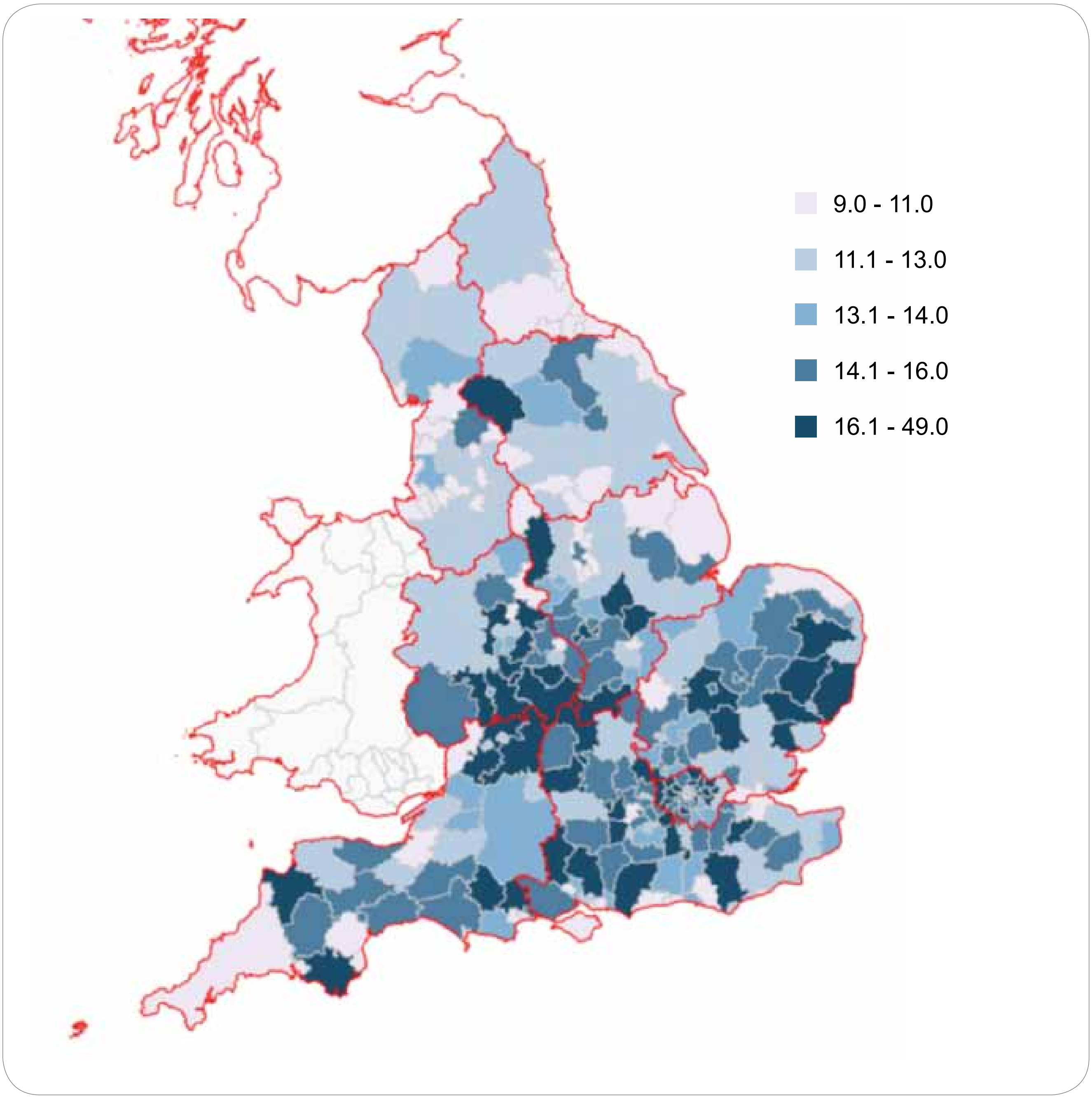
- £40 million to mitigate the impact of LHA reforms – allocated based on the estimated share of total losses experience by residents in that local authority
- £30 million to mitigate the impact of the social sector size criteria – allocated based on estimated regional impacts of the reforms
- £65 million to mitigate the impact of the benefit cap – with 10 per cent shared equally between authorities, and 90 per cent allocated based on estimated share of benefit cap cases.

These methodologies are generally robust and appear to be a good basis on which to allocate resources according to need. The weighting of the separate elements within the DHP total, however, is less reflective of the scale of losses that households will feel from welfare reforms. So while there is funding to mitigate up to one third of the cash losses from the benefit cap, the increase in DHPs in respect of the size criteria is equivalent to just 6 per cent of the forecast loss, while the funding to cover LHA measures meets an even smaller proportion.

Overall therefore, even once plausible responses by tenants are taken into account (the central scenario above), DHPs would cover just **£1 in every £7 of the impact of housing reforms on tenants.**

In addition, because the allocation formula does not reflect the totality of housing impacts, it leads to some areas facing far larger shortfalls than others. As a result there is wide variation in how far DHPs will meet the "residual" losses in local areas, after mitigations are taken into account – as **Figure 14** below shows.

Figure 14 – share of Housing Benefit losses met by DHPs and new burdens funding, after mitigations (per cent)



Source: Department for Work and Pensions and Inclusion calculations

The analysis below also includes local allocations of the £24 million in “new burdens” funding that has been secured for local areas to implement welfare reforms.

This analysis does not include the additional £35 million DHP funding announced on 30 July, as there is as yet no published formula for its dispersal. It would not materially affect the picture however. Of the £35 million, £10 million will be dispersed among local authorities, £5 million targeted at more rural areas, and £20 million held back for local authorities than can demonstrate that they are using their DHPs appropriately[29].

29 Available at www.gov.uk/government/news/spare-room-subsidy-funding-update

5. Impacts of Universal Credit

The analysis so far has concentrated largely on the impacts of welfare reforms already in train, or planned to take effect for the current benefits system. However from this autumn, Universal Credit will begin to roll out – replacing the main means-tested benefits for those in and out of work with a single payment.

This chapter considers the impacts of this reform on household finances and potential incentives to work.

Will Universal Credit increase household finances?

Overall, Universal Credit will result in a modest increase in average household incomes. This is both because more households are anticipated to take up benefits, and overall the system will be marginally more generous than currently.

Taken together, the Government's Impact Assessment estimates that Universal Credit will serve to **reduce** the losses from welfare reforms by an equivalent of **£190 per year** on average (£4 per week).

Within this overall average, the impacts are likely to vary significantly for different groups. The Government has committed that no households will see their benefit reduced at the point that they are transferred to Universal Credit (they will receive "transitional protection"), but any new claimants – and existing claimants who have significant changes of circumstances – will be assessed on the new scheme rules.

There has been extensive analysis of the impacts of Universal Credit for different groups, and this project has not sought to replicate or add to this evidence base. Key findings are summarised below.

Research by **Donald Hirsch for the Joseph Rowntree Foundation**[30] has compared incomes for households with different characteristics under both Universal Credit and the current benefits system, taking account of the most recent announcements on scheme design and uprating. This demonstrates clearly that none of the household types looked at – single people, lone parents and couple parents – are always better off or always worse off under Universal Credit. This analysis also takes account of rent, Council Tax and childcare where applicable.

- Single people have the same entitlement out of work, are generally better off under Universal Credit compared with current system when working part-time, but no better or worse off at full-time hours.
- Lone parents are substantially better off compared with the current system working fewer than two days a week, but have broadly the same entitlements as now when working more than this.

30 Hirsch, D. and Hartfree, Y. (2013) Does Universal Credit enable households to reach a minimum income standard?, Joseph Rowntree Foundation

- Couple parents are also better off working part-time, but will often find themselves worse off when working more than two days a week.

Research by **Disability Rights UK, Citizens Advice and the Children's Society**[31] has highlighted that disabled people in particular may see reductions in support under Universal Credit compared with the current system. They estimate that based on current caseloads, up to half a million households could see reductions due to one or more of three changes:

- a reduction in the equivalent of the disability element of Child Tax Credit could lead to 100,000 households losing up to £28 a week
- changes to how the equivalent of the disability element in Working Tax Credit is calculated could impact up to 116,000 households by £40 a week
- the removal of the Severe Disability Premium could lead to losses for 230,000 households of £28 to £58 a week.

As noted above however, no households will see their benefit entitlements reduced at the point of transfer to Universal Credit – so these losses would be felt for existing claimants if they had a significant change of circumstances, or for new claimants to Universal Credit.

Overall, then, Universal Credit will make a modest difference to household finances but these impacts will be different for different groups. Those working very short hours will generally see entitlements increased, many of those working longer hours will see no change to entitlements or a slight decrease, while for those out of work many households will see very little change, but some disabled households may see entitlements reduced.

Will Universal Credit increase employment?

Although Universal Credit will not significantly affect most households' incomes, it could still plausibly lead to increases in employment as a result of better or clearer financial incentives – and so help to mitigate the impacts of welfare reforms.

It is fair to say that there is a high degree of uncertainty on what the impacts on employment may be from Universal Credit. The Government produced a very broad, and relatively modest, estimate of impact in its first impact assessment – suggesting that employment could increase by around 300,000 (equivalent to 3.5 per cent of those claiming Universal Credit).

Research by the **Institute for Fiscal Studies**[32] uses two methods to attempt to quantify the employment impact of Universal Credit (and other welfare reforms). In the first method, using a simulation model, the authors find that Universal Credit may have a very slight negative impact on employment (but effectively close to zero). In the second method, using a calibration approach (broadly, simulating changes based on the literature on how people respond to incentives) they find a modest positive increase in employment – equivalent to an increase in employment of 0.3 percentage points.

The reasons for the different outcomes are not entirely clear, but may be linked to particular uncertainties around how men

31 (2012) Holes in the safety net: the impact of universal credit on disabled people; Citizen's Advice, Children's Society, Disability Rights UK

32 Adam, S. and Phillips, D. (2013) An ex-ante analysis of the effects of the UK Government's welfare reforms on labour supply in Wales, Institute of Fiscal Studies

in couples may respond to the changed incentives in Universal Credit. Broadly, this reiterates the point that Universal Credit creates stronger incentives for someone in a household to work, but weaker incentives for both adults in a couple household to work.

To accompany this report we have developed a tool that can be used by councils and their partners to model the impacts of welfare reform in their local area. We have tested the tool with eight case study areas chosen to illustrate a range of impacts / losses for different types of local authority. These case studies illustrate that local factors may be very important in determining the detailed impact of Universal Credit on work incentives.

6. Conclusions and recommendations

Overall, on average, we estimate that the combined impact of welfare reforms will have the effect of reducing incomes for claimant households by £1,615 per year – or around £1 for every £7 of income.

45 per cent of all working age households claim either a DWP benefit or tax credits and are likely to be impacted in some way. However the precise nature and extent of impacts vary significantly – with more prosperous areas seeing higher losses due to large impacts on working households and from reforms affecting Housing Benefit for private rented tenants, and less prosperous areas seeing significant impacts due to higher benefit receipt both in and out of work.

Some areas see very large impacts because of a combination of high benefit dependency and high rents – with London particularly hard hit, along with many coastal towns.

What is particularly striking from this analysis is that the approaches that areas will need to take to manage and respond to welfare reforms will be very different depending on their particular characteristics. This comes out clearly in analysis of the impacts of key reforms affecting housing support – with some areas (usually in the north of England) seeing larger proportions of households affected but generally smaller impacts per claimant household; and other areas (usually in the south) seeing larger household impacts affecting smaller numbers of households.

It is unlikely that anything more than a small proportion of the impacts of welfare reform will be mitigated through households finding work or moving home – with our central estimate suggesting that just one in five claimants will successfully do one or the other (usually find work). For the remainder, Discretionary Housing Payments can only cover a fraction of the impacts on local areas.

Universal Credit will overall lead to a modest improvement in household incomes, but is unlikely to significantly increase employment for those out of work. And indeed for many households financial incentives will remain relatively weak under the new system.

Due to data limitations, this analysis has not been able to make a systematic estimate of the cumulative impacts of reforms for households with particular characteristics. However the available evidence suggests that disabled households in particular are likely to face significant impacts as a result of cumulative reforms, and large families are also likely to see large losses.

This analysis is not intended to be definitive, and as the Annexes set out there are a number of limitations in how the impacts of individual measures have been apportioned. However we believe that it represents the best estimate based on available data. Nonetheless, we would hope that this analysis will mark the start, rather than the end, of an evidence-led debate on the impacts of welfare reforms on local areas.

Recommendations

Drawing this together, we make ten recommendations.

1. **The Government should publish its estimates of the impact of individual measures to local authority level wherever possible.**

For the first Local Housing Allowance reforms, the Government published estimates of impact to local authority level (caseload and average loss) broken down by number of bedrooms. This also aggregated and disaggregated the impacts of four separate reforms. No impact assessment since this point has had this level of transparency or openness. Where data quality permits, we believe that the government should as a matter of course publish impact estimates for individual and cumulative measures to local authority level.

2. **The Government should publish a best estimate of the cumulative impact of welfare reforms on groups with protected characteristics, and in particular disabled people.**

In general, Equality Impact Assessments are published for welfare reforms (although not in all cases). However there has been no assessment yet of the cumulative impact of reforms for households with different characteristics and in particular protected characteristics. Such an assessment would enable national and local organisations to have a far better understanding of how support needs to be targeted for specific groups in specific areas.

3. **Local partners, the local government associations and central government should ensure that they understand the specific nature of the impacts within their locality, in particular for their most vulnerable residents, and ensure that support is effectively targeted – and the Government should give local partners adequate freedom and funding to do this effectively.**

This research has set out how impacts vary by different areas, while there is growing evidence on how different groups are impacted by reforms. Councils, their partners and government all have roles to play in ensuring that local impacts are understood.

4. **Local and central government should continue to work together to share practice on supporting households impacted by welfare reforms.**

There have been many good examples of effective sharing of practice – including through local government networks, efforts by government to draw together key lessons, and activity by wider stakeholders. This should be continued and as far as possible consolidated by government and local government associations.

5. **Local authorities should be supported (including through new burdens funding) to develop plans to support those impacted by wider welfare reforms – and in particular households in work.**

So far, the over-riding focus has been on supporting tenants affected by reforms to Housing Benefit (and in particular the size criteria and benefit cap). However this research has demonstrated that welfare reforms will have far wider impacts, and in particular on households in work and on low incomes. It is critical that councils and their partners are able to develop plans for how these wider households will be given access to the right information and support in order to manage impacts, budget effectively and where possible increase their incomes through work.

6. **The Government should work with the LGA, CoSLA and the WLGA to ensure that the Local Support Services framework for Universal Credit specifically recognises the importance and need for local areas to work together to mitigate the impacts of welfare reforms.**

The Local Support Services framework is due to be published in October and will set out how support services will operate under Universal Credit. In our view, this must also explore how services will support all groups, and particularly the most vulnerable, affected by welfare reforms.

7. **The Government should work with the LGA, CoSLA and the WLGA to urgently explore how local areas – including local authorities – can be enabled to build more affordable housing and so reduce the impacts of welfare reforms on those with high housing costs.**

A key finding in this research has been the extent to which welfare reform impacts are driven by chronically high rents in the private rented sector, particularly (but not exclusively) in London. Clearly there are no easy solutions to this, but it is equally clear that more needs to be done to support the building of affordable housing.

8. **The Government should work with the LGA, CoSLA and the WLGA to explore how local areas can play a stronger role in the commissioning and oversight of training, work readiness and employment support, so that programmes meet local needs and utilise local expertise and funding.**

As we have argued before, in our view there is now a strong case for giving local authorities a clearer role in the commissioning of employment programmes – including through co-commissioning where local partners can align or pool funding from other sources. The need for coherent, responsive plans to support those affected by welfare reform further strengthens this case.

9. **Councils and their partners should look at how support can be joined up locally across employment, skills, troubled families and other services in order to support those affected – including by learning the lessons from Community Budgets.**

Building on previous recommendations, there is equally a responsibility on local authorities and their partners to explore ways that funding and programme activity can be aligned in order to better support those affected by reforms. There are good lessons from Community Budgets, particularly around health services.

10. **The Government should review the level of Discretionary Housing Payments and the method by which this is apportioned – so that discretionary support can better meet the impacts on local areas.**

As this research has shown, DHPs will only ever cover a fraction of total losses from welfare reforms. However in our view it would be appropriate to review the funding and allocation approach to ensure that funding is meeting need – particularly for those impacted by previous reforms to the Local Housing Allowance.

Annex A – apportioning impacts of welfare reforms

Estimating national impacts

The national impacts of individual measures are taken from Budget documents published by HM Treasury. At each Budget the Government publishes an updated estimate of the financial impact of measures due to take effect in the future (Table 2.2). We have used the most recent estimate for measures taking effect in the future, and the final estimate for measures that have already taken effect.

Apportioning impacts

These published estimates are for Great Britain, and have been apportioned to English local authorities in a number of ways. These are summarised below. Impacts have been apportioned both in terms of cash impact and households affected.

Benefit cap
The impact of this measure in Great Britain in 2015/16 is estimated by HM Treasury to be £185 million.

The Government's most recent Impact Assessment[33] estimates that 56,000 claimants will be impacted by the cap in Great Britain. These have been apportioned between local authorities based on their share of the number of households written to by the Department for Work and Pensions (DWP) as part of mailshot exercises[34]. In total, DWP issued 89,000 letters between May and September 2012.

Average impacts per claimant have been assumed to be the same in every local authority – so the total cash impact of the benefit cap in each area is derived by apportioning the £185 million between local authorities based on their share of letters issued via the DWP mailshot.

In practice, the impacts of the benefit cap will be greater where rents are greater and in areas where there are more large families. In particular, the method above will under-estimate the cash impacts of the cap in London, and in areas with a higher concentration of private rented accommodation (as social rented impacts will not usually exceed £100 a week). However in the absence of more detailed information from the Government or local areas, it has not been possible to develop more sophisticated estimates of cash impacts locally.

We consider that it would be possible to model potential impacts in more detail using a combination of new Census data on household characteristics and data on social rents and LHA levels – however this would require extensive further modelling.

The benefit cap will largely impact households out of work, so we have assumed that all impacts are felt by households where no one works.

33 Source: Benefit Cap Impact Assessment, DWP

34 "GB households and individuals in receipt of a letter notifying them they may be affected by benefit cap in April 2013", October 2012, DWP

Council Tax Support

The impact of this measure in Great Britain in 2015/16 is estimated by HM Treasury to be £475 million.

For this measure we first removed Scotland and Wales, where the savings from Council Tax Support are being absorbed by the respective governments (and in any case are out of scope). Based on shares of expenditure, this reduced the maximum saving to around £415 million.

These losses were apportioned between English local authorities based on their share of working age Council Tax Benefit expenditure[35].

We then used information published at www.counciltaxsupport.org to identify those areas where savings are being met by local authorities rather than by claimants – in these cases we assumed that no losses were passed on, and these were removed from analysis. This left around £355 million.

The number of claimants impacted was similarly taken from: www.counciltaxsupport.org

This is the only measure where our estimate derives largely from non-government sources. We consider that this is reasonable, given the lack of official information on Council Tax Support schemes and the impacts on former Council Tax Benefit claimants.

Losses were apportioned between working and non-working households according to the share of CTB claims in each area that are not passported from an out-of-work benefit[36]. All non-passported claims are assumed to be in work. This may over-estimate the impact on households in work, as some non-passported claims will be out of work. However passported claims will also include households where someone works, so any biases are likely to be marginal.

Disability Living Allowance replacement

The impact of this measure in Great Britain in 2015/16 is estimated by HM Treasury to be £1,350 million.

The estimated cash impact was apportioned between local authorities based on their share of DLA expenditure directed at people of working age[37]. It is assumed that the number of claimants impacted is the same as the most recent number of DLA claimants of working age at local authority level (from DWP statistics).

We considered a number of alternative approaches to modelling impacts and losses, in particular by looking at proportions of caseload receiving lower rate awards. However in the absence of any systematic basis on which to judge how different DLA claimants (current and potential) will be impacted by the introduction of the Personal Independence Payment, we considered that it was most defensible to assume that impacts are proportionate to overall caseload and expenditure.

As more data becomes available on PIP decision-making it may be possible to create more refined and robust estimates.

In all cases, we assumed that 9 per cent of projected savings and caseload are in households where someone works. This is based on the estimated DLA employment rate in Berthoud, R (2006) 'The Employment rates of disabled people'. This is likely to under-estimate the proportion of claimants that are in a **household** where someone works, although the impacts are unlikely to be significant.

35 Source: "HB and CTB expenditure by LA", Department for Work

36 Source: DWP ad hoc analysis

37 Source: DWP Benefit Expenditure by Local Authority

ESA time-limiting
The impact of this measure in Great Britain in 2015/16 is estimated by HM Treasury to be £1,600 million.

The financial impact of this reform was calculated by apportioning the 2015/16 loss between local authorities based on their share of the national total of Contributory ESA claimants in the Work Related Activity Group[38]. The number of claimants affected was calculated by apportioning the DWP estimate that 700,000 claimants would lose contributory ESA in 2015/16[39] between local authorities based on their share of Contributory ESA claimants in the Work Related Activity Group. The proportion of claimants affected in households where someone was in work is based on the DWP Impact Assessment. This states that around 40 per cent of claimants would not have entitlement to income-based ESA, and that of these 71 per cent would not have entitlement because of a partner's employment. We therefore applied this proportion (71 per cent of 40 per cent, or 28 per cent overall) to the estimate of impact in each area.

Housing Benefit Local Housing Allowance changes
These reforms incorporate:

a) Setting Local Housing Allowance rates at 30th percentile

b) Introduction of max weekly caps to LHA and restricting LHA to the four room rate

c) Extension of the Shared Accommodation Rate to under-35s

d) LHA uprating by CPI

e) LHA uprating by 1 per cent

The combined impact of these measures in Great Britain in 2015/16 is estimated by HM Treasury to be £1,640 million. These losses are apportioned in the following ways.

For (a) and (b) above, estimated numbers affected and average losses were published to local authority level by DWP in 2010[40].

This information was combined to create an estimate of cash losses for each local authority for each measure at the time of the impact assessment. The estimated financial impact in 2015/16 was then apportioned between local authorities based on their share of total cash losses from the impact assessment – ie if a local authority had 1 per cent of the share of losses using the above method, then they were apportioned 1 per cent of the losses in 2015/16.

The main alternative approach that could have been used would have been to simply apportion losses on the basis of LHA expenditure in each local authority. However this would not have recognised that in some cases, households will already have Housing Benefit claims below the 30th percentile and/ or not be affected by benefit caps. We considered that using the DWP estimate of impact to weight losses provides the most robust and appropriate method.

One weakness in this method for apportioning losses is that the impact of HB caps will implicitly under-estimate impact in areas that were **not** impacted in 2011 but **will be** impacted by 2015/16. By the same token, this means that impacts may be over-stated for areas that **are** apportioned losses using this method. This will lead to a small positive bias in the estimate of LHA impacts for central London authorities in particular, and

18 Source: DWP Statistics, November 2012 (latest available data)

29 Source: DWP Impact Assessment

40 Source: "Impacts of Housing Benefit proposals: Changes to the Local Housing Allowance to be introduced in 2011-12", Department for Work and Pensions, July 2010

likely a larger positive bias on the estimate of impacts in Westminster and Kensington and Chelsea (which are apportioned half of all losses between them). Even in these cases however, it is unlikely that the positive bias represents more than 10 per cent of the estimate of total losses[42].

For (c), losses were similarly apportioned between local authorities based on the share of estimated total cash losses for that authority from DWP's Equality Impact Assessment for that measure .

In a number of local authorities, DWP was unable to estimate impacts of measures (a) to (c) but stated that these were unlikely to be substantially different to impacts for their neighbours. Therefore in these cases we have assumed that caseloads and cash losses were in line with the relevant regional average.

For (d) and (e) above, total spending on Local Housing Allowance for working age claimants was calculated using DWP data on LHA working age caseloads and average awards . The estimated losses for 2015/16 were then apportioned based on each local authority's share of estimated total expenditure. This method assumes that 100 per cent of LHA recipients are impacted by reduced uprating by 2015/16. We consider that this is plausible, given that DWP's Impact Assessment states that virtually all LHA claimants will be impacted.

The estimate of the number of claimants impacted by LHA reforms is simply the total number of LHA claimants of working age in each local authority, again from DWP data. As we are describing here the combined impact of reforms up to and including the reduced uprating of LHA, this is the most appropriate basis for estimating claimant households impacted.

Cash impacts and claimant households were then apportioned between working and non-working households based on local authority-level data from DWP on working age LHA claims and average awards by whether the claimant is employed or not employed (including on a passported benefit). So if 60 per cent of local authority level LHA expenditure/ caseload is employed, then 60 per cent of the impact of LHA reforms (expenditure/ caseload) are apportioned to employed claimants. We consider this to be a robust method for estimating impacts by employment status. However if anything it is likely to under-estimate the impact on households where someone works, as we would expect that in some cases where the claimant is receiving an out-of-work benefit there will be someone else in the household in work.

Housing Benefit social sector size criteria
The impact of this measure in Great Britain in 2015/16 is estimated by HM Treasury to be £465 million.

The cash impact was apportioned between local authorities based on local authorities' share of working age social sector HB expenditure and the DWP Impact Assessment, which sets out the estimated number of claimants affected and average loss to a regional level (but not locally).

First, the estimated loss in 2015/16 was divided between regions based on their share of losses in the DWP Impact Assessment. Then, total working age expenditure on HB in the social sector was calculated for each region using DWP data. The regional share of losses was then divided by this figure to give a factor for that region (essentially, the loss per £ of social sector HB in that region).

Finally, local authority-level expenditure on working age social sector HB was multiplied by the relevant regional factor to give a local authority level estimate.

To estimate caseload impacted in each local authority, the number of losers in the DWP Impact Assessment was apportioned based on each local authority's share of social sector HB claimants of working age.

We consider that these are the most robust ways possible to estimate impacts from the available data. However clearly limitations in the data mean that impacts may be over- or under-stated within regions (but should be consistent between them).

It is also important to note that DWP has made a number of changes to this policy since the impact assessment, which has exempted some groups from the size criteria. Again it is not possible to model this as no estimates of the impacts of these exemptions have been published. However feedback from local areas to the prototype model suggest that caseloads may be over-estimated by 10-20 per cent.

Cash impacts and claimant households were apportioned between working and non-working households based on local authority-level data from DWP on working age social rented sector HB claims and average awards by whether the claimant is employed or not employed (including on a passported benefit). Again, as with the LHA measures above, if anything this is likely to under-estimate the impact on households where someone works, as we would expect that in some cases where the claimant is receiving an out-of-work benefit there will be someone else in the household in work.

Non-dependant deductions

The impact of this measure in Great Britain in 2015/16 is estimated by HM Treasury to be £215 million. The Government estimates that 60 per cent of savings are from households of working age, so we have assumed losses of £130 million.

DWP's Equality Impact Assessment[46] estimates that 300,000 claimants are impacted – so 60 per cent of these gives a working age impact of 240,000.

This figure was then apportioned between local authorities based on local authority shares of working age HB/ CTB claimants. The level of non-dependant deductions are not determined by rent, therefore the cash impact of deductions was assumed to be the same in all cases – ie cash losses were attributed using the same method above.

In the absence of any more local or detailed data on the impact of non-dependant deductions, we consider that this is the most robust basis on which to attribute losses and estimate numbers affected.

Losses were apportioned between employed and not-employed claimants using the same approach as for Housing Benefit measures – the share of deductions attributed to employed households is assumed to be the same as the share of employed claimants of HB in DWP data.

Tax Credits changes

These reforms incorporate all changes to tax credits that have been announced since May 2010. This covers:

- freezes in the basic and 30 hour elements of Working Tax Credit
- reductions in the childcare element of Working Tax Credit

46 Source: DWP Equality Impact Assessment, Non-Dependant Deductions

- a number of changes to tax credit income thresholds, disregards, working hours requirements, backdating, tapering and withdrawal rates
- the increase in working hours requirements for couples with children to 24 hours within Working Tax Credit
- removal of the 50 plus element in Working Tax Credit
- removal of the supplements for babies and children aged one or two within Child Tax Credit
- the increase in the child element in Child Tax Credit
- the impact of moving to real time information.

The combined impact of these measures in Great Britain in 2015/16 is estimated by HM Treasury to be £5,275 million.

The impacts to local authority level were calculated in three stages.

First, the reforms were separated into those affecting in-work claimants only and those predominantly affecting out-of-work claimants. The latter group comprised of the increase to the Child Tax Credit child element and removal of the baby and 1-2 year old elements. The former group comprised all other measures – most of these only impact on working households, while some (like the move to Real Time Information) generate savings as a result of more quickly reducing awards when income increases and so can reasonably be counted as in-work impacts.

Secondly, we created a dataset of tax credit expenditure and caseloads for in-work and out-of-work claims to local authority level. This was done using HMRC tax credits statistics for 2011 as the baseline[47] – which provide average awards for in-work and out-of-work claimants, as well as in-work and out-of-work caseloads.

Thirdly, we then apportioned losses between local authorities for each group of measures (those affecting in-work claimants and those affecting out-of-work claimants) based on their shares of the national caseload and expenditure for those respective groups.

Uprating of benefits by 1 per cent
The impact of this measure in Great Britain in 2015/16 is estimated by HM Treasury to be £2,680 million.

The impacts of this measure have been derived from estimates of expenditure on relevant DWP benefits[48], caseload of those DWP benefits[49] and expenditure and caseload of tax credits[50].

This information was combined to create a single dataset of benefit claims and benefit expenditure to local authority level. The estimated cash impact of this measure was then apportioned to local authorities based on their shares of total expenditure on relevant benefits.

The estimate of the number of households affected by this measure was not derived from this data, as it includes multiple claims within single households (particularly tax credits and DWP benefits claims). Instead, the starting point was the Office for National Statistics' estimate of the proportion of working age households claiming benefit[51] (44.6 per cent). We then applied this figure to the Census 2011 estimate of the number

47 Source: Child and Working Tax Credits Statistics Finalised Annual Awards 2010/11, Geographical Analysis, HMRC

48 Source: DWP Benefit expenditure by Local Authority

49 Source: NOMIS

50 Source: HMRC provisional statistics, April 2013

51 Source: "Proportion of non-retired households in UK receiving cash benefits in 2010/11 excl Child Benefit", ONS, September 2012

of households of working age[52] to give an estimated number of households claiming benefit in England of 7.3 million.

This was then apportioned between local authorities based on their share of the total number of benefit claims for DWP benefits or tax credits. In other words areas with higher benefit receipt have more households on benefit, and areas with lower receipt have fewer households – but the total number adds up to the Office for National Statistics (ONS) estimate of households on benefit. We consider that this method of apportioning cases is far superior to the only viable alternative, which would be to assume the same proportion claim benefit in every area. However it may marginally over- or under-state caseloads if there is relatively more or less overlap between benefits in different areas.

Also, it should be noted that there may be some households claiming benefit that are not impacted by 1 per cent uprating. However given that uprating applies to all tax credit claims and most DWP benefit claims, this is likely to be a very small proportion of households – and in the absence of any estimate from the Government in its Impact Assessment, we have not sought to take account of it.

The number of these households with no one in work apportions the share of households where no one works (from the ONS "Working and workless households 2012") between local authorities based on their share of out-of-work benefit claimants. Therefore the estimate of impacted households out of work may be a slight over-estimate (as not all workless households will claim benefit), and of in-work households an under-estimate. We considered other approaches to this – for example by apportioning based on shares of DWP benefits and in-work tax credits, or simply using the Annual Population Survey estimate of workless households, but these did not produce plausible results.

Losses were apportioned between in-work and out-of-work households according to the proportion of projected savings to local authority level that were from in-work tax credits and that were from DWP benefits. Again, this will likely under-estimate the losses for working households and over-estimate them for workless households, but was the most robust basis on which to apportion losses given the limitations in the data.

Universal Credit

The impact of this measure is set out in DWP's Impact Assessment[53]. The Department estimates that in steady state, Universal Credit will lead to an increase in expenditure of £2.3 billion due to entitlement changes and higher take-up, offset by a reduction in spending of £2.2 billion as a result of lower fraud and error and changes to tax credit disregards. The Assessment also states that the average impact per claimant household would be £16 per month, or £192 per year, and that there will be 8.3 million claimant households. This implies a positive impact of £1.59 billion across all claimant households[54].

Impacts vary by household characteristics – with 3.1 million households better off and 2.8 million households worse off (although no households will see cash losses at the point of transition). Modelling impacts to local authority level are therefore difficult.

52 Source: Census 2011, table QS111EW - HRP under 65

53 Universal Credit Impact Assessment, Department for Work and Pensions, December 2012

54 However the headline numbers are broadly comparable – with 8.3 million households claiming Universal Credit and 8.3 million households in GB claiming benefit on the ONS estimate.

In our modelling, we have assumed that Universal Credit leads to an average positive impact per claimant household of £192 per year, in line with the overall average impact set out above. We have then multiplied this by the estimated number of claimant households in the local authority (the method for calculating this is set out under “1 per cent uprating” above).

This is a necessarily broad-brush approach to estimating the steady-state impact of Universal Credit. In particular it does not account for potential differences in the composition of claimant populations between areas, or potential changes in the overall number of claimant households .

We explored alternative approaches to measuring the impact of Universal Credit, in particular by applying estimated gains/ losses for different households to survey-based estimates of the number of such households in local authorities, but these did not produce robust results. In the absence of more detailed data from DWP on gains and losses, we consider that our approach is the most robust basis for estimating local impacts of Universal Credit.

Annex B – scenarios for estimating employment and housing mitigations

Sources

There are a limited number of sources on which we can base estimates of how claimants will respond to these welfare reforms. However the key ones are:

- DWP research on the early impacts of the Local Housing Allowance reforms[55] - which suggested that 32 per cent of those affected would seek work as a result of the reforms, 35 per cent would seek to move where housing is available in their area, and 22 per cent would seek to move where it is available in a neighbouring area
- research for the Housing Futures Network on the under-occupation measure[56] – which suggested that 11 per cent of those impacted would seek work while 25 per cent would look to move where alternative housing was available locally
- DWP research on pre-implementation impacts of the benefit cap[57] – which suggests that 29 per cent of those who received notification that they may be capped but were believed to have found work had looked for work as a result of the prospect of the cap, and that less than 1 per cent had looked for alternative accommodation.

None of these sources are ideal for estimating how people will respond to welfare reforms, and it remains highly uncertain how claimants are responding. In particular:

- F=for the Local Housing Allowance, subsequent research[58] suggests both that relatively few claimants had moved home as a result of reforms, and very few had been successful in their job search
- the under-occupation research was conducted nearly two years prior to its implementation
- the benefit cap research was only with a sub-set of those affected, and arguably those most likely to have taken steps to manage the impacts.

Nonetheless, they provide a reasonable starting point for estimating how claimants may respond to reforms.

In addition to this, we know that where claimants actively seek work, they can have some success in finding it. In particular, DWP states that around 87 per cent of claimants of Jobseeker's Allowance leave that benefit within twelve months and separate research for DWP estimates that 68 per cent of those who leave JSA subsequently

55 Beatty, C., Cole, I., Kemp, P, Marshall, B., Powell, R. and Wilson, I. (2012) Monitoring the impact of changes to the Local Housing Allowance system of housing benefit: Summary of early findings, DWP Research Report 798

56 Clarke, A. and Williams, P. (2011) Under-occupation and the new policy framework: A report to the Housing Futures Network As part of Facing the Future, Cambridge Centre for Housing and Planning Research

57 (2013) Public perceptions of the Benefit Cap and pre-implementation impacts, Department for Work and Pensions

58 Beatty,C., Cole, I., Powell, R., Crisp, R., Brewer, M., Browne, J., Emmerson, C., Joyce. R, Kemp, P. and Pereira, I. (2013) Monitoring the impact of changes to the Local Housing Allowance system of Housing Benefit, DWP Research Report 838

enter employment[60]. It is reasonable to conclude therefore that around 60 per cent of jobseekers (who are likely to be relatively close to the labour market) will enter employment within twelve months of starting a claim/ seeking work.

- the under-occupation research was conducted nearly two years prior to its implementation
- the benefit cap research was only with a sub-set of those affected, and arguably those most likely to have taken steps to manage the impacts.

Nonetheless, they provide a reasonable starting point for estimating how claimants may respond to reforms.

In addition to this, we know that where claimants actively seek work, they can have some success in finding it. In particular, DWP states that around 87 per cent of claimants of Jobseeker's Allowance leave that benefit within twelve months[59] and separate research for DWP estimates that 68 per cent of those who leave JSA subsequently enter employment[60]. It is reasonable to conclude therefore that around 60 per cent of jobseekers (who are likely to be relatively close to the labour market) will enter employment within twelve months of starting a claim/ seeking work.

Estimating the impact of strong housing markets and/ or weak labour markets

Claimants' ability to respond to changes will depend to some extent on the strength of the local labour market (if they are looking for work) and the strength of the housing market (if they are looking for alternative accommodation).

For the **labour market**, it is reasonable to conclude that chances of finding employment will be lower in areas where employment is falling. For example there is a clear link between rates of claimant unemployment and changes in employment, and a correlation between the success of programmes for the unemployed and the strength of local and national labour markets.

For the **housing market**, we would expect claimants to be less able to move home in areas where there are substantial differences between the Local Housing Allowance and local rents (in the case of those in the private rented sector) and between the demand for and availability of smaller accommodation (for those impacted by the size criteria).

We have therefore mapped local authorities according to the strength of their employment and housing markets.

For employment, we have assumed that claimants are more likely to be able to find work in local authorities where employment is growing and less likely to find work where employment is falling (measured using the Annual Population Survey, and comparing 2011 employment with that for 2012).

59 Source: DWP Business Plan transparency measures

60 Adams, L., Oldfield, K., Riley, C. and Skone James, A. (2012) Destinations of Jobseeker's Allowance, Income Support and Employment and Support Allowance Leavers 2011, DWP Research Report 791

For housing:

- For those in the private rented sector we have assumed that claimants can move home within their own local authority where there is a below-average cash difference between their maximum Local Housing Allowance and the median rent in an area, but that a proportion may also move to a neighbouring authority where it has a below-average gap between maximum LHA and median rent.
- For those in social housing affected by the size criteria, we have assumed that claimants can move where the stock of social housing with one bedroom is above the national average (which we have estimated by combining local authority Housing Survey returns and National Housing Federation data), but that a proportion may also move where a neighbouring authority has an above-average stock of one bedroom housing. In the absence of robust data on the availability of social housing, we considered that this measure of “stock” levels was the most appropriate available data.

Scenarios

Given the high degree of uncertainty around how claimants will respond to reforms, we have modelled three different scenarios for each reform – with **high, central and low** responses from claimants. These are all based on the sources above and are summarised below.

Note that in all scenarios, we have assumed that claimants that find work or move home manage to avoid all of the impacts of welfare reform – which itself is likely to over-state the consequences of finding work or moving home.

Central scenario
In the central scenario, we have assumed:

For the Local Housing Allowance reforms:

- 32 per cent of those out of work seek work (in line with the research above). In areas where employment is growing 60 per cent of these find work (in line with new JSA claimants) while in areas where employment is falling 40 per cent find work.
- Of the remainder, 17.5 per cent move home if their own local authority has a below-average gap between average rents and LHA rates (half of the proportion that said that they would consider moving within their area in the relevant research), while 11 per cent move home if a neighbouring local authority has a below-average gap but their own does not (half the proportion who said that they would consider moving to another area).

For the **under-occupation measure:**

- 11 per cent of those out of work seek work (in line with the research above). In areas where employment is growing 60 per cent of these find work (in line with new JSA claimants) while in areas where employment is falling 40 per cent find work.
- Of the remainder, 12.5 per cent move home if their own local authority has an above-average stock of one bedroom social housing (half of the proportion that said that they would consider moving within their area in the relevant research), while 7.9 per cent move home if a neighbouring local authority has an above-average stock but their own does not (in the absence of survey data on this, it assumes the same relationship as existed in the LHA research).

For the **benefit cap:**

- 29 per cent of those out of work seek work (in line with the research above). In areas where employment is growing 60 per cent of these find work (in line with new JSA claimants) while in areas where employment is falling 40 per cent find work.
- Of the remainder, 17.5 per cent move home if their own local authority has a below-average gap between average rents and LHA rates, while 11 per cent move home if a neighbouring local authority has a below-average gap but their own does not (this assumes the same impact as for the LHA measures, as the relevant benefit cap research has implausibly low/ negligible proportions stating that they have considered moving).

Overall, these are necessarily broad-brush and simplified assumptions. Those affected by benefit reforms will not have the same characteristics as new JSA claimants and are unlikely to be as successful in finding work – even after allowing for lower probabilities in areas with weaker labour markets. Meanwhile the measures of housing availability are imperfect proxies, and our analysis does not take account of claimants moving longer distances than a neighbouring authority. (However given the relatively small proportions that say they would consider moving, and the apparently smaller proportions that actually take steps to move, this is unlikely to represent a large group.)

Nonetheless, this represents a plausible (and perhaps optimistic) central estimate for the impacts of claimants taking steps to mitigate their losses.

High scenario
In the high scenario, we have assumed:

For the **Local Housing Allowance** reforms:

- 64 per cent of those out of work seek work (double the proportion in the research above). In areas where employment is growing 60 per cent of these find work (in line with new JSA claimants) while in areas where employment is falling 40 per cent find work.
- Of the remainder, 35 per cent move home if their own local authority has a below-average gap between average rents and LHA rates (the proportion that said that they would consider moving within their area in the relevant research), while 22 per cent move home if a neighbouring local authority has a below-average gap but their own does not (the proportion who said that they would consider moving to another area).

For the **under-occupation measure:**

- 22 per cent of those out of work seek work (double the proportion in the research above). In areas where employment is growing 60 per cent of these find work (in line with new JSA claimants) while in areas where employment is falling 40 per cent find work.
- Of the remainder, 25 per cent move home if their own local authority has an above-average stock of one bedroom social housing (the proportion that said that they would consider moving within their area in the relevant research), while 15.8 per cent move home if a neighbouring local authority has an above-average stock but their own does not (this again assumes the same relationship as existed in the LHA research).

For the **benefit cap:**

- 58 per cent of those out of work seek work (double the proportion in the research above). In areas where employment is growing 60 per cent of these find work (in line with new JSA claimants) while in areas where employment is falling 40 per cent find work.
- Of the remainder, 35 per cent move home if their own local authority has a below-average gap between average rents and LHA rates, while 22 per cent move home if a neighbouring local authority has a below-average gap but their own does not (again this assumes the same impact as for the LHA measures)
- In our view this represents a reasonable upper bound for impacts – with claimants being twice as likely to look for work as they said that they would, and just as likely to look for and find alternative accommodation.

Low scenario
In the low scenario, we have assumed:

For the **Local Housing Allowance** reforms:

- 16 per cent of those out of work seek work (half the proportion in the research above). In areas where employment is growing 60 per cent of these find work (in line with new JSA claimants) while in areas where employment is falling 40 per cent find work.
- Of the remainder, 5 per cent move home if their own local authority has a below-average gap between average rents and LHA rates while 3 per cent move home if a neighbouring local authority has a below-average gap but their own does not (the proportion who said that they would consider moving to another area).

For the under-occupation measure:

- 11.5 per cent of those out of work seek work (half the proportion in the research above). In areas where employment is growing 60 per cent of these find work (in line with new JSA claimants) while in areas where employment is falling 40 per cent find work.
- Of the remainder, 5 per cent move home if their own local authority has an above-average stock of one bedroom social housing while 3 per cent move home if a neighbouring local authority has an above-average stock but their own does not.

For the **benefit cap:**

- 14.5 per cent of those out of work seek work (half the proportion in the research above). In areas where employment is growing 60 per cent of these find work (in line with new JSA claimants) while in areas where employment is falling 40 per cent find work.

- Of the remainder, 5 per cent move home if their own local authority has a below-average gap between average rents and LHA rates while 3 per cent move home if a neighbouring local authority has a below-average gap but their own does not.

In our view this represents a reasonable lower bound for impacts – with claimants being half as likely to look for work as they said that they would, and a negligible proportion of claimants seeking and finding alternative accommodation.

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