

THE CUMULATIVE IMPACTS OF WELFARE REFORM

A NATIONAL PICTURE



AUGUST 2017

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EXECUTIVE SUMMARY

This report lays out the findings of an analysis into the impact of welfare reform across Great Britain. It was commissioned by the Local Government Association (LGA) as part of a project led by the Learning and Work Institute (LWI) following on from their 2014 analysis of the impact of the Coalition Government's welfare reforms. In this report, that analysis is updated to take account of welfare reforms announced by both the Coalition and by the Conservative Government.

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 objective 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 last three years Family Resources Survey, which samples households across Britain on a range of measures. The data has been processed through Policy in Practice's modelling tool, the Benefit and Budgeting Calculator. The outputs from this make it possible to draw out the impact of reforms that have already taken place, and those that are yet to come, including mitigation measures, and 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.

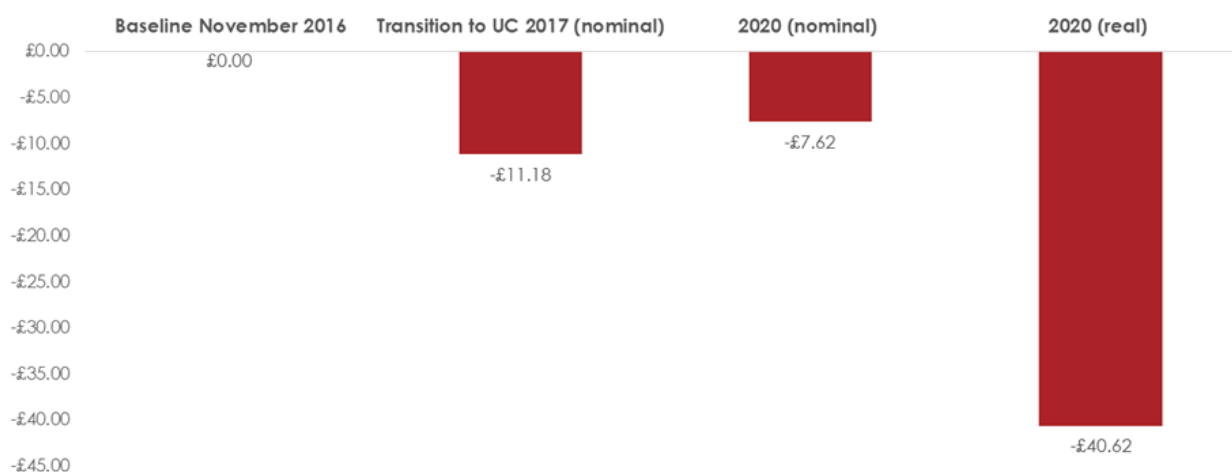
The cohort used in the analysis is representative of 9.1 million low-income households in Great Britain, each receiving either a DWP benefit, tax credits or Housing Benefit. This constitutes just over one third of all households in Great Britain. Of these 9.1 million, 7 million are of working age, while 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 £23.01 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.

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Figure 1: Cumulative impact of welfare reform



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, previously in receipt of tax credits, particularly hard. The introduction of the National Living Wage (NLW) and increases to the personal tax allowance will generate almost £3.2bn 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, whilst half of these 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. This means many households see falls in real income. This is especially pronounced for private renters, for whom the link between the Local Housing Allowance (LHA) rate and market prices has been broken.

It is important to note that welfare reforms affect households very differently, with a range of impacts depending on family type and size, housing tenure and characteristics, in particular disability or ill health. Whilst, for example, the localisation of Council Tax Support has affected a large number of households by relatively small amounts, 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 report.

KEY CHALLENGES

This analysis highlights four key challenges in the years ahead.

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

The growing disconnect between rent prices and Local Housing Allowance (LHA) rates means that the gap between housing support and housing costs will increase disproportionately for those in the private-rented sector. Nominally, private renters will actually be £2.75 per week better off by 2020, as they are more likely to be in work and therefore benefit from the increase in the National Living Wage and Personal Tax Allowance. However, after factoring in expected inflation and private rent growth, private renters will face average real terms losses of £38.49 per week, with higher losses for larger families.

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

No. bedrooms	Average change in private rent 2016-2020 (%), GB	Change in LHA rate 2016-2020 (%), GB	Average change in social rent 2016-2020 (%), GB
1 bedroom	5.3%	0.0%	-1.8%
2 bedrooms	4.9%	0.0%	-1.6%
3 bedrooms	4.8%	0.0%	-1.7%
4 bedrooms	5.4%	0.0%	-2.2%
5 bedrooms	6.6%	0.0%	-2.4%

Rising rents, without a corresponding increase in housing support, means that the number of households that turn to local government for housing support will increase. This will have a knock-on impact on temporary accommodation and homelessness support costs.

2. Reduced support and weakened incentives for those in work

A significant number of low-income households that will see a high income loss are already in work. Of the 2.14 million working-age households losing over £50 per week by 2020, 1.34 million are currently in work. The majority of these are households currently in receipt of Working Tax Credit. These households will face a significant loss in income when they transition 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 reduction in support raises the risk of working poverty, and reduces the incentive for low-income households to enter or stay in work, as work will not “pay” as well as under the current tax credits system. Addressing this will require greater support for those in work through either financial or front-line support, such as assistance to progress in work.

3. A weakened local safety net

The cost of reforms is greater than the funds local government currently have at their disposal to mitigate high impact. The overall DHP funding for 2017/18 is £185m¹, 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). On top of this, Council Tax Support has been cut in most English authorities, and the Social Fund, which was responsible for discretionary support in the form of Crisis Loans and Community Care Grants, has all but been abolished.

Furthermore, there exists a significant cohort of households facing high barriers to work that 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 containing a person in receipt of disability benefits are more heavily impacted by reforms than other households. This is particularly true of households containing a person 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 see an income loss of over £50 per week have children, either as lone parents or couples.

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



1. INTRODUCTION

This report builds on previous work carried out by the Learning & Work Institute (LWI) into the local impacts of welfare reform, published in 2013². In it, the LWI quantifies the economic impact of welfare reforms, implemented through to 2015/2016, on local authorities, with a specific focus on reforms to Housing Benefit. The report highlights the negative impact on working households; the increasing difficulties in low-income households' ability to afford housing; the expected effects of the government's mitigation measures; plus the roll-out of Universal Credit.

In the years since the LWI report was commissioned and published, welfare reforms have continued: benefit rates, including LHA rates, have been frozen; the benefit cap has been implemented, and then reduced; and the Family Premium was removed, among other changes shown in Figure 1.1, below. Alongside this, the government's mitigation measures, increasing the National Living Wage; raising the personal tax allowance; and funding additional childcare provision, began to be implemented. Universal Credit, a new benefit combining the main means-tested benefits into one, continues to be rolled out across local authorities in the UK. Changes to Universal Credit were announced as recently as the 2016 Autumn Statement, when the government lowered the taper rate, the rate at which support is withdrawn as earnings increase, from 65% to 63%. As can be seen in the graphic below, further changes affecting households with children, such as the removal of child tax credit from the third child onwards, come into effect in April 2017.

Figure 1.1: Welfare reforms roadmap, April 2016 - April 2020



These changes paint a changing and complicated picture of reforms. The LGA commissioned this analysis to show the impact on residents and local authorities, and to understand the potential implications for other parts of government policy.

This report will be followed by a report from the LWI looking at how councils are responding to reforms. The proposed report will put forward proposals for national policy development that

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could help government to make savings on the welfare bill without having a detrimental impact on low income households and the local economy.

Using data from the Family Resources Survey (FRS), Policy in Practice has carried out an analysis of the impact of welfare reform on low-income households in Great Britain, both cumulatively and in terms of individual reforms/measures. This report projects future impact, factoring in planned policy changes, inflation and rent price increases. The analysis identifies the key challenges, especially in light of local government funding pressures, and the transfer of support for low-income households from central government towards local government.

It should be noted that the analysis presented in this report comes from a single snapshot of household circumstances. In other words, it is based on a static understanding of households and household behaviour. This means that this report cannot take into account possible dynamic changes in behaviour as households adjust and respond to new circumstances. Rather, the aim is to show what the impact of welfare reform has been, and to project what outcomes are likely if things stay as they are.

The LGA, Policy in Practice and the Learning & Work Institute agree that any follow-up analysis should seek to understand the dynamic response to welfare reforms and other behavioural or policy changes. This is possible by using datasets that track households over time³, comparing a range of snapshots in order to better understand how households in the UK are responding to welfare reform, and whether the overarching policy to incentivise work is being achieved.

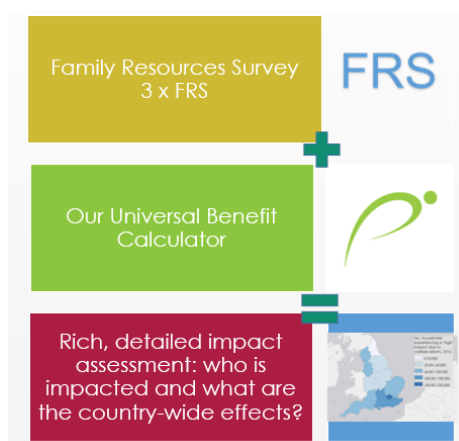
Policy in Practice has carried out analysis on the impacts of welfare reform on low-income households for over forty local authorities across the UK, combining a deep understanding of the benefits system with an analytical tool, the Benefit and Budgeting Calculator, to model it. Policy in Practice is experienced in the analysis of the datasets used for this modelling, the Family Resources Survey, having previously used this dataset to model national policy changes.

2. OUR APPROACH: METHODOLOGY AND LIMITATIONS

The analysis is based on data from the Family Resources Survey (FRS), a detailed annual report on the income and circumstances of households and families in the UK. The survey samples households to arrive at a composition that is representative of the UK as a whole, with each household weighted slightly differently depending on its prevalence.

This analysis focuses on the low-income households in the dataset, defined as those in receipt of either tax credits, DWP benefits or Housing Benefit in Great Britain. In order to increase sample size, Policy in Practice used FRS data from 2013, 2014, 2015, with additional weight given to more recent years. This leaves a total sample size of 19,124 records, representing 9.1 million low-income households.

The FRS data that Policy in Practice has access to does not contain geographical indicators for local authorities or Broad Rental Market Areas (BRMA). This has an impact on the accuracy of modelling for Council Tax Support schemes, and Housing Benefit. To limit this, each household was allocated to a Local Authority and BRMA in its region.



The data was cleaned, arranged and then processed through Policy in Practice's policy modelling engine, the Benefit and Budgeting Calculator. This is the same tool used to model the impact of welfare reform on individual households for local authorities. The Calculator uses the FRS data as inputs from which to calculate benefits entitlements for each household today, and in the future. The total caseload figures arrived at through the modelling have been sense-checked and are broadly in line with DWP caseload figures⁴.

The outputs from the modelling engine are used to determine how many households are affected by each welfare reform, as well as the cumulative impact of those reforms. These figures are broadly in line with figures from official reports⁵ and other studies, including that conducted by Sheffield Hallam University's (SHU) Centre for Regional Social and Economic Research⁶. There are some variations with respect to the number of households affected by the lower benefit cap. The government's official impact assessment cites a lower figure of 88,000, however this only refers to households capped in 2016/2017, whereas the cap is being implemented in phases beyond this time frame. Additionally, the government's figure is based on administrative data, whereas the one quoted in this report is based on FRS sample data.

For part of the analysis, Policy in Practice calculates real incomes by taking account of inflation and private rent price growth. The figure for inflation is an average of previous years' Consumer Price Inflation (CPI) as recorded by the Office for Budget Responsibility (OBR)⁷, whilst private rents have been uprated according to recent rent price growth recorded by the Office for National Statistics (ONS) in each British region⁸.

3. WELFARE REFORMS 2013 TO 2020

The current wave of welfare reforms began in 2013 under the Coalition Government, in response to two competing objectives. The first was to make savings in order to help reduce the budget deficit. The second was to create a simpler system with clearer incentives to move into, and progress in, work.

With these aims in mind, the first reform to be implemented was the under-occupation charge, commonly known as the bedroom tax, which reduces the Housing Benefit paid to households deemed to have a number of extra bedrooms. This initiative was designed to bring parity between Housing Benefit paid in respect of the social-rented sector and that for the private-rented sector, where Housing Benefit has been paid at the Local Housing Allowance (LHA) rate for some years.

This was followed by the localisation of Council Tax Reduction, whereby responsibility for the level of support shifted from central government to local authorities; the introduction of a benefit cap at £26,000 per household; and the reduction of LHA rates from 50% of Broad Rental Market Area rents to 30%. Alongside this, the Social Fund, administered by the DWP, was abolished and funding made available to local authorities to provide Local Welfare Assistance. Funding for this has now ceased and many areas no longer provide Local Welfare Assistance.

Universal Credit, a new benefit to replace means-tested benefits for both working and non-working households, began its roll-out in 2013. It was intended to simplify the benefit system and smooth the transition into and out of work. It has been introduced at a support level less generous than initially proposed, with the intention of keeping the costs of in-work support on a par with the Tax Credit system. Support within Universal Credit was further reduced as work allowances, intended to promote movement into work, were reduced, and eliminated for single people and families without children, in the summer budget of 2015. Some support was restored this year as the government announced that Universal Credit would be withdrawn, more gradually than originally announced. On the whole, Universal Credit is still less generous than the current benefits system, and changes in how support is allocated to owner-occupiers, and the removal of certain disability categories, mean that the impact on households is complex.

Alongside welfare reforms, the government has introduced mitigating measures including increases in the National Living Wage (expected to reach £8.80 per hour by 2020); increases in the personal tax allowance (expected to reach £12,500 by 2020); the doubling of free childcare from 15 hours per week to 30 for some working households from Autumn 2017 and greater support for childcare within Universal Credit.

The welfare reform agenda is expected to wind down as 2020 nears, although small tweaks are possible, especially as a response to changing economic forecasts, or the impact of events such as Brexit.

4. THE FAMILY RESEARCH SURVEY COHORT

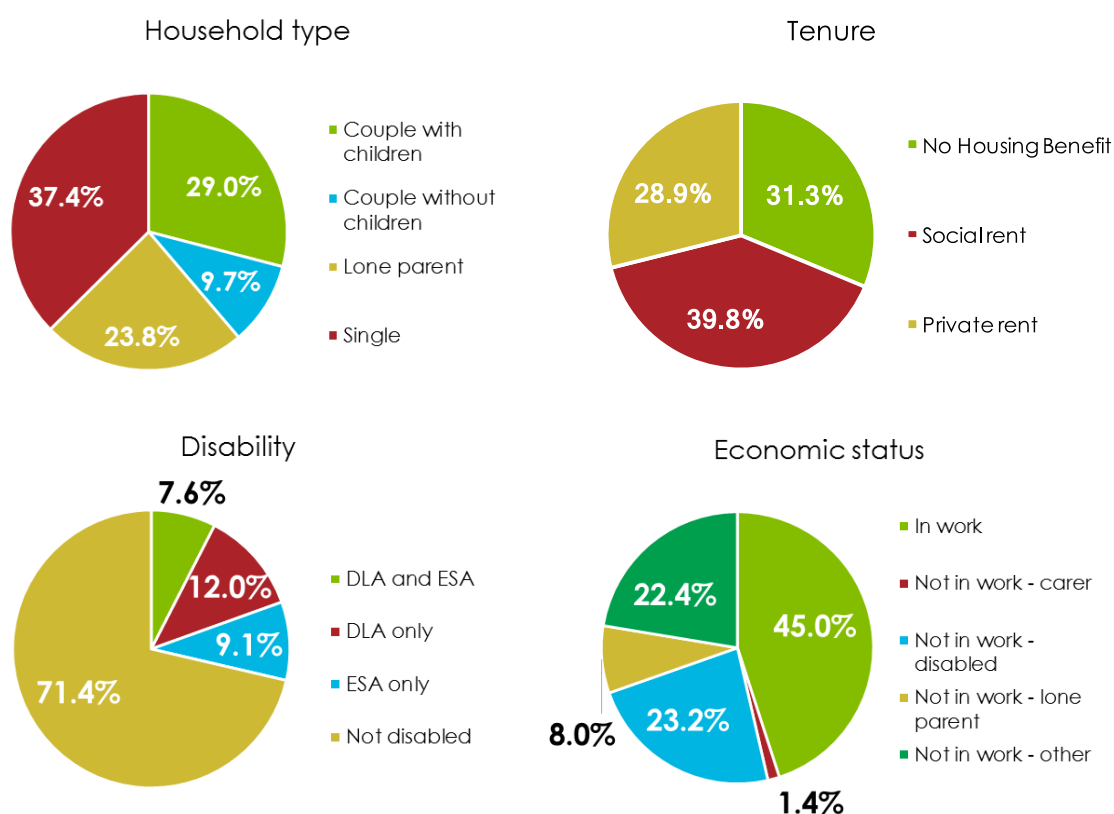
The FRS data used for this report represents 9.1 million households across Great Britain, of which 7.2 million are eligible for Universal Credit. This is in line with the government's estimated UC caseload⁹.

Of these households, 45% low-income working households and close to one quarter contain a person in receipt of disability benefits. As is shown in Figure 4.1, almost 40% of working-age households are in the social-rented sector, while 31% are private renters and a further 29% are not in receipt of Housing Benefit who, in the vast majority of cases, are owner-occupiers in receipt of tax credits, Jobseekers Allowance or Employment and Support Allowance.

53% of working-age households have children. These may be couples with children or lone parents. In total, there are almost 6.9 million children in the cohort. Just under 20% of working-age households with children have three or more children, and just under one quarter of working-age households are headed by a lone parent.

Almost 29% of working-age households are in receipt of some disability benefit.

Figure 4.1: Demographics of low-income households in Britain



5. THE IMPACT OF WELFARE REFORM IN BRITAIN: OUR FINDINGS

This section outlines the findings on the impact of welfare reform, both cumulatively and in terms of individual reforms, on working-age households across Britain. From this, four key points are drawn out for consideration.

5.1 The impact of individual reforms: previous and upcoming

Welfare reforms already implemented

Table 5.1.1 below sets out the main reforms that have already taken place.

Table 5.1.1: The impact of individual welfare reforms

	Number of households affected	Average weekly income change for those affected	Total yearly income reduction (£M)
The impact of previous welfare reforms			
Under-occupation	704,029	-£15.21	-£557
LHA reforms	1,431,293	-£50.06	-£3,726
CTS localisation	4,477,539	-£3.33	-£776
Benefit cap (£26k)	37,416	-£73.30	-£143
Benefit cap (£20k/£23k)	148,280	-£63.05	-£486

The localisation of Council Tax, through which the administration and design of Council Tax support passed from central to local government, together with a 10% funding cut, resulted in over 4.4 million households in Great Britain losing some support. While 41 local authorities continue to absorb the funding cut and maintained maximum levels of Council Tax Support (CTS) at 100%, often through cuts to other services, the vast majority of local authorities have been forced to reduce support. The average weekly change in income as a result of CTS localisation nationally is relatively small, at just £3.33 per week. By comparison, both benefit caps affected a much smaller number of households but by a lot more, with the average income loss in each case exceeding £60 per week.

Whilst the under-occupation charge has had a lot of press coverage, it is the LHA reforms affecting private renters that affects a greater number of children, and by a larger amount.

Universal Credit

Table 5.1.2 below shows the impact of rolling out Universal Credit. Universal Credit combines the main means-tested benefits in order to simplify the benefit system and smooth the transition into, and out of, employment. Households that would be worse off as they move onto Universal

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Credit will receive transitional protection, meaning that they will be no worse off in cash terms unless their circumstances change¹⁰.

The analysis reveals that the roll-out of Universal Credit will affect 7.2 million households across Britain. 3.1 million of these will lose an average of £46.48 per week as a result, 2 million will gain an average of £26.80 per week, while the remainder will experience a negligible change, or no change, in income. The analysis shows that the net impact of Universal Credit, once transitional protection ends, will be an annual income loss of around £4 billion for the 7.2 million eligible households across Britain.

Table 5.1.2: The roll-out of Universal Credit

	Number of households affected	Average weekly income change for those affected	Total yearly income reduction (£M)
Worse off under Universal Credit (after protection ends)	3,116,703	-£46.48	-£7.53
Better off under Universal Credit	2,043,832	£26.80	£2.85

Upcoming reforms

Changes outlined in the 2016 summer budget, which come into effect in April 2017, will also affect a significant number of households. Table 5.1.3 below shows how the requirement for UC claimants aged 18 – 21 to “earn or learn” after 6 months, in order to maintain support, will affect over half a million households. Moreover, the LHA cap applied to social renters and introduced in April 2019 for tenancies starting after April 2016, will affect almost 600,000 social tenant households by an average of over £40 per week.

Table 5.1.3: Number of households affected by 2 reforms implemented in April 2017

Reforms implemented April 2017	
Reform	Number of households affected
18-21 year olds and housing support (under UC)	192,515
18-21 years olds and Earn or Learn	580,410

The impact of the government's mitigation measures

The mitigation measures being introduced by the government, namely the progressive increase in the National Living Wage to a projected £8.80 per hour and the rise in the personal tax allowance to £12,500 by 2020, will make 2.5 million working-age households better off by an average of £24.23 per week in 2020.

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Table 5.1.4: The impact of mitigating measures for people in work

Measure	Number of households affected	Average weekly income change for those affected	Total yearly income reduction (£M)
National Living Wage & rise in tax allowance	2,449,291	£24.23	£3.09
30 hrs free childcare for 3-4 year olds	787,013	N/A	N/A

However, these measures do not necessarily benefit those that need it the most. 4.8 million low-income households will see no net benefit from the measures, and the analysis shows that in many cases households that need mitigation will not benefit at all. Of the 2.4 million households that are better off due to the measures above, 0.9 million are households that are actually gaining from the transition to UC already. Similarly, of the 1.9 million households that are currently earning below £8.80 per hour, and who would therefore benefit from the increase in the National Living Wage, only around half will experience an income loss by 2020 that would require mitigating support. In other words, these measures do not necessarily benefit low-income households, or those hardest hit by welfare reforms.

5.2 The cumulative impact of welfare reform

The cumulative impact on low-income households combines the impact of each of the reforms above with the mitigation measures put in place. The main welfare reforms implemented by November 2016, up to and including the implementation of the lower benefit cap, have cost the average working-age household £23.02 per week

Figure 5.2.1: Impact of upcoming welfare reforms on working-age households

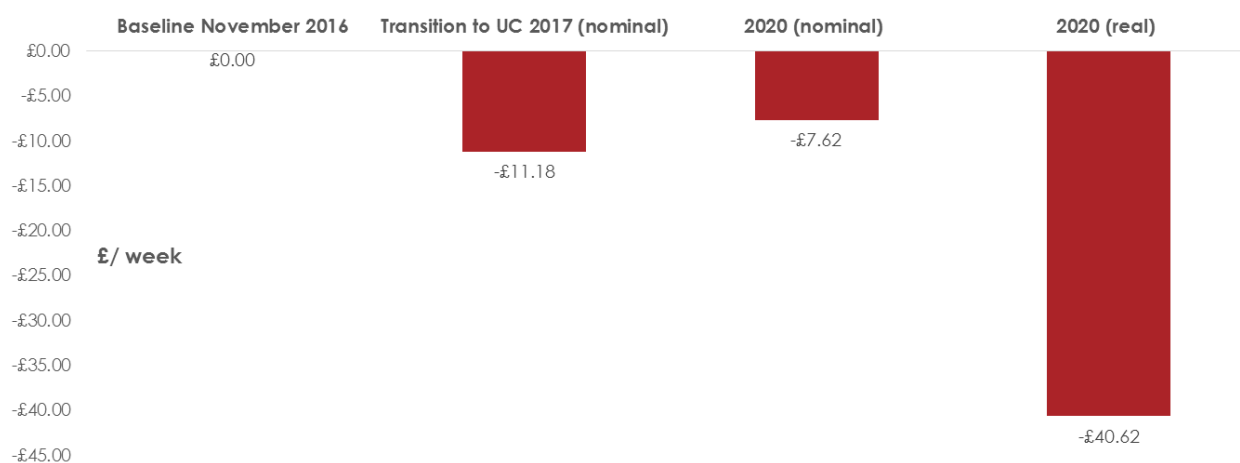


Figure 5.2.1 above shows the progressive monetary impact of rolling out Universal Credit; the government's mitigation measures; inflation, and private rent growth.

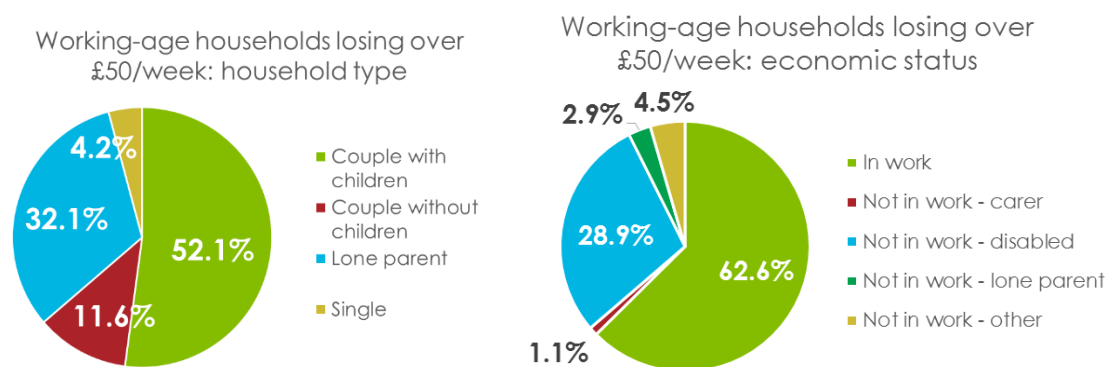
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The transition to Universal Credit will cost low-income households £11.18 per week. This is reduced slightly to a loss of £7.62 per week as a result of the positive impact of the government's mitigation measures. However, when expected inflation and private rent price growth is factored in, the average income loss per household is much greater, at £40.62 per week. In other words, the impact of freezing benefits rates through to 2020, instead of uprating them to take account of rising living costs, is significant, equivalent to £33.00 per week loss in income per household by 2020.

5.3 High impact households: implications for local government

Our analysis shows that 2.14 million working-age households, 1.34 million of whom are in work, will experience a real income loss greater than £50 per week by 2020. As Figure 5.3.1 shows, almost two thirds (63%) of working-age households losing over £50 per week are in work, whilst over 84% are households with children, either lone parents or couples with children.

Figure 5.3.1: Characteristics of working-age households most impacted by welfare reform



The broken link between LHA rates and private rental prices

Affordability of private housing will have a significant impact on household finances by 2020. The freezing of the LHA cap in Great Britain, announced in 2015 and in place through to 2020, is driving a growing disconnect between the rents households have to pay and the amount of support they will receive through Housing Benefit or Universal Credit.

Figure 5.3.2 illustrates that rents in 2020 are expected to be over 5% higher than in 2016, whilst the LHA rate, the maximum level of Housing Benefit that a household can receive depending on its Broad Rental Market Area, will remain unchanged. This will make housing unaffordable for many, and will worsen the impact of welfare reform on households within the private-rented sector.

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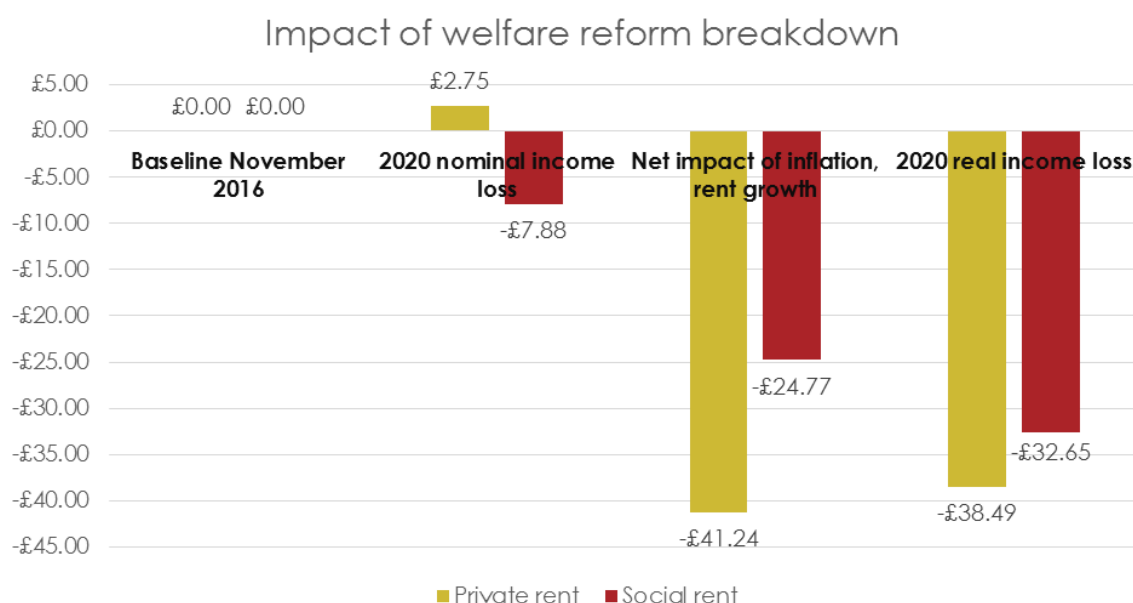
Figure 5.3.2: Projected rent price growth in the private-rented sector, social-rented sector & LHA rate freeze

No. bedrooms	Average change in private rent 2016-2020 (£), GB	Change in LHA rate 2016-2020 (£), GB	Average change in social rent 2016-2020 (£), GB
1 bedroom	£6.78	£0.00	-£1.55
2 bedrooms	£6.82	£0.00	-£1.35
3 bedrooms	£6.75	£0.00	-£1.41
4 bedrooms	£8.83	£0.00	-£1.83
5 bedrooms	£10.29	£0.00	-£2.39

No. bedrooms	Average change in private rent 2016-2020 (%), GB	Change in LHA rate 2016-2020 (%), GB	Average change in social rent 2016-2020 (%), GB
1 bedroom	5.3%	0.0%	-1.8%
2 bedrooms	4.9%	0.0%	-1.6%
3 bedrooms	4.8%	0.0%	-1.7%
4 bedrooms	5.4%	0.0%	-2.2%
5 bedrooms	6.6%	0.0%	-2.4%

The negative impact that the disconnect between rent cost and support is having on low-income households in the private-rented sector is illustrated in Figure 5.3.3 below. In terms of nominal incomes, working-age households in private rent would gain slightly in 2020. However, once the effects of inflation and rent increases are taken into account, the financial outlook for these households is reversed. In other words, considering real incomes by 2020, households in private-rented accommodation will face an average income loss of £38.49 per week.

Figure 5.3.3: Breakdown of 2020 income loss due to welfare reform, social rent vs. private rent



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The under-occupation charge was introduced ostensibly as a means to bring parity between private and social-rented sectors. However, the freezing of LHA rates means that private-rented properties will become increasingly unaffordable, and private tenants will experience a greater income reduction than those in the social-rented sector by 2020.

Households living in the social-rented sector are impacted less by inflation and rent price growth. This is to be expected, as in England social rents will fall 1% year-on-year to 2020, in line with government policy. It is important to bear in mind, however, that the social-rented sector is also coming under pressure. The 1% year-on-year rent reduction means that Housing Associations and/or councils are often forced to find savings elsewhere, and 'affordable rents' for social properties rented by Housing Associations, where rents are typically set at 80% of the market rate, are increasingly unaffordable for many.

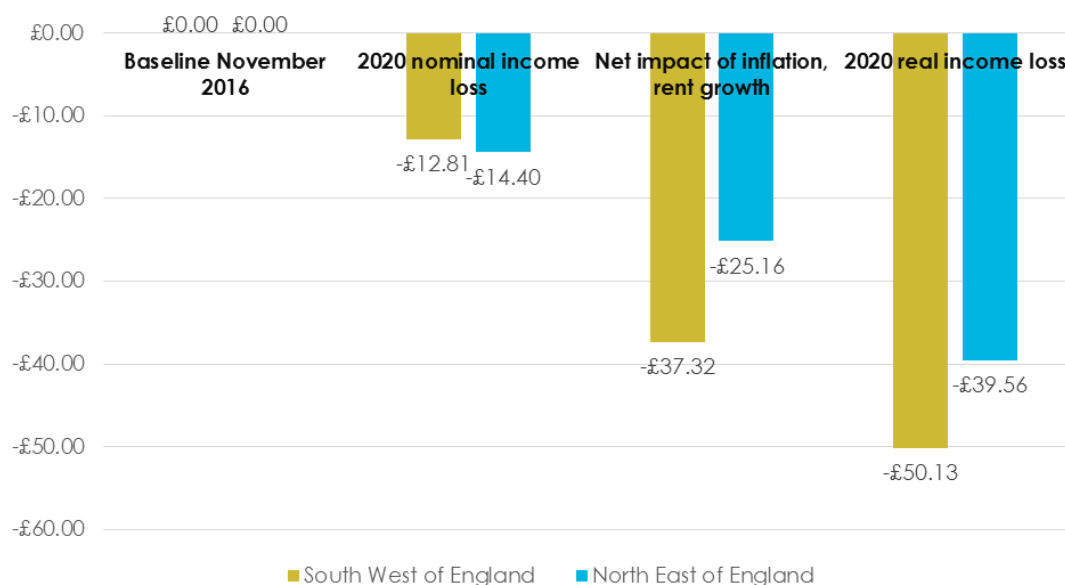
For many households, cheaper council housing is becoming the "last resort", and the short supply of these in many local authority areas often means that households are forced to move somewhere more affordable, or be placed in temporary accommodation. Housing families in temporary accommodation is costly for local authorities, with the average cost of a homelessness application estimated by Croydon Council and Birmingham City Council to be in the region of £8,000. In many cases, these households face a range of problems and often struggle to cover rental payments. Research by Policy in Practice across 180,000 low-income working-age households shows that the average gap between housing benefit and rent for families in temporary accommodation is £1,704 per year. For families affected by the benefit cap this more than doubles to £5,520 per year. Local authorities are left plugging this gap, as households cannot make up the shortfall.

In addition, the private-rented sector is growing significantly as a proportion of all households in receipt of housing benefit. According to figures from the Department for Work and Pensions¹¹, in 2007/2008 23% of all housing benefit claimants were private renters. This percentage had increased to 33% by 2013/2014. Conversely, the share of households in the social-rented sector had fallen from 77% to 67% in the same period. This trend is likely to continue, as the supply of affordable social housing is not expected to increase so more low-income families are pushed into the private sector. In other words, not only are private renters more likely to face affordability problems in the next few years, they will also constitute a growing proportion of households on housing benefit.

On a local level, the affordability crisis facing people in the private-rented sector will be particularly pronounced in areas that are experiencing low wage growth alongside high private rent growth. In the South West of England for example, a high rent growth/low wage growth region, our analysis reveals that the average nominal income loss due to welfare reform is similar to that of the North East of England, a low rent growth, low wage growth region. However, when inflation and rent price growth information is factored in to arrive at the "real" scenario, a household in the South West would face a significantly higher income loss than one in the North East of England, see Figure 5.3.4.

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Figure 5.3.4: Breakdown of 2020 income loss due to welfare reform, SW v NE



Long-term Government solutions to private rental problems would need to be considered within a wider context of private landlord attitudes, overarching national policy and structural issues that put pressure on prices in this sector. These issues include levels of house building and the proportion of housing available through the social rented sector. For example, an increase in the supply of affordable housing may reduce the pressure on private sector rents and so ease the shortfall between rent and housing support. Until this happens, however, LHA rates must reflect the trends in the market if housing for millions of low-income households is to be kept affordable.

In-work poverty and low productivity: highly impacted families

Secondly, for many households, being in work does little to soften the blow of welfare reform. Whilst in-work households lose on average £47.05 per week by 2020, the figure for working-age, out-of-work households is considerably lower at £35.36. Over 84% of in-work, high-impact households have children, either lone parents or couples with children, and approximately two-thirds of households are not receiving any form of housing support, with the vast majority in receipt of either working tax credits or child tax credits. This illustrates that a significant proportion of households highly affected by welfare reform are families that are in work but reliant on some benefits in order to get by, in many cases, ordinary working families.

Table 5.3.6: Changes to work allowances under Universal Credit

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

The reduction in support to working households is largely due to Universal Credit being a less generous benefits system, especially for families previously relying on tax credits. Universal Credit was introduced with the aim of improving work incentives for low-income families. However, since it was first rolled out in 2013, the government has introduced a series of cuts and changes. Chief among these are the reductions to work allowances implemented in April 2016, which significantly limit the amount working households can earn before their Universal Credit begins to be tapered away. Table 5.3.6 above shows that lone parents and couples with children will experience significantly lower work allowances under Universal Credit than originally conceived. The recent reduction in the taper rate from 65% to 63% announced in the 2016 Autumn Statement only partially offsets the effects of these cuts. A total of just under 2 million households with children will face a fall in their disposable income once they transition to Universal Credit.

Within a national context of record low unemployment, this suggests that worklessness is no longer the biggest challenge for low-income households in Britain. Households receiving in-work benefits will experience similar, if not even greater, financial difficulties than out-of-work households by 2020. Strengthening work incentives under Universal Credit while investing in in-work progression programmes should be the focus of the government to tackle the issue of in-work poverty and improve productivity in the British workforce more broadly. At the same time, benefit policy should be considered within overarching national structures that result in high rents and low wages.

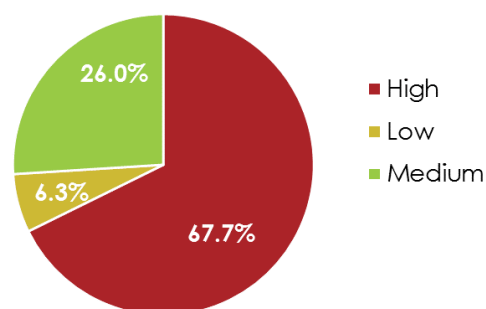
Local support: more is needed to tackle barriers to work

Thirdly, the analysis has identified a group of households highly impacted by welfare reform and likely to require additional attention and support. These are mostly households facing high barriers to work, defined as falling under two or more of the following categories: disabled household; lone parent or 2-earner household; carer household; household with young children. This requires a discussion around the type and level of support that these households require from local authorities, and whether programmes such as the Work and Health Programme will provide this.

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800,000 households identified by the analysis are highly impacted by welfare reform and out of work. Figure 5.3.8 shows how over two thirds of these face significant barriers to employment. The most common barrier observed is disability or incapacity, with over three quarters of these 800 thousand households containing a person in receipt of DLA, PIP or ESA. In light of this, there are questions around the nature and type of support available, and the extent to which local government is currently able to support these highly impacted but particularly “hard to help” households. Disabled people often find it harder to access employment, and local government will often require additional resources in order to effectively support households to overcome these difficulties. The recent LGA submission to the Improving Lives Green Paper¹², for example, makes reference to the fact that jobseekers in receipt of ESA, an incapacity benefit, were less likely to find a job through the Work Programme than non-disabled jobseekers.

Figure 5.3.8: Working-age households, out of work and losing over £50/week by 2020, by barriers to work



Furthermore, there are questions around whether local authorities have the sufficient funds with which to help highly-impacted households facing high barriers to work. The Discretionary Housing Payment (DHP) fund for 2017/2018, for example, is dwarfed by the expected annual income loss associated with the recently implemented benefit cap at £20,000/£23,000 which is expected to be £446 million after full phase out. In the South East of England, the income loss due to the benefit cap is over five times greater than the corresponding DHP fund. If income loss associated with other reforms such as the LHA shortfall were included, the discrepancy between discretionary funding and the needs of households would be even greater.

While it is true that DHPs are not intended to help all households struggling with housing payments, it is often the only option remaining for highly-impacted households facing high barriers to work. As such, in order for DHPs to be sustainable, local authorities will need the resources to help these households work toward greater independence. Funding from the government’s Work and Health programme, plus the doubling of free childcare hours to 30 hours per week for households working full-time, will go some way towards this. However, there will inevitably remain a segment of the population requiring high levels of support and intervention to return to work, and this support is not available under the Work and Health programme as currently designed.

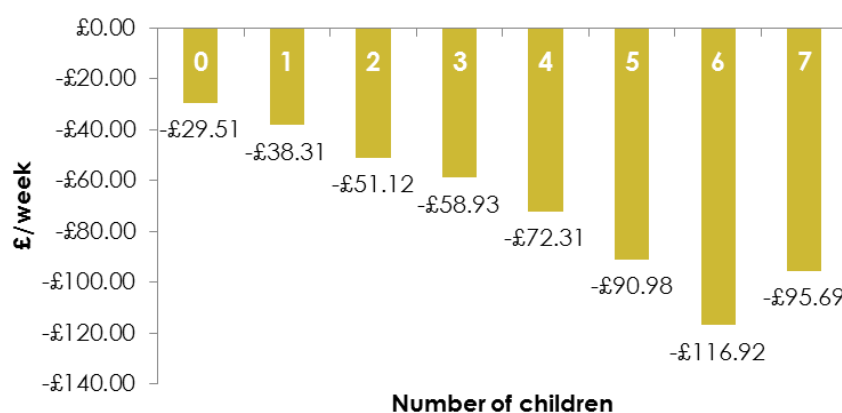
More fundamentally, DHPs are transitional and aim to plug the shortfalls that arise as a result of recent welfare reform. However, unless there is a policy change, these shortfalls will persist, whether DHPs are there to cover them or not.

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Vulnerable households: impact on families and the disabled

The fourth point is the pronounced impact of welfare reform seen on particularly vulnerable groups, namely large families and households containing a person with a disability. Of the 1.34 million working-age households in work and highly impacted by welfare reform, 84% are either couples with children or lone parents. This includes a significant number of households with a high number of children, over one fifth of households have 3 or more children. Perhaps unsurprisingly, the income loss associated with welfare reform is greater the larger the family. As Figure 5.3.9 shows, for a working-age household with 6 children the average income loss stands at £116.92 per week, whereas for a household with no children the figure is less than a third of this at £29.51.

Figure 5.3.9: Average weekly income loss due to welfare reform in 2020, by number of children



Furthermore, it is observed that households containing a person with a disability of working-age are, on average, more affected by welfare reform than other households. 42.4% of households containing a person with a disability face an income loss due to welfare reform of at least £50 per week by 2020 (Figure 5.3.10). Moreover, the average household containing a person with a disability under Universal Credit will be worse off in 2020 by £51.47 per week, whilst for other households this figure is significantly lower at £35.82.

Figure 5.3.10: Working-age disabled households, income loss by 2020

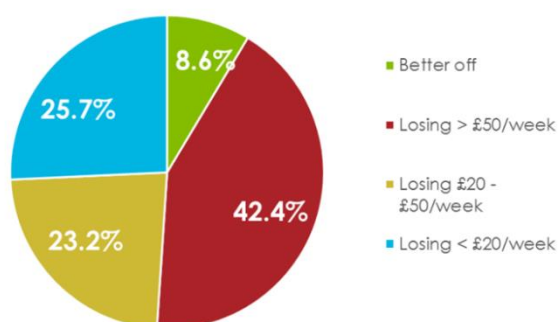
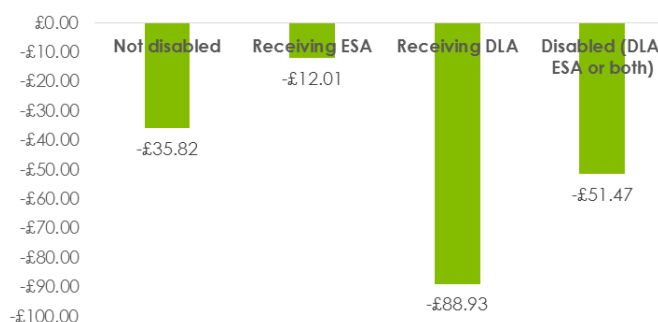


Figure 5.3.11: Income loss by 2020: working age disabled vs. non-disabled



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Households in receipt of Disability Living Allowance (DLA) or Personal Independence Payment (PIP) exclusively are much more negatively affected than households containing a person in receipt of Employment and Support Allowance (ESA). This is largely due to the loss of various disability premiums under Universal Credit, which will mean households containing a person in receipt of DLA or PIP, who is not deemed capable of work, losing hundreds of pounds per month.

Local government should take into consideration how these vulnerable groups are affected when developing support strategies and allocating discretionary funding. More broadly, it is important to consider the impact income loss to this group could have on local services including social care or children's services, which are in many cases already stretched to capacity. The future scenario, backed by this analysis, with households containing a person with a disability and families with children hardest hit by welfare reform, will increase already stretched local authority support services.

6. CONCLUSIONS AND RECOMMENDATIONS

This report sets out the principal elements of welfare reform, in terms of both previous and upcoming reforms, and assesses the impact on low-income households across Britain. The analysis shows a very complex picture: welfare reform affects different types of households in very different ways. The government's mitigation measures have some impact but do not reach all households in need, and employment does not seem to be the answer for a significant number of low-income households in Britain. The average working-age household will be on average £40.52 per week worse off by 2020 as a result of welfare reform, while a total of 2.14 million working-age households, more than half of which are in work will be facing losses of over £50 per week.

Four key points of particular relevance to local government are as follows:

1. Private tenants are heavily affected by welfare reform in terms of real income loss, due to the disconnect between LHA rates and private rent price growth.
2. Working households in receipt of tax credits are particularly likely to be highly affected by welfare reform, largely due to the cuts to work allowances under UC.
3. Over two thirds of households highly affected by welfare reform and in receipt of out-of-work benefits face high barriers to work. This requires consideration of the amount and type of local support that local authorities are able to provide.
4. Certain cohorts, such as families with children and households containing a person with a disability, especially those in receipt of DLA/PIP, are particularly affected. Some of these households are likely to be unable to move into work, or to better paid work.

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. Councils are under pressure as even "affordable" social rents become unaffordable for many, and council homes are a last resort. Pressures in both the private-rented and social-rented sectors will have consequences on Local Authority housing services, including the number of households in temporary accommodation. 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

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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. This report also recommends the continued devolution of employment support funding to local areas, similar to the arrangement between Greater Manchester City Council and the Treasury surrounding the devolution of Work and Health Programme funding¹³. In this way, the forms of support made available can be adapted to local contexts and needs, and those 'hardest to help' can be enrolled in programmes that are more suitable.
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.

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