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THE CUMULATIVE IMPACT OF WELFARE REFORM

A NATIONAL PICTURE

Policy in Practice, in partnership with the Learning and Work Institute (LWI) and the Local Government Association (LGA), has undertaken a detailed analysis of the cumulative impact of welfare reform across the whole of Great Britain. In light of the many often complex changes introduced, this work aims to show the overall impact on local populations and inform the local authority response.

The analysis builds on previous work into the local impacts of welfare reform, carried out by LWI and published in 2013. Since then, the welfare reform agenda has continued yet limited analysis is available on the cumulative impact that this is having on people individually. Most of the analysis has focused on the aggregate impact of individual reforms across groups of people, an example being the government's impact assessment of the benefit cap.

To understand the impact at the local level, it is equally important to take a single view of a household, and consider all welfare reforms together in combination with other changes around taxation, wages, inflation and private rental prices.

It is accompanied by a report from the LWI looking at how councils are responding to welfare reform. Based on this, a number of proposals will be put forward for national policy developments that could help Government to make savings on the welfare bill without having a detrimental impact on low income households and the local economy.

The objectives of these reforms are in part to reduce spending on welfare, but also to reduce the overall dependency on public support and encourage people to move from benefits into work, and to progress in employment. Policy in Practice was commissioned to show the cumulative impact of these reforms, building on their work with over forty local authorities across the UK, to map the impact on individual households.

This analysis uses data from the Family Resources Survey, a samples of households across Britain on a range of measures, from the last three years. The data was processed through Policy in Practice's modelling tool, the Benefit and Budgeting Calculator. The outputs make it possible to view the impact of reforms that have already taken place and those that are yet to come, including mitigation measures, as well as the cumulative impact of all reforms combined.

This analysis has not been able to take into account any second order changes in family income as a result of the dynamic impact of Universal Credit. The intent of this reform was to incentivise paid work and change behaviours.

Further work will be undertaken by LWI and Policy in Practice to model these changes, so that a more complete assessment of the impact of UC in incentivising employment can be made.

The cohort used in the analysis represents 9.1 million low-income households in Great Britain, each receiving either a DWP benefit, tax credits or Housing Benefit. This constitutes just over one third of all households in Great Britain. Of these, 7 million are of working age, while the remaining 2.1 million are of pension age.

The combined effects of the major reforms implemented before 2017, namely the under-occupation charge, the localisation of CTRS, the LHA shortfall and both benefit caps, result in an average nominal income loss of just over £23 per week for each working-age household.

Figure 1 sets out the cumulative impact of rolling out Universal Credit plus other reforms by 2020, compared to a November 2016 baseline, when the lower benefit cap was introduced.

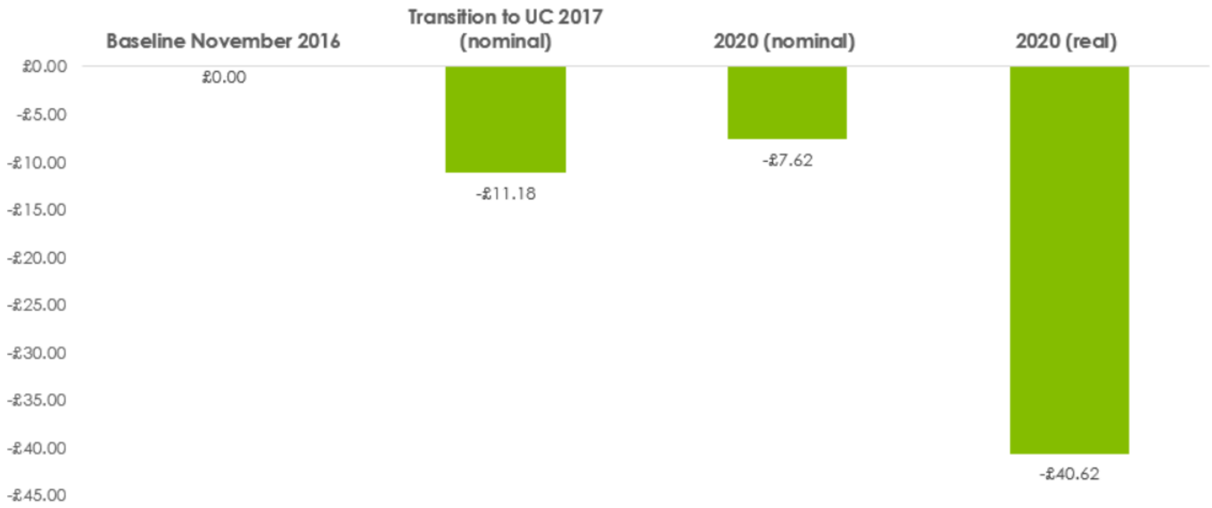

Figure 1: Cumulative impact of welfare reforms

The transition to Universal Credit will lead to a further average income loss of £11.18 per week. This is largely due to cuts in work allowances which will hit households, often with children and previously in receipt of tax credits, particularly hard. The introduction of the National Living Wage and increases to the personal tax allowance will generate almost £3.2 billion for working, low-income households, reducing the average nominal income loss by 2020 to £7.62 per week. However, these mitigating measures will only benefit 2.5 million of the 7.1 million affected working-age households, half of whom are not affected by welfare reform to begin with.

Critically, the continued impact of reforms implemented before 2017 will increase the cumulative loss from welfare reform to an average of £40.62 per week by 2020. This is a consequence of expected inflation and private rent growth, combined with the freezing of benefits rates for working-age people through to 2020 and means that many households see falls in real income. Private renters will be particularly hit because the link between the Local Housing Allowance rate and market prices has been broken.

It is important to note that welfare reforms affect individual households very differently, depending on family type and size, housing tenure and characteristics, in particular disability or ill health. For example, the localisation of Council Tax Support has affected a large number of households by relatively small amounts, yet the benefit cap has affected a relatively small number of households by large amounts. These distributional impacts are set out in more detail in the full report.

KEY CHALLENGES FOR LOCAL GOVERNMENT

This analysis highlights four key challenges for local government in the years ahead.

1. A looming affordability crisis in the private-rented sector

The growing disconnect between rents and LHA rates means that the gap between housing support and housing costs will increase disproportionately for private sector renters. Nominally, private renters will be £2.75 per week better off by 2020, as they are more likely to be in work and so benefit from the increase in the National Living Wage and Personal Tax Allowance. However, once expected inflation and private rent growth is factored in, private renters will face average real terms losses of £38.49 per week, with higher losses for larger families.

No. bedrooms	Average change in private rent 2016-2020	Change in LHA rate 2016-2020	Average change in social rent 2016-2020
1 bedroom	5%	0%	-2%
2 bedrooms	5%	0%	-2%
3 bedrooms	5%	0%	-2%
4 bedrooms	5%	0%	-2%
5 bedrooms	7%	0%	-2%

These findings are particularly relevant as the share of private renters in the national housing benefit caseload is set to increase. Due to the shortage of new affordable social houses, more low-income families are being pushed towards the more expensive private-rented sector.

Rising rents, without an increase in housing support, will lead more people to approach local government for help, driving up temporary accommodation and homelessness support costs.

2. Reduced support and weakened incentives for those in work

Many low-income households set to lose income are already in work. Of the 2.14 million working-age households losing over £50 per week by 2020, 1.34 million are in work and most currently receive Working Tax Credit. These households will face a significant income loss when they move to Universal Credit, as an equivalent amount of support is not envisaged.

Reductions to work allowances under Universal Credit			
	2015	2016	Change
Single person	£1,332	£0	**-£1,332**
Lone parent, with housing support	£3,156	£2,304	**-£852**
Lone parent, no housing costs	£8,808	£4,764	**-£4,044**
Couple without children	£1,332	£0	**-£1,332**
Couple with children, with housing support	£2,664	£2,304	**-£360**
Couple with children, no housing costs	£6,432	£4,764	**-£1,668**
Disabled people, with housing support	£2,304	£2,304	-
Disabled people, no housing costs	£7,764	£4,764	**-£3,000**

This reduced support increases the risk of working poverty and reduces the incentive to enter or stay in work since work will not pay as well as under the current tax credits system. Greater support for those in work is needed, through financial or front-line support.

3. A weakened local safety net

The cost of reforms is greater than the funds local government currently has to mitigate the impact. DHP funding for 2017/18 is £185m[1i], a figure dwarfed by the combined annual income loss associated with the benefit cap (£486 million), the under occupation charge (£557 million) and those paying rent above the Local Housing Allowance (£3.7 billion).

In addition, Council Tax Support has been cut in most English authorities and the Social Fund, responsible for discretionary support via Crisis Loans and Community Care Grants , has all but been abolished.

Furthermore, a significant number of households facing high barriers to work need additional support to move into sustained employment. Two thirds of out-of-work, working-age households losing over £50 per week also have two or more significant barriers to work.

4. Vulnerable groups are impacted by multiple reforms

Households with a person in receipt of disability benefits are more heavily impacted by reforms than other households, particularly where someone is in receipt of Disability Living Allowance or Personal Independence Payment. Figure 2, below, shows how these households are significantly more affected in comparison to other households.

Similarly, families with children are more likely to be heavily affected. Over 84% of working-age households that will lose over £50 per week have children, either as lone parents or couples.

[1] Department for Work and Pensions, 2017. *Housing Benefit Circular S3/2017*. Available here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/595729/s3-2017.pdf

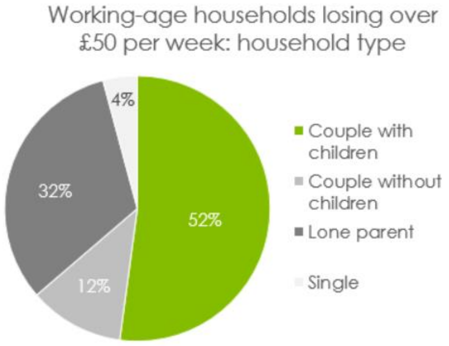

Figure 2: Impact of welfare reform by household type and disability status

CONCLUSIONS AND RECOMMENDATIONS

Welfare reforms taken together combine to present local government with an increasingly complex picture. Potential repercussions of interest to local authorities are:

- An increase in the number of households in temporary accommodation or at risk of homelessness
- Impact on other council services and the number of residents falling into situations of poverty or hardship.

In light of this, and as a means to reduce the pressures on local government as all reforms are rolled out, we make the following suggestions for government:

1. **Restoring the link between private rents and the LHA.** The current situation means that housing is increasingly becoming unaffordable for households within the private-rented sector. By 2020, over 1.4 million private renters will need to contribute significantly more to their housing costs. Structural problems of housing supply and tenure insecurity contribute to the problem and, although it is not the focus of this report, any change to housing support needs to consider structural reform to housing supply and security of tenure within the private-rented sector.
2. **Making work pay again**. Our analysis reveals that working households are among the most impacted by welfare reforms, especially those currently receiving tax credits who would lose large amounts due to Universal Credit cuts. Investing in Universal Credit would ensure that working families continue to have an incentive to work and that these households do not fall into poverty while working full time. More broadly, tackling low levels of productivity in the sectors that many low-income households are typically employed in, would also contribute to drive up wages and make work pay.
3. **Ensuring proper, adequate local support**. Some sort of local discretionary support in addition to DHPs should be funded by central government. The demise of Local Welfare Assistance means that no local discretionary support is available for owner occupiers. The levels of DHP allocated to local authorities in England have been shown to be insufficient to cover the losses for renters associated with the lower benefit cap,

the under-occupation charge and rising private sector rents. Support is also needed to ensure that Councils can help households in their transition to Universal Credit, especially those facing high barriers to work. In many cases, the barriers that households face are highly complex, requiring properly funded local employment support with services such as childcare and support for disabled households at its heart.

4. **Focusing support on disabled households and families.** Due to the disproportionately heavy impact of welfare reform on households with children and disabled people by 2020, local support should be focused on these groups. As mentioned above, these groups often face complex needs, so that councils will themselves require support to ensure that local strategies respond effectively to these needs.

ABOUT POLICY IN PRACTICE

Policy in Practice believes the welfare system can work more effectively. It can improve living standards and help people towards greater independence if we make it simple for people and organisations to understand.

We show local authorities how individual households are affected by all policy changes, now and in the future.

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ABOUT LEARNING AND WORK INSTITUTE

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ABOUT LOCAL GOVERNMENT ASSOCIATION

We are the national voice of local government, working with councils to support, promote and improve local government.

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