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The Impact of Welfare Reform and Public Sector Spending Reductions on Low Income Households in Hampshire

Summary and Key Findings

A Bill Sargent Trust Research Project

undertaken by

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The Centre for Regional Economic and Social Research

Sheffield Hallam University

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Background

This research was commissioned by the Bill Sargent Trust in December 2010 with the aim of understanding the impact of current public sector spending reductions and welfare reform on low income households across Hampshire. The Trust which was established to commemorate one of the founders of Portsmouth Housing Association, the late Reverend Bill Sargent, carries out research on housing and related issues and seeks to influence policy with the outcomes of the research.

Introduction

A period of major political and fiscal change began in Britain following the May 2010 election. A key aim of the new Coalition Government is to implement a budget deficit reduction plan in the wake of a world recession. One of the central elements underpinning the proposed public sector reductions was major reform of the welfare and benefits system. The stated aim is for a greater degree of 'fairness' by reducing the deficit while protecting the vulnerable. The proposed changes for the welfare system are however going to have an impact upon a wide range of benefit claimants, including Housing Benefit (HB) recipients.

This report seeks to highlight the number and characteristics of people in Hampshire who will be affected by current welfare reforms and public sector spending reductions. It provides a detailed picture of where pockets of deprivation, low income households and benefit claimants exist across all thirteen districts in "Hampshire" including the unitary authorities of Portsmouth and Southampton. The main changes in the welfare system concerning key groups of out-of work benefit claimants and housing benefit claimants are summarised, and the potential number of claimants who may be affected is assessed. The likely scale of proposed public sector job losses in the Hampshire region is also quantified.

Profile of Hampshire

Although Hampshire is located in one of the more affluent parts of Britain, numerous pockets of multiple deprivation exist within the thirteen districts that comprise Hampshire as a whole. In broad terms, the analysis of official data highlights a number of key features of the Hampshire economy:

- overall Hampshire has proved to be fairly resilient, so far weathering the economic recession rather better than the wider South East region and England as a whole;
- however, despite high average household incomes many districts have a wide spread across income bands, with all but one containing neighbourhoods where more than a quarter of households are below the official poverty line;
- approximately 40,000 of the Hampshire population live within the 10 per cent most deprived areas of England, with major concentrations in the urban areas in the south;

- those districts already with higher out-of-work benefit claimant rates saw faster increases during recent recession years;
- Gosport, Southampton, Portsmouth and Havant consistently had the highest out-of-work benefit claimant rates in Hampshire during this period, and in 2010 their levels all exceeded the regional average;
- severely deprived neighbourhoods in these districts are likely to be affected by the welfare reforms and expenditure reductions, however the impact will be just as keenly felt by individuals on benefits or in need of support from local services who live in wealthier parts of Hampshire.

Incapacity Benefits Claimants

For those on 'inactive' benefits, such as Incapacity Benefit (IB), Severe Disablement Allowance (SDA) or Employment and Support Allowance (ESA), the on-going reforms and future introduction of Universal Credit (UC) represent a radical change. In the first instance all those on IB and SDA will be transferred onto ESA. The tougher medical test to access this benefit means that some claimants will be moved to other 'active' benefits or will lose entitlement to benefit entirely. In a major departure from the current system, all of those on contribution based incapacity benefits will eventually have their entitlement restricted to one year. After this point claimants will only be eligible to means tested benefits.

It is estimated that the transfer of those on IB or SDA to ESA is likely to lead to:

- 30 per cent of claimants being found **fit for work**;
- in Hampshire as a whole this equates to **11,870 claimants no longer eligible for incapacity benefits**;
- of these 70 per cent will be able to move onto other benefits and for most increased conditionality will apply;
- 30 per cent or **3,560 claimants in Hampshire will no longer be eligible for any benefits** under these changes.

Time-limiting Contribution Based ESA to a year will mean that large numbers of claimants on sickness related benefits will lose entitlement to any benefit as a consequence of means testing:

- of those IB/SDA claimants in Hampshire transferred to contribution based ESA and placed in the Work Related Activity Group, an estimated **7,720 claimants will lose entitlement to Contribution Based ESA after a year**;
- of these, an estimated 60 per cent will be able to claim income-related ESA or UC, but **3,100 claimants in Hampshire are unlikely to be able to claim any benefits**;
- of those already on Contribution Based ESA, **2,890 claimants will lose their entitlement after a year**;
- of these, 60 per cent will be able to claim income-related ESA or UC, but **1,160 claimants in Hampshire would no longer be eligible for any benefits**.

In summary, the impact of the transfer of IB/SDA claimants to ESA and time limiting Contribution Based ESA to one year are likely to mean that an estimated 7,820 claimants, equivalent to **15 per cent of the current 50,590 incapacity benefits claimants in Hampshire, may eventually lose entitlement to any benefits.**

Jobseeker's Allowance Claimants

Across Hampshire JSA claimant rates have remained relatively low, staying generally in line with the average for the South-East and below the figure for England as a whole. Indeed, several districts are amongst those with the lowest rates in the country, with only one (Portsmouth) matching the national average. That said, **the effect of the recent recession was the addition of 10,000 Hampshire residents to the ranks of the unemployed.** Most claims are fairly short lived, with three-quarters of claims lasting for less than six months.

The JSA claimant rate in Hampshire for 18-24 year olds is 3.5 per cent, higher than the 2.3 per cent amongst the working age population. However, this is still lower than is seen amongst 18-24 year olds in the South East and nationally (4.4 per cent and 6.3 per cent respectively).

In general, those already claiming JSA will experience the least radical changes to their benefits as a consequence of the introduction of UC. This group already faces high levels of conditionality and job activation in order to receive benefits. The main change to this group will be the ability of the Jobcentre to impose **sanctions**, including the withdrawal of benefit if the claimant does not comply with the level of conditionality expected of them.

As the current package of welfare reform works its way through the system, some of those currently on inactive benefits such as IB, SDA, ESA and Income Support (IS) for lone parents will lose entitlement to their current benefits and instead be moved onto JSA (or UC). They too will then be subject to **increased conditionality, active job search and sanctions.** Some will be supported into work via the Work Programme. However, for others facing multiple disadvantage and long term detachment from the labour market the prospects of returning to work are less positive. People in this position in some senses remain at the 'back of the queue' when looking for jobs. They are more likely to eventually become, or remain, long-term unemployed. One consequence of welfare reform may therefore be an increase in the overall number of claimants on JSA and the long term unemployed unless labour demand rises sufficiently.

Lone Parents on Income Support

There has been a relatively rapid tightening of the rules for eligibility to access Income Support for lone parents in recent years. This has seen the age of the youngest child reduced from 16 to the current age limit of seven. The plans are to continue to reduce the age limit further. This means some claimants will be subject to greater conditionality as they are moved to 'active' benefits such as JSA or in time UC.

For lone parents in Hampshire increased conditionality will mean:

- an estimated **1,700 lone parents** per year who receive IS in Hampshire will no longer be able to claim this benefit, as eligibility becomes restricted to those whose youngest child is aged five or under rather than seven as at present;
- of these, an estimated **700 to 900 will no longer claim any out-of-work benefit**;
- UC will **increase conditionality for lone parents with a child aged over one**, and claimants will be expected to stay in touch with the labour market.

Housing Benefit Reform

Together, the changes to HB and the Local Housing Allowance (LHA) currently being introduced or pending, represent a wide-ranging overhaul of the current regime of supporting the housing costs of low income households. The timing of all of the impacts of LHA and HB reform is quite difficult to assess. During the course of this study the Government announced a nine month transition period for existing LHA claimants from the point of renewal of the HB claim. The announced changes include:

- a cap on total benefits (including HB) that any household can receive benchmarked at the national average household income;
- LHA set to the 30th percentile of market rents instead of the median as currently
- caps on the maximum LHA for each property type and the abolition of a five-bedroom rate
- increasing the age limit for the shared room rate from 25 to 35

Indications are that with respect to the reform of LHA, all Private Rented Sector (PRS) tenants receiving support in Hampshire will be potentially be affected to some degree by the changes:

- just under **33,000 HB claimants within the private rented sector** in Hampshire are likely to be affected in some way by the proposed changes to the LHA;
- this will start to impact on new claimants immediately from April this year;
- this includes over **16,000 households** expected to see a reduction in their HB payments due to LHAs now being set to the 30th percentile of market rents;

- **over 10,000 households** will be affected by the removal of being allowed to keep up to £15 of LHA if rent is below the LHA level;
- there are **80 households in Hampshire** in receipt of HB, resident within 5-bedroom properties and likely to be affected by the abolition of the 5-bedroom rate;
- the cap on HB and total benefit entitlement may affect up to **1,000 households** in Hampshire.

While it is possible to estimate the number of households affected financially with regard to some individual measures, it is a lot more difficult to anticipate the potential response of households and tenants to these reforms. The Government impact assessments all acknowledge that at the moment **they cannot account for behavioural responses to these measures from claimants or landlords**. There are also unknown impacts associated with the interaction between the HB reform and changes to other working age benefits.

Recent government impact assessments and independent research have predicted a number of potential scenarios. Those likely to affect claimants in Hampshire include:

- reductions in household incomes for some;
- increased demand for smaller properties as claimants look to downsize;
- increased levels of overcrowding;
- increased incidences of rent arrears, evictions and homelessness;
- increased demand for SRS accommodation as households are priced out of the PRS, and an increased number of applications for SRS housing;
- likelihood of some families having to relocate away from social networks of informal support;
- more intense concentrations of poverty and disadvantage in areas of relatively cheaper and poorer quality PRS accommodation;
- increased demand for Discretionary Housing Payments;
- increased demand for debt counselling services, homelessness and housing options services.

All these issues could be further accentuated by reluctance of PRS landlords to let to or re-negotiate rents with HB claimants. These effects are likely to be unevenly distributed across Hampshire. The introduction of these complex and wide-ranging measures therefore necessitates the need for:

- extensive local and sub-regional monitoring;
- evaluation of displacement and migration effects;
- monitoring increased demand for social housing and support services;
- further quantitative and qualitative research into the likely intentions of tenants and landlords and implications of this for particular households and areas within Hampshire.

Public Sector Job Reductions

In addition to the reform of the welfare system there will also be the very real prospect for some people in Hampshire of losing their job as a consequence to the reductions in public sector spending. If the scale of reductions across Hampshire is similar to national forecasts then:

- over **16,000 public sector jobs** may be lost;
- there may be **over 8,000 new claimants of working age benefits** if half of those who lost their jobs went on to claim benefits;
- if this occurs it will in turn lead to a rise in Housing Benefit and Council Tax Benefits claims.

The loss of jobs in the public sector will also impact on services delivered by local councils, Jobcentres, housing services, health services, education and training services or social services. Spending reductions will also reduce funding for third sector and voluntary sector organisations. This comes at a time when services delivered through Citizen's Advice Bureaux, debt counselling services and mental health charities, as well as public sector support services, are likely to see increases in demand.

For many vulnerable individuals and families, there is therefore a significant potential loss of both income and of access to advisory and support services which might help them manage the changes.

Summary

The scale of welfare reform and public sector spending reductions are substantial. Even in areas with a buoyant labour market such as Hampshire the impacts are wide ranging. They will affect those who work in the public sector, working families on low incomes, those on out-of work benefits including the unemployed, lone parents and the long term sick and disabled. The impacts will also not be restricted to those who live in social housing but will also be felt by those in the private rented sector and owner occupation.

Whilst some of the changes are imminent, the entirety of the changes will take several years to work through the system. The impacts are unlikely to be fully realised in the time of the current Coalition government. However, the combined effects of the proposed changes seem likely to have potentially severe consequences for the vulnerable and those who may not be able to re-integrate into the workforce easily or increase currently low incomes. For some, increased poverty and hardship are likely to be a real possibility as a consequence of the changes about to take place. Ultimately, a subsequent increase in homelessness and increases in demand for social housing and support services do not seem unrealistic future scenarios to consider and plan for.

Further Details

The Trust operates with close support from **First Wessex Housing Association**. The Trustees are Mark Mitchell, Kirsty Rowlinson, Ben Stoneham and Nigel Baldwin.

For further information about **The Bill Sargent Trust** and copies of this report please go onto our website:

www.bstrust.org.uk/

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