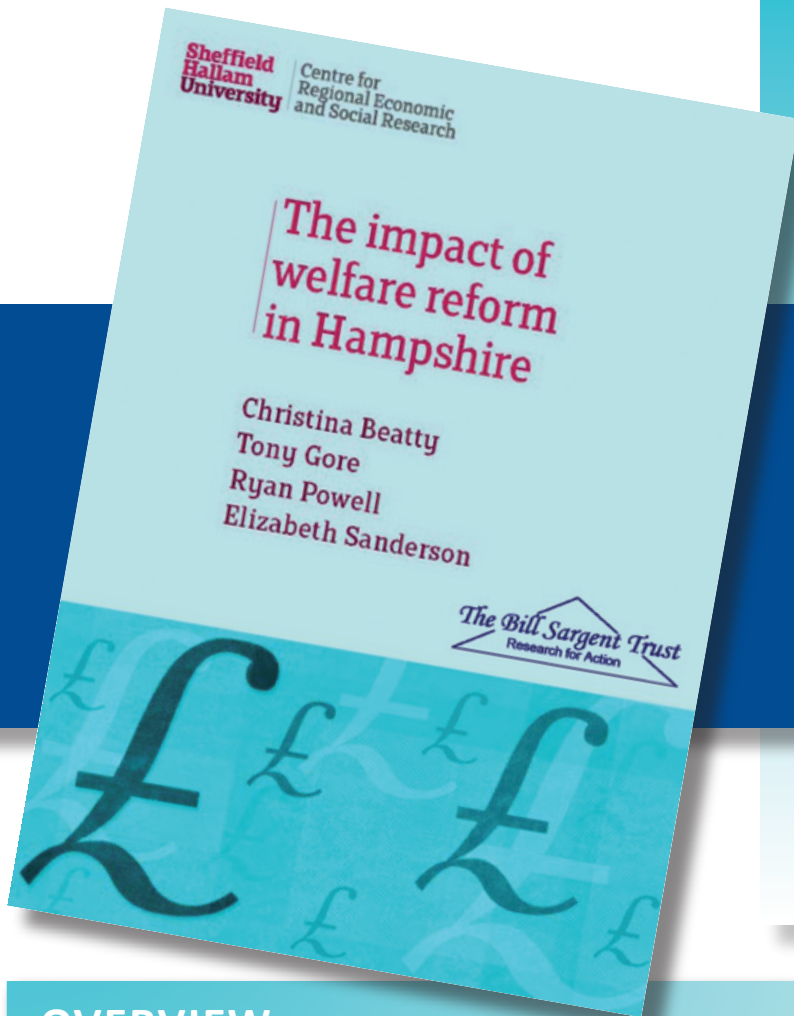


The Bill Sargent Trust

Research for Action

The Impact of Welfare Reform in Hampshire



EXECUTIVE SUMMARY

Full report freely available from:
www.bstrust.org.uk

OVERVIEW

Britain is undergoing a major overhaul of its welfare system. The scale and pace of change is substantial and rapid. Welfare reform is central to the coalition government's deficit reduction plan and was established as a key policy area in the early stages of the coalition coming into being. Primarily, the focus of welfare reform is on those of working age and affects those in work, especially those in low-paid work, as well as those who are claiming out-of-work benefits.

When the present welfare reforms have come into full effect it is estimated that they will take nearly £19bn a year out of the national economy, equivalent to £470 a year for every adult of working age in the country.

The Bill Sargent Trust commissioned this research to understand the extent to which the welfare reforms currently underway will impact on low income households and those in housing need across Hampshire, including Portsmouth and Southampton. The estimates are based on government national impact assessments,

Treasury estimates of savings made and the distribution of claimants across Hampshire.

This report makes no attempt to comment on the merits of each of the reforms but it does provide an overview of government documentation on ten key elements of the benefit changes underway. The report provides evidence as to the scale of financial loss across all districts in Hampshire, how this varies significantly by place, and estimates the numbers of individuals or households affected by each of the welfare reforms by the time they have been fully implemented.

The financial loss in Hampshire of the reforms will be just over £400 million a year when the reforms are fully implemented, equivalent to £360 a year for every working age adult in Hampshire. The cumulative impact of the reforms will have severe consequences for many low income households in Hampshire in terms of their ability to meet essential costs such as those related to housing, energy and food.

For individuals least able to gain a foothold in the labour market, often due to compounding issues such as long-term health problems; lack of skills, qualifications or recent experience in the workforce; their ability to adjust to the new regime may be more limited than those who are closer to the jobs market. It is important to remember that it is not just the households directly affected by the welfare reforms that will be impacted

upon by the changes. The loss of benefit income, which is often large, will have knock-on consequences for local spending and thus for local employment. The greatest impact is likely to be in the most deprived local areas and a key effect of welfare reform will therefore be to widen the gaps in prosperity between the more affluent and relatively deprived local areas within Hampshire.

SUMMARY OF THE OVERALL IMPACTS

The financial loss in Hampshire as a result of the reforms is substantially less than some of the hardest hit parts of the country. However, there are significant variations in impacts within Hampshire with certain local authorities and local areas within districts hit much harder than others. There will be local neighbourhoods with concentrations of benefit claimants where the financial loss to individuals, families and the local community will be substantial.

- When the present welfare reforms have come into full effect they will take just over £400 million a year out of the local economy.
- The financial loss is equivalent to £360 per year for every working age adult in Hampshire which is substantially below the national average of £470 per year in Great Britain.
- In the main, the loss of income for individuals directly affected by the changes will be substantially larger especially for those affected by changes to incapacity benefits, Disability Living Allowance and the benefit cap.
- Portsmouth has the greatest financial loss relative to the size of the working age population, equivalent to £450 per working age adult per year; in Southampton, Havant and Gosport the equivalent figure is between £430 and £440 per working age

adult per year.

- In absolute terms, Southampton is hit the hardest of all Hampshire districts with a loss of £73 million a year, more than five times the amount in Hart, although the working age population in Southampton is just over three times the size of Hart.
- The greatest impact is likely to be in the most deprived local areas within Hampshire and welfare reform is likely to widen the gaps in prosperity between the best and worst local areas within Hampshire.
- Over a quarter of all Lower Super Output Areas (LSOA) in Portsmouth and Southampton will lose more than £600,000 a year.
- The financial loss in nine LSOAs in Portsmouth, Southampton and Gosport will be more than £1 million per year.
- Four benefit reforms account for over three quarters of the estimated financial losses in Hampshire: incapacity benefits, Tax Credits, Child Benefit and the 1 per cent up-rating of benefits.
- The loss of benefit income, which in certain neighbourhoods is very large, will have knock on consequences for local spending and thus for local employment which in turn will add a further twist to the downward spiral of some local neighbourhoods.

SUMMARY OF THE IMPACTS OF INDIVIDUAL BENEFIT REFORMS

Housing Benefit: Local Housing Allowance (LHA)

- The reforms to LHA involve changes to the rules governing assistance with the cost of housing for low-income households in the private rented sector. The new rules apply to rent levels, 'excess' payments, property size, age limits for sole occupancy, and indexation for inflation.
- A third of all households living in the private rented sector in Hampshire receive Housing Benefit. Therefore large numbers of households are affected by these changes: just over 30,000 households in Hampshire.
- The reforms to LHA account for 8 per cent of the total impact of welfare reforms, amounting to a loss to the local economy of over £32m per annum.
- Gosport, Portsmouth, Rushmoor and Southampton are the worst affected districts within Hampshire in terms of financial loss per working age adult.

- Key considerations for Hampshire in the immediate future will be the availability of affordable PRS accommodation across the county, and the willingness of landlords to let to LHA tenants faced with a sizeable shortfall between their LHA entitlement and the rent charged.

Housing Benefit: under occupation in social housing

- The under-occupation measure introduces new rules governing the size of properties for which payments are made to working age claimants in the social rented sector (widely known as the 'bedroom tax'). These rules already apply to Housing Benefit (LHA) tenants in the Private Rented Sector (PRS).
- The measure affects over 9,000 households representing a total loss to the Hampshire economy of £7m per annum.

- The overall impact of the bedroom tax is less significant than most of the other welfare reforms accounting for just 2 per cent of the total impact of all welfare reforms in Hampshire.
- Havant, Portsmouth and Southampton are the worst affected districts within Hampshire in terms of the relative loss per working age adult, a reflection of the distribution and concentration of social housing within the county.
- A key challenge in mitigating the effects of under-occupation will be the ability of social housing providers to place affected tenants in suitable alternative accommodation.

Non-dependant deductions

- Non-dependant deductions refers to increases in the deductions from Housing Benefit, Council Tax Benefit and other income-based benefits to reflect the contribution that non-dependant household members are expected to make towards the household's housing costs.
- The impact of these changes is twofold with 6,400 households affected and 7,500 non-dependants living in those households.
- The financial impact in Hampshire is broadly comparable in scale to that of the under-occupation measure: the changes account for 2 per cent of the total impact of all welfare reforms and amount to an estimated financial loss of just over £7m per annum.
- The rise in non-dependant deduction rates for Housing Benefit is equivalent to an 84 per cent increase between 2010/11 and 2013/14.
- In terms of non-dependants those affected are more likely to be single, to be men and to be on an income of less than £180 per week.

Benefit Cap

- The household benefit cap introduces a new ceiling on total payments per household, applying to the sum of a wide range of benefits for working age claimants. This is equivalent to £350 for a single person households without children or £500 per week for couples or lone parent households.
- Although the benefit cap has attracted significant media attention it affects a relatively small number of households in Hampshire: 750 households in all.
- This measure has the least financial impact of all the different reforms introduced amounting to a loss of £3m per year to the local Hampshire economy.
- While the numbers affected are small the impacts can be quite severe, especially for households with large numbers of dependants. With this in mind BME groups which, for various cultural and religious reasons, tend to have larger families are likely to be disproportionately affected.
- Over half of the affected households are estimated to be resident in the districts of Havant, Portsmouth or Southampton.

Council Tax Benefit

- Council Tax Benefit reform involves reductions in the entitlement of working age claimants arising from a 10 per cent reduction in total payments to local authorities from central government. The benefit new localised system introduced is called Council Tax Reduction.
- This measure only affects claimants in eight of Hampshire's 13 local authority districts. The other five authorities - Basingstoke and Deane, East Hampshire, Hart, Test Valley and Winchester - have chosen not to pass the ten per cent reduction on to claimants.
- The localisation of Council Tax support accounts for two per cent of the total impact of all welfare reforms, a loss of £6m per year to the Hampshire economy.
- The worst affected districts in Hampshire are Gosport and Portsmouth in terms of the relative loss per working age adult.

Incapacity benefits (IB)

- Incapacity benefits reforms involve the replacement of IB and related benefits by Employment and Support Allowance (ESA), with more stringent medical tests, greater conditionality and time-limiting of non-means tested entitlement for all but the most severely ill or disabled.
- The impacts of these measures are huge both in Hampshire and nationally. They account for one fifth of the total impact of all welfare reforms in the county with over 21,000 claimants affected.
- Some of those claimants will lose all of their entitlement to any benefit; others will lose a proportion.
- The reforms will amount to claimants in Hampshire collectively receiving £78m a year less by 2015/16. Southampton alone will lose £16m and Portsmouth £13m.
- The characteristics of those affected - long-term ill health and labour market detachment - mean that it will be extremely difficult for many to secure suitable and sustainable employment in an increasingly competitive labour market.

Disability Living Allowance (DLA)

- DLA reform involves its replacement by Personal Independence Payments (PIP) as the basis for financial support to help offset the additional costs faced by individuals with disabilities. PIP also entails more stringent and frequent medical tests for claimants.
- The changes will have a significant impact in Hampshire affecting 21,000 individuals and amount to a loss to the local economy of £33m a year by the time the changes are fully implemented.
- The impact of DLA changes in the context of wider welfare reform accounts for 8 per cent of the total financial loss to residents in Hampshire.
- The impact across Hampshire mirrors that of the IB reforms with concentrations in districts with a greater legacy of heavy industry and manufacturing.

- DLA changes are particularly problematic given the cumulative impact of the range of welfare reform measures. While DLA is meant for the additional costs of living and mobility for individuals with disabilities, recent evidence suggests that it is often used for other essential items in the face of financial pressures. DLA is increasingly used by recipients for items such as food, heating and meeting rental payments as incomes are squeezed. A reduction or loss in payment could therefore have dire consequences for claimants on low-incomes.

Tax Credit Reforms

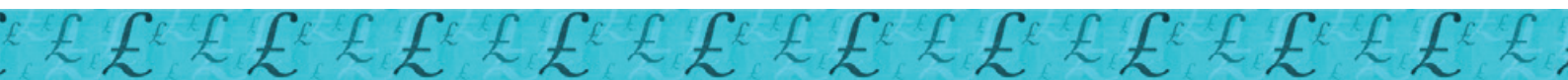
- A raft of changes to Child Tax Credit and Working Families Tax Credit (WFTC) - paid to lower and middle income households - were introduced including altering thresholds, withdrawal rates, supplements, income disregards, backdating provisions, reductions in the payable costs through the childcare element, indexation and up-rating from 2011/12 onwards.
- Over 100,000 households in Hampshire will be affected to some degree by the reform of the Tax Credit system resulting in a financial loss to the Hampshire economy is £82m a year.
- The financial loss in Hampshire due to Tax Credits reforms is equivalent to £72 per working age adult per year.
- If families with children claiming WTCs were affected to the same extent as nationally (12 per cent) by the change in the requirement to work at least 24 hours between them, then approximately would be 4,800 families in Hampshire would be affected by this measure alone.
- Tax Credits have played a key role in supplementing low income for many families and households across Hampshire and the effects of their reform will to various extents impact on all of those recipients.

Child Benefit Reforms (CB)

- Child Benefit is subject to a three-year freeze, and withdrawal of benefit from households including a higher earner.
- The removal of Child Benefit from households with a high earner has a higher than average effect in more affluent parts of Hampshire contributing to an overall financial loss of £82 million a year.
- All 212,700 CB recipients in Hampshire are affected to certain extent by the freezing of CB rates.
- An estimated 35,000 or one in twenty of all households in Hampshire are likely to be affected by the reduction or loss of CB from households with a higher earner and approximately 25,000 of these will lose all their CB.

The one per cent up-rating of working age Welfare Benefits

- The annual up-rating of value of most working-age benefits will be restricted to one per cent for three years from 2013.
- This reform accounts for 18 per cent of the overall financial loss to the local economy from welfare reform, equivalent to £73m per year, or £65 per working age adult per year.
- For those in the lowest ten per cent income bracket the reduction will be equivalent to a two per cent reduction in their overall net income.



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