



Centre for Local
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briefing

The Cumulative Impact of Welfare Reform

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Introduction and research context

The Government is currently undertaking the biggest shake up of the UK's welfare system in over fifty years. In the eyes of the Government, the system has become mired in complexity, subject to fraud and operating to maintain people on benefit rather than in employment. The Welfare Reform Act 2012ⁱ is now in force and through a series of legislative measures contained within it, Government is seeking to reduce the UK's welfare benefit costs by £18 billion over the next five years and promote work as more beneficial than claiming benefit. Embedded in the Act are a range of measures designed to simplify, streamline and reform the payment of out of work, income, housing and disability related benefits; re-assess the fitness or otherwise of claimants to work; and provide employment related support.

Over the last few months the Centre for Local Economic Strategies (CLEES) has been undertaking research with Manchester City Council to seek to explore the likely cumulative impacts of the welfare reforms upon individuals, groups of people, and particular geographical areas in Manchester; and also importantly to explore how local authorities and partners are responding to and seeking to minimise the impacts of welfare reform.

This briefing paper presents some of the findings of the work with Manchester City Council to help shape thoughts upon the likely impacts of welfare reform and how local authorities in particular should respond. The purpose is to provide other CLES members with an understanding of the impacts of welfare reform and how they can start to respond to the challenges it presents at a local level.

The welfare reforms

There are four key elements to the welfare reform programme, which follow on from reforms that were introduced under the previous government:

- to replace the complex mix of out of work benefits and working tax credits with a single Universal Credit;
- to introduce a single welfare to work programme (the Work Programme), designed to support longer term unemployed people back to work;
- to reassess claims of disability and incapacity related benefit, and particularly individuals' capability to work;

ⁱ HM Government (2012) Welfare Reform Act. <http://services.parliament.uk/bills/2010-11/welfarereform.html>

- to cap the total amount of benefit that working age people can receive so that workless households should no longer receive more in benefits than the average earnings of working households. The cap will be £500 p/wk for couples and lone parents and £350 p/wk for single adults.

Changes to welfare benefits

There are currently, and have been historically, five key types of benefits:

1. Out of work benefits - Jobseekers Allowance (JSA), Incapacity Benefit (IB), Employment and Support Allowance (ESA), Severe Disablement Allowance (SDA) and Income Support (IS). These have sought to provide income for both jobseekers and those unable to work due to particular circumstances such as sickness or having small children. These will all be replaced by Universal Credit;
2. Housing benefits - Local Housing Allowance (LHA). This has sought to support low-earning or unemployed residents in the payment of their social housing or private rented housing sector rents. This will be incorporated into Universal Credit from October 2013 but current reductions in LHA for under 35 year olds and penalties for working age families under-occupying social housing and the benefits cap (to be administered by reductions in Housing Benefit payment) will impact from April 2013;
3. Disability benefits - Disability Living Allowance (DLA). This has sought to support the care arrangements for disabled people and enhance their mobility. Personal Independence Payments (PIPs) will replace DLA with existing claimants of DLA being re-assessed;
4. Tax credits - Working Tax Credit (WTC) and Child Tax Credit (CTC). This has sought to supplement the incomes of working families and support the payment for childcare arrangements. These will be incorporated into Universal Credit;
5. Council Tax Benefit – This supports people on low incomes in paying their council tax bills. This will be replaced with a localised support mechanism from April 2013. Funding for council tax benefit will come from un-ring fenced grants paid directly to local authorities but will encompass a 10% saving on the current Council Tax Benefit bill.

Universal Credit

The Welfare Reform Act will streamline some of the above benefits (with the exception of DLA and some elements of contributory ESA and JSA which are time-limited) and replace it with a single Universal Credit, designed to reduce the administrative burden and cut some of the fraud that currently exists in the system. The Universal Credit will be implemented in phases from October 2013 (subject to piloting from pathfinders in Greater Manchester and Cheshire from April 2013) on a means tested basis for people of working age, with change in amounts of benefit payment expected for current recipients of the above benefits and credits. Universal Credit will be phased in as follows:

- 2013-14 - 500,000 new claimants of benefits and credits will be placed on Universal Credit and around 500,000 existing claimants will move to Universal Credit when they experience a significant change of circumstances;
- April 2014 onwards - 3.5 million existing claimants of benefits and credits move onto Universal Credit when they experience a significant change of circumstances;
- 2015-17 - 3 million households will be transferred to Universal Credit by local authority boundary as the old system winds down.

To be eligible for Universal Credit you must be 18 years old and not in education; have accepted a claimant commitment; and satisfy financial conditions on a claimant's income and capital (if either is above a limit, likely to be £16,000, an individual will not be eligible). Universal Credit will be paid via a single monthly payment in arrears and will be paid directly to the recipient including tenants of social housing. The amount of Universal Credit paid will depend on a claimant's level of income and other family circumstances with reference to four elements:

- A standard allowance to cover basic living costs;
- Support for those with children;
- Support for housing costs;
- Support for what the Act terms 'other particular needs and circumstances'.

From a combination of each of these elements a maximum payment will be calculated, which will then be reduced according to the earned and unearned income of the claimant.

Housing Benefits

Universal Credit will replace most existing benefits including Housing Benefit. The reform to Housing Benefit (or the housing component of Universal Credit as it will become) will introduce a new size criteria or 'bedroom tax' in the social rented sector whereby those under-occupying their property may receive a penalty of between 14% for one extra room to 25% for two or more rooms. Benefit will also be received directly by the tenant.

From April 2013, there will be a total benefit cap of £26,000 a year, equivalent to £500 a week for a couple or family; where this is exceeded Housing Benefit will be restricted to a nominal 50p a week. Where it is less, the amount of Housing Benefit paid must not take total income over the £500 a week level. A cap of £18,200 a year or £350 a week applies for single claimants. The policy only applies to people of working age. Those who are working and receiving Working Tax Credit will be exempt.

There is also a new cap on Local Housing Allowance (LHA) which sets LHA at the 30th percentile of Private Rented Sector (PRS) market rents in each Broad Rental Market Area (BRMA), as opposed to the previous median. Following the changes to LHA, the Department for Work and Pensions suggest that the average family in England will lose an average £22 a week.

The changes to LHA for private tenants and Housing Benefit for social tenants are likely to have impacts upon the extent to which people can afford to live in certain neighbourhoods. There may be movements to seek cheaper rental property or people downsizing to social housing that better meets their requirements without under-occupancy penalties.

The Work Programme

The Work Programme (WP) is the Government's key initiative for supporting people into employment. Whilst Jobcentre Plus retains its role as the core mainstream provider of employment support; individuals are referred to a Work Programme prime contractor once they reach a certain point in their claim of out of work benefits. The programme was commissioned from contractors using a 'black box' approach, meaning that there are no prescriptions for delivery and there are a range of interventions. The WP also operates on a payment by results basis, so the main bulk of payment is received when an individual sustains work beyond six months. Prior to referral to the WP, claimants can access a range of support tools through Jobcentre Plus advisors. One tool is skills conditionality where the skills needs of claimants are identified and then they are mandated onto local employment related training.

Advisers can also refer claimants to the 'Next Step' service (now known as the National Careers Service). If claimants still need support they are moved onto the WP. The WP has been supplemented from April 2012 by the Youth Contract, where WP providers will receive extra funding for supporting young people into work experience and apprenticeship opportunities. It also includes guaranteed work experience placements for all unemployed 18 to 24 year olds wishing to participate.

The introduction of the WP has changed the employment support available to individuals. Particularly it will affect the longer term unemployed and those with more complex needs. Detail on the effectiveness of the WP to date is not yet available (likely in autumn 2012). In localities such as Greater Manchester, there is however work underway to develop data sharing protocols between local authorities and WP prime contractors to effectively target areas of need.

Work Capability Assessment and Disability Reassessment

The reassessment of Incapacity Benefit (IB) claimants through the Work Capability Assessment (WCA) has been ongoing since October 2008 for new ESA applicants and is now assessing the fitness for work of the UK's 2.6 million claimants of IB. It is being carried out by private sector firm ATOS, and claimants are being put into 3 groups dependent upon the outcome of their assessment:

- 'fit for work', where they have the opportunity to apply for JSA and actively seek employment;
- 'support group', where they are transferred to ESA as they are unable to work;
- 'work related activity group', where they receive the basic rate of ESA and support in getting back to work. Their medical condition will also be reviewed again.

For new claims between September and November 2011, figures released by the DWPⁱⁱ show that 45% of assessments had an outcome, and of these: 45% were entitled to ESA, 20% were placed in the 'work related activity group', 25% were placed in the support group; and 55% were assessed fit for work and therefore not eligible for ESA. For the reassessment of existing claimants up until July 2011ⁱⁱⁱ, of the 92% of assessments that had an outcome: 63% were entitled to ESA, 34% of which were put in the work related activity group and, 29% of which were put in the support group; and 37% were assessed fit for work, and therefore not eligible for ESA.

This change causes a significant loss of income for those moved to JSA from IB; over £28 a week is lost for those aged over 25 and nearly £43 a week for those under 25. The outcomes are also increasingly being met with appeals and challenges.

DLA will not be included in Universal Credit, however, but it will be replaced with PIPs to streamline the system. Reassessment is expected to cause a 20% reduction in costs and 500,000 fewer people receiving DLA by 2015. Medical conditions also have to exist 6 months prior to assessment and be likely to continue for at least 6 months after claiming.

The cumulative impact of welfare reform and responses

As part of its membership agreement with CLES, Manchester City Council commissioned CLES to look at the area-wide and population specific impacts of welfare reform in the city. This was prompted by a need the Council identified to take a broad view of the impacts on both people and place of the range of benefit changes taking into account the impact on families and communities and the consequential implications for services. There was a particular focus in this work upon the impact on 'place' both through reductions in income in areas with high concentrations of people on benefits and the potential for some changes, for example to Housing Benefits, potentially de-stabilising communities by forcing movement to low rental areas.

As part of the work with Manchester City Council and to enhance the analysis, CLES also looked at the impact and responses of other local authority areas to welfare reform. Information was gathered through a call for practice issued to the CLES membership base.

The research work focused on the performance of the Work Programme; the changes to out of work benefits particularly the Work Capability Assessment and incorporated some assessment of work already underway in the City Council on changes to Housing Benefits and Local Housing Allowance and the degree to which these changes might lead to population movements. The following summarises some of the key impacts derived from the research and how local authorities are responding.

Impacts

The research found that the national welfare reforms would be likely to have significant impact on Manchester particularly in areas with high concentrations of benefit claimants. In Manchester 64,000 people or 17% of the working age population claimed out of work benefits (when the report was written), as an

ⁱⁱ Department for Work and Pensions (2012) *Employment and Support Allowance: outcomes of Work Capability Assessments, Great Britain – new claims*. http://research.dwp.gov.uk/asd/workingage/esa_wca/esa_wca_jul2012.pdf

ⁱⁱⁱ Department for Work and Pensions (2012) *Employment and Support Allowance: Outcomes of Work Capability Assessments, Great Britain*. http://statistics.dwp.gov.uk/asd/workingage/esa_ibr/esa_ibr_mar12.pdf

average but with areas with some wards far higher levels to over 25%. These people will all be affected by the reassessment of IB claimants (half of the workless population is on IB or ESA) and the introduction of Universal Credit but many are also impacted by changes in other benefits they receive particularly Housing Benefits. The research has shown the following forms of impact of welfare reform are important to consider:

Place impacts

The welfare reforms are likely to impact differently on different places. The reforms are likely to have a disproportionate impact upon those areas with higher concentrations of benefit claimants, with subsequent potential knock on effects for local economies and demography. This could include the potential for loss (but also increase if employment is gained) in individual and family income and decreased spending powers. The Manchester specific research estimated that there could be a potential reduction (taking all changes to benefits into account) of £45million a year in the local economy.

There could also be population movement and migration due to changes in housing affordability. In particular, it was considered that benefit changes could cause pressure on people to move out of areas with a shortage of reasonably priced property, bringing increased strain on areas with more supply. Migration could happen over a wider area, with people moving in and out of Manchester, for example, to neighbouring boroughs. There are 14,000 social housing tenants in Manchester that could be affected by under occupancy charges which could potentially also lead to more rent arrears, evictions and even homelessness. These sorts of place impacts are also predicted elsewhere, particularly in London Boroughs where housing reform in particular may lead to significant migration both within and outwith London.

Service impacts

The welfare reforms are likely to impact upon local services. There is particular potential for increased demand for specialist advice around finance, debt and benefits and emergency everyday living services in addition to impact on Adults, Children's and Health services. The challenge of welfare reform comes at a time when cuts are being made to these same types of services and advice provisions.

There is likely to be impact in relation to internal structures of revenues and benefits services, specifically with Housing Benefits being incorporated into Universal Credit; but also with greater responsibility placed upon local government and housing organisations as the communicators of information about welfare reforms and what they mean for individuals. The Work Capability Assessment is also likely to increase demand for advice, particularly around legal advice, given the already high proportion of decisions going to appeal.

People impacts

The welfare reforms are likely to impact differently on different parts of the population. The research in Manchester and other research undertaken by DEMOS^{iv} and the Institute for Fiscal Studies^v highlights the potential for certain groups that may rely on a combination of benefits to be adversely affected. This will include large families on low incomes; carers; disabled people; tenants in private rented accommodation, and people in social housing under-occupying their accommodation.

Disabled people and carers could be affected both through the reassessment for DLA and the move to PIP and through the shift to Universal Credit and the tie in of Carers Allowance. The impact of the WCA is likely to be highest on people with mental health problems who may not comply with the reassessment process or whose conditions are difficult to assess by generalists. This is a particularly prominent concern in Manchester, where 49.7% of people claiming IB and ESA do so primarily because of a mental or behavioural disorder. The research suggested that there may also be emerging a cohort of the population, who move off benefits altogether, but are still in need of support. Therefore, the burden is shifted onto the informal economy and service providers.

^{iv} DEMOS (2010) destination unknown <http://www.demos.co.uk/publications/destinationunknownanddisability>

^v Institute for Fiscal Studies (2011) *Universal Credit: a preliminary analysis* <http://www.ifs.org.uk/bns/bn116.pdf>

In response to the CLES work Manchester City Council has:

- Sought engagement with government departments about the impacts of welfare reform in Manchester;
- At city and neighbourhood level, started monitoring the cumulative impacts of welfare reforms and other changes (for instance to services) so that the Council can better understand and respond to issues;
- Developed local responses through neighbourhood structures drawing together partners. In particular action related to employment and skills, debt and advice and other related services;
- Ensured that related changes for instance to the new Council Tax Benefit scheme are considered together with the wider impacts of welfare reform and that related initiatives such as Community Budgets work with complex families is targeted in the most affected communities;
- Raising awareness and providing support to communities on welfare reforms and impacts on people and communities.

Responses from other local authorities

A common response to the call for practice from many authorities around the emerging impact of welfare reform was that it was perhaps too early to fully identify effects. However, authorities were adopting a range of measures designed to minimise any potential and future impacts. These responses can be themed as follows:

Cross-departmental co-ordination

The first action of many authorities has been to continue or set up new cross-departmental groups which could involve partners such as Jobcentre Plus and social landlords. Nottingham City Council has adopted a city-regional approach, with a particular focus on localisation of Council Tax support. Many authorities have additionally decided to improve their customer services. The first stage of this is gathering intelligence on the impact and then to inform vulnerable groups. Online mechanisms have also been developed in many places. The London Borough of Hackney has created a corporate welfare reform group to ready people for the welfare changes. They have done this through recorded messages explaining online facilities and making the website more accessible.

Providing support and advice to communities

The next step is raising awareness about the type of support available from the authority itself and partner organisations. Essex County Council has been raising awareness of debt advice so customers do not fall into the trap of high interest loans. Cheshire West and Chester Council, through the Helping Hands Project, have offered a personalised approach by visiting claimants and identifying their needs. In Manchester a 'task and finish' group was established to produce guidance for residents and staff in the form of a 'Helping Hands' leaflet distributed to all Council Tax or Housing Benefit claimants, which detailed employment, training and advice services. In Manchester, local mental health and employment networks have also been established to raise awareness and inform people of changes. Service reconfiguration has also included changing the use of council facilities. One example is Plymouth City Council, who recognised that their service assets could provide a much broader range of advice and support.

Training for staff

Given the complex nature of the reforms, many local authorities have sought to provide specialist training for staff. Specialist training is being delivered for frontline and management staff by Brighton and Hove City Council describing reforms and exploring implications. The training is also being used to shape wider service commissioning strategies. In Manchester, they are preparing through training sessions for City Council services and partner organisations, especially mental health providers, and with a guide on re-assessment. Another response is building the capacity of partner organisations to respond. This is mainly in the public sector but also in the voluntary and community sector.

Partnership working

Portsmouth City Council has been working in partnership with local housing associations to develop capacity around advice services. The main purpose is to reduce potential rent arrears resulting from Housing Benefit changes. Manchester City Council have also done capacity building in the existing training project 'Step Up'. This is delivered by a local housing provider and has been extended to include employment and benefits support, housing advice and homelessness prevention. Manchester City Council has also commissioned Peer Mentoring Services for people undergoing work capability re-assessment. The aim is to raise the capacity of VCS organisations by training staff to deliver support, particularly for people with mental health problems, and to support progression into employment.

Other initiatives

Some authorities have focused on employment support and job creation, which reinforces the Government's approach that work is the best route out of poverty. Schemes have included employment advisers using alternative locations other than Jobcentre Plus offices. An example of this is placing Jobcentre Plus family advisers in local children's centres, which was a strategy deployed in the London Borough of Greenwich. This Borough has also been reinvigorating the housing market by building new housing and bringing unoccupied housing back into use. These physical development schemes are key to mitigating the impact of Housing Benefit changes, and may help stop the increase in people being displaced or having to move. Another scheme adopted by the Association for Greater Manchester Authorities (AGMA) is a Local Housing Allowance Transition Team, who work with tenants and landlords to negotiate cheaper rents, and also provide support for people moving.

Concluding thoughts

The reforms of the welfare system legislated for in the Welfare Reform Act are likely to have a key impact upon places (including local economies), services, and individuals and communities. Whilst the need to reform welfare and support more people into employment is necessary, there must be a consideration of both likely cumulative impact of reforms in economic and social terms; and additionally how key local government administration, support, advice, and economic development services can respond.

CLES' research with Manchester City Council has sought to identify both likely impacts and required responses to welfare reform. Based upon the research findings we would recommend that authorities respond to welfare reform by:

- Undertaking analysis of the likely cumulative impacts in their locality. Who are the groups of the population most likely to be affected and by which changes? Which geographical localities are likely to experience change? Which services will be impacted upon and how? Continuously monitor impact and responding proactively, as and when support is needed;
- Considering the implications for housing in particular, both in terms of social and private housing, and assess with providers the impacts on tenants and put in place support to minimise the migration likely to be caused by the Housing Benefit changes;
- Embedding welfare reform as a cross-departmental and cross-partner concern. This should not just be the concern of either revenue and benefits or adults services for instance; but should cut across economic development, corporate procurement, communications, health and housing services and partners;
- Utilising area and neighbourhood co-ordination structures to provide targeted support and advice to the communities and neighbourhoods most adversely effected and linking initiatives such as work with complex families to support those directly affected;
- Work with Jobcentre Plus and Work Programme providers to ensure a co-ordinated offer of employment and learning support is provided so that work represents the best route out of benefit dependency over the longer term.

Briefing is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is a not-for-profit think/doing organisation, consultancy and network of subscribing organisations specialising in regeneration, economic development and local governance. CLES also publishes Local Work, Bulletin and Rapid Research on a range of issues. All publications are available as part of CLES membership services. To find out more about membership visit the CLES website or contact CLES to request a membership leaflet.

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