

# The impact of welfare reform in Hampshire

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Research for Action





# The Bill Sargent Trust

## Research for Action

Registered Charity No: 1042611

### **Background**

*The Bill Sargent Trust carries out research on housing and related issues. It seeks to influence policy with the outcomes of the research. The Trust was established to commemorate one of the founders of Portsmouth Housing Association, the late Reverend Bill Sargent.*

*Previous research projects have covered:*

- *Counting the Cost: Advice Services and the Public Spending reductions*
- *Forces For Good: local benefits from surplus military land*
- *The Impact of Welfare Reform and Public Spending Reductions on Low Income Households in Hampshire*
- *In the Public Interest ? Community Benefits from Ministry of Defence Land Disposals*
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- *Living in Temporary Accommodation in Portsmouth;*
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- *Community Development on Rowner Estate Gosport;*
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- *The Needs of Asylum Seekers in Portsmouth;*
- *Financial Exclusion among Housing Association Tenants.*

*The Trust operates with close support from First Wessex Housing Association. The Trustees are Mark Mitchell (Chair), Kirsty Rowlinson, Nigel Baldwin, Dina Gojovic and John Mohan.*

*The Trust welcomes proposals for local research projects on housing, homelessness, poverty and related issues. The Trust is also grateful for financial contributions to its funds.*

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# Glossary

AA	Attendance Allowance
BME	Black and minority ethnic
BRMA	Broad Rental Market Area
CB	Child Benefit
CIH	Chartered Institute of Housing
CPI	Consumer Price Index
CRESR	Centre for Regional Economic and Social Research
CTB	Council Tax Benefit
CTC	Child Tax Credit
CTR	Council Tax Reduction
DCLG	(Department of) Communities and Local Government
DDA	Disability Discrimination Act
DHPs	Discretionary Housing Payments
DLA	Disability Living Allowance
DPDPs	Direct Payment Demonstration Projects
DWP	Department for Work and Pensions
EA	Equality Act 2000
ESA	Employment and Support Allowance
HB	Housing Benefit
HCC	Housing Cost Contribution
HCP	Healthcare Professional
HMO	Housing of Multiple Occupation
HRP	Household Reference Person
IB	Incapacity Benefit
IMD	Index of Multiple Deprivation
IS	Income Support
JSA	Jobseeker's Allowance
LAs	Local Authorities
LHA	Local Housing Allowance
LSOAs	Lower Super Output Areas
LSVT	Large scale voluntary transfer
NHF	National Housing Federation
NDD	Non-dependant deductions
NOMIS	National Online Manpower Information System
NPI	New Policy Institute
ONS	Office for National Statistics
PIP	Personal Independence Payment
PRS	Private Rented Sector
RPI	Retail Price Index
RSLs	Registered Social Landlords

RTB	Right to Buy
SAR	Shared Accommodation Rate
SDA	Severe Disablement Allowance
S(E)A	Supported exempt accommodation
SRS	Social Rented Sector
TCs	Tax Credits
UC	Universal Credit
WCA	Work Capability Assessment
WRAG	Work Related Activity Group
WTC	Working Tax Credit

# Contents

<b>Executive Summary</b> .....	<b>1</b>
<b>Introduction</b> .....	<b>7</b>
Aims .....	7
The socio-economic context in Hampshire .....	9
The welfare reform agenda.....	14
Universal Credit.....	16
Scope of the reforms included in this report.....	17
<b>Housing Benefit – Local Housing Allowance</b> .....	<b>19</b>
Introduction .....	19
The private rented sector in Hampshire.....	20
Housing Benefit claimants in the private rented sector .....	24
Local Housing Allowance.....	28
Overview of the reforms to LHA.....	29
National impact of LHA reforms .....	30
Impact of LHA reforms in Hampshire.....	32
Summary.....	39
<b>Housing Benefit - Under-occupation</b> .....	<b>40</b>
Introduction .....	40
Housing Benefit claimants in the social rented sector .....	41
Overview of the under-occupation of social housing reforms .....	43
National impact of under-occupation of social housing reforms .....	45
Impact of under-occupation of social housing reforms in Hampshire .....	47
Direct Payments to tenants.....	50

Summary.....	51
<b>Non-dependant deductions.....</b>	<b>52</b>
Introduction .....	52
Overview of non-dependant deduction reforms .....	53
National impact of up-rating non-dependant deductions .....	54
Impact of up-rating non-dependent deductions in Hampshire .....	55
Summary.....	57
<b>Household benefit cap.....</b>	<b>58</b>
Introduction .....	58
Overview of the benefit cap .....	59
National impact of benefit cap .....	60
Impact of benefit cap in Hampshire .....	61
<b>Council Tax Benefit.....</b>	<b>64</b>
Introduction .....	64
National impact of Council Tax Benefit reforms .....	65
Impact of Council Tax Benefit reforms in Hampshire .....	66
Summary.....	67
<b>Incapacity benefits.....</b>	<b>68</b>
Introduction .....	68
Overview of the reforms to incapacity benefits.....	69
National impact of incapacity benefits reforms.....	70
Impact of incapacity benefits reforms in Hampshire.....	71
Summary.....	73
<b>Disability Living Allowance .....</b>	<b>75</b>
Introduction .....	75
Overview of the replacement of DLA by PIP .....	76
National impact of the DLA reforms .....	76

Impact of DLA reforms in Hampshire.....	77
Summary.....	80
<b>HMRC reforms and up-rating of benefits .....</b>	<b>81</b>
Introduction .....	81
Overview of Tax Credit reforms .....	81
Impact of Tax Credit reforms in Hampshire .....	82
Overview of Child Benefit reforms .....	85
Impact of Child Benefit reforms in Hampshire.....	86
The one per cent up-rating of working age welfare benefits.....	89
Summary.....	91
<b>The overall impact of welfare reforms in Hampshire.....</b>	<b>92</b>
Summary.....	98
<b>Appendix: .....</b>	<b>99</b>

# Tables

Table 1.1: Local authority level summary of IMD ranks .....	11
Table 1.2: Percentage of LSOAs in Hampshire districts within 20 per cent most deprived LSOAs in England, IMD 2010 .....	13
Table 2.1: Tenure in Hampshire districts, 2011 .....	21
Table 2.2: Private rented sector households by household type - numbers.....	22
Table 2.3: Private rented sector households by household type - per cent.....	23
Table 2.4: Private rented sector ethnicity by Household Reference Person .....	24
Table 2.5: Housing Benefit claims by tenure, February 2013 .....	25
Table 2.6: Housing Benefit claimants as a percentage of all households in each tenure, February 2013.....	26
Table 2.7: Housing Benefit claimants in Hampshire by tenure, November 2008 - February 2013.....	27
Table 2.8: PRS HB Claimants in Hampshire, February 2013 .....	28
Table 2.9: BRMAs covering Hampshire districts.....	33
Table 2.10: Change in LHA rates for BRMAs covering Hampshire, March 2011-August 2013 .....	34
Table 2.11: Impact of reforms to Housing Benefit: Local Housing Allowance .....	36
Table 3.1: Social rented sector households by household type - numbers .....	41
Table 3.2: Social rented sector households by household type - per cent .....	42
Table 3.3: Social rented sector ethnicity by Household Reference Person.....	43
Table 3.4: Impact of reforms to Housing Benefit: Under-occupation ('bedroom tax') .....	48
Table 4.1: Impact of reforms to non-dependant deductions in Hampshire .....	56
Table 5.1: Impact of the household benefit cap in Hampshire .....	62
Table 6.1: Impact of reforms to Council Tax Benefit in Hampshire .....	66
Table 7.1: Impact of reforms to Incapacity benefits in Hampshire .....	71



Table 7.2: Economic activity and inactivity in Hampshire, percentage of 16-74 year olds....	72
Table 8.1: Impact of reforms to Disability Living Allowance in Hampshire .....	78
Table 9.1: Impact of reforms to Tax Credits in Hampshire.....	83
Table 9.2: Impact of reforms to Child Benefit in Hampshire.....	87
Table 9.3: Impact of one per cent up-rating in Hampshire .....	90
Table 10.1: Overall impact of welfare reforms in Hampshire .....	93
Table 10.2: Distribution of financial loss across LSOAs in Hampshire.....	95
Table 10.3: Percentage of overall impact for each welfare reform measure, districts in Hampshire .....	96
Table A.1: Overall impact of welfare reform, districts in Hampshire, £million per annum .....	99
Table A.2: Overall impact of welfare reform, districts in Hampshire, £ per working age adult per annum.....	100

## Figures

Figure 1.1: Hampshire: City Councils and Shire Districts .....	8
Figure 1.2: Distribution of IMD in Hampshire, by LSOA.....	10
Figure 1.3: Index of Deprivation ranks, LSOAs in Hampshire, 2010.....	12
Figure 2.1: DWP Housing Benefit expenditure, 1997/98 to 2011/12.....	20
Figure 2.2: Impact of Housing Benefit reform to the LHA system in Hampshire, by LSOA ..	38
Figure 3.1: Impact of Housing Benefit under-occupation reform in the SRS in Hampshire, by LSOA .....	49
Figure 7.1: Claimants of incapacity benefits in Hampshire, 1999-2013 .....	69
Figure 7.2: Impact of the incapacity benefits reforms in Hampshire, by LSOA.....	74
Figure 8.1: Impact of DLA reforms in Hampshire, by LSOA.....	79
Figure 9.1: Impact of Tax Credits reforms in Hampshire, by LSOA .....	84
Figure 9.2: Impact of Child Benefit reforms in Hampshire, by LSOA .....	88
Figure 10.1: The overall impact of welfare reform in Hampshire, by LSOA.....	94

# Executive Summary

## 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 LSOAs 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

- 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 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-dependents 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: **670 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

- Incapacity benefits reforms involve the replacement of IB and related benefits by 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 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 - 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

- 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.

# Introduction

## Aims

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. The stated aims of the government are to provide a 'fairer', affordable welfare system fit for the 21<sup>st</sup> century which provides long term support for the most vulnerable and a transitional support system for individuals and families during temporary periods of hardship. 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. The proposed changes are therefore going to have a very real impact upon a wide range of benefit claimants, including Housing Benefit recipients, across Great Britain.

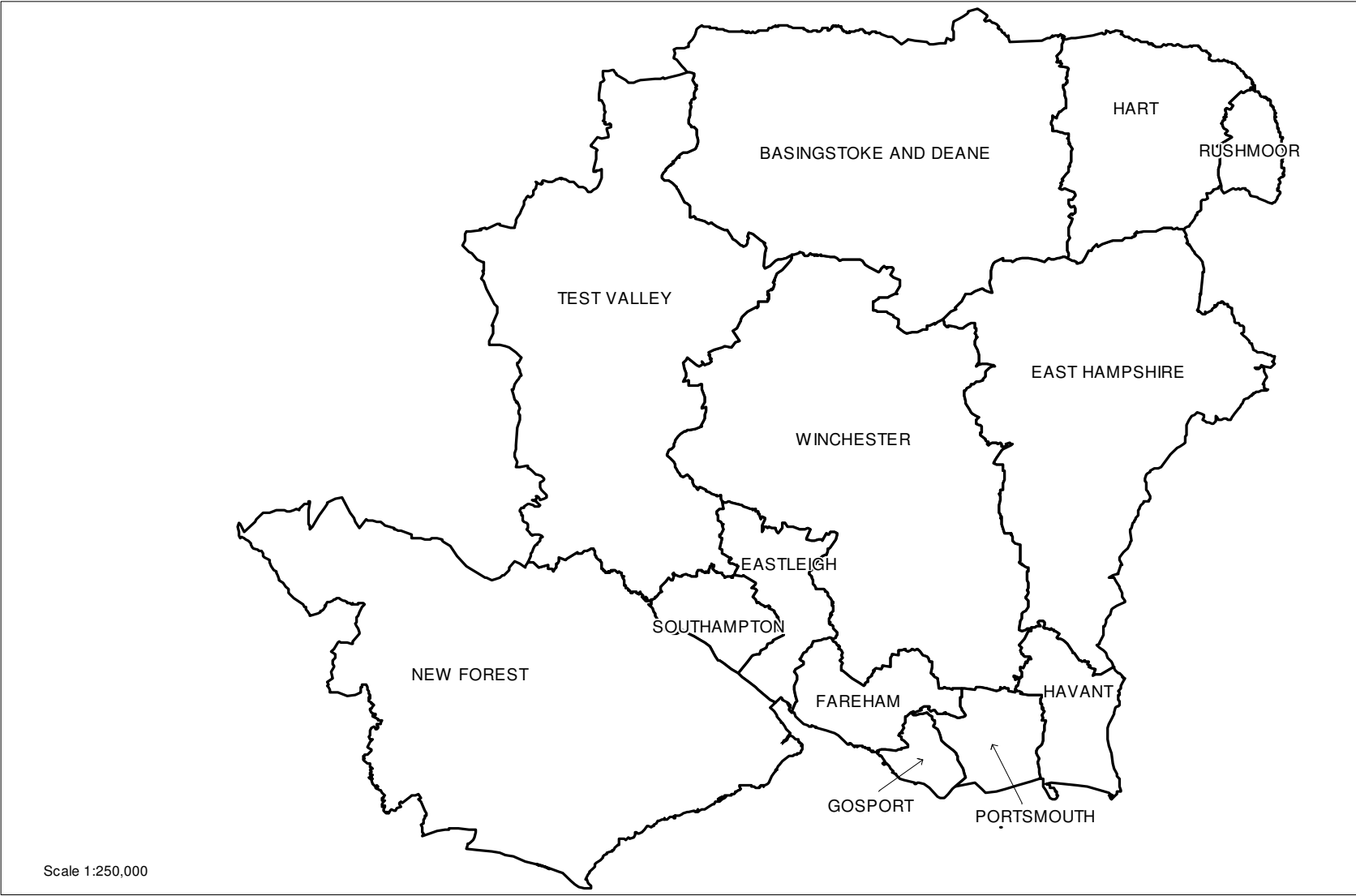
The Bill Sargent Trust has commissioned this research to understand the extent to which the welfare reforms currently underway will impact on low income households and those in housing need across Hampshire, including Portsmouth and Southampton. Whilst Hampshire is located in one of the wealthiest parts of the country, and will not experience the scale of financial loss seen in some of the older industrial regions of Britain, there will be local neighbourhoods within Hampshire with concentrations of benefit claimants where the financial loss to individuals, families and the local community will be substantial.

The report makes no attempt to comment on the merits of each of the reforms but it does provide an overview of government documentation on key elements of the changes underway; and hard evidence as to the scale of individuals or households affected across Hampshire. An assessment of the financial loss which will be incurred by those affected, and the financial loss per local authority within Hampshire, is also provided. All the figures presented in this report are estimates, but in every case they are deeply rooted in official statistics - for example the Treasury's own estimates of the financial savings, the government's *Impact Assessments* and benefit claimant data. When estimating the impacts of welfare reforms this report holds all other factors constant. What this means in practice is that it makes no assumptions about the growth of the economy or future levels of employment and unemployment.

It needs to be remembered that the welfare reform agenda is not new and that reform of the system was set in motion by the previous Labour government. Some of the incapacity benefit reforms pre-date the 2010 general election but are only now taking full effect. They have been included within this report, alongside the coalition reforms, to provide a comprehensive assessment of the impact of the reforms currently underway.



Figure 1.1: Hampshire: City Councils and Shire Districts



Local area data on the characteristics of residents and households across Hampshire, which recently became available from the 2011 Census of Population outputs, is utilised alongside small area DWP claimant statistics to illustrate where pockets of impact may be most concentrated at a local level.

This is the second study undertaken by the research team from the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University for the Bill Sargent Trust. The original study<sup>1</sup> provided a detailed profile of the geography of low income families, benefit claimants and deprivation across all thirteen districts within Hampshire (see Figure 1.1). The first report also provided an assessment of the impacts of the initial welfare reforms which had recently been announced alongside estimates of the scale of public sector job losses in Hampshire. This report supersedes the first one and is based on the best available knowledge and evidence presently available. It is worth noting however, that such wide-ranging reforms can take time to filter through the system due to phased implementation, transitional protection measures and households "muddling through". Time lags in terms of the behavioural responses of individuals, households, landlords and other groups affected also need to be borne in mind. This underscores the need to update such assessments over time as more data and evidence becomes available.

## **The socio-economic context in Hampshire**

Before setting out the welfare reform agenda in detail and considering each of the measures in turn, it is first useful to consider the socio-economic context within Hampshire. As noted, Hampshire is a relatively wealthy sub-region by national standards but it does contain pockets of inequality and concentrations of deprivation which can be "hidden" when considering the county as a whole.

In the previous report the 2007 English Indices of Multiple Deprivation (IMD) were used to identify disadvantaged areas within Hampshire. This section uses the updated 2010 IMD<sup>2</sup> data to pinpoint deprived areas across the county. The IMD combines 38 indicators across seven "domains" of deprivation. These domains can either be considered separately or combined into a single Index. These domains include the following indicators:

- income
- employment
- health and disability
- education, skills and training
- barriers to housing and services
- crime
- living environment.

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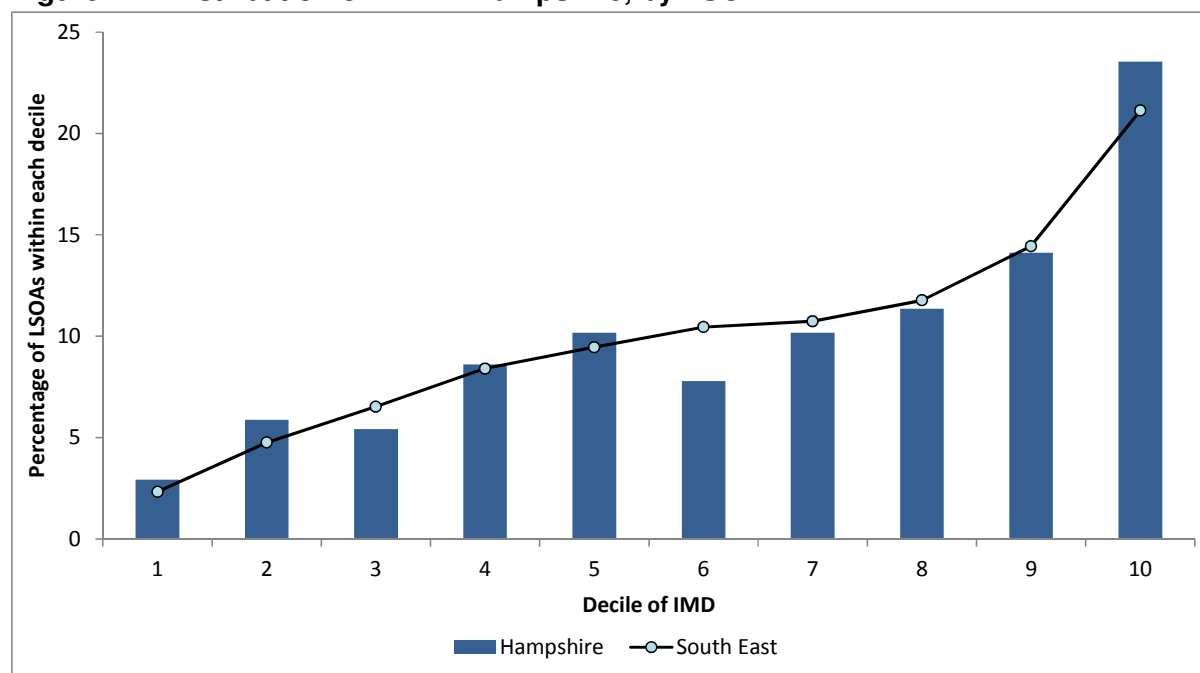
<sup>1</sup> Beatty, C., Gore, T. and Powell, R. (2011) *The Impact of Welfare Reform and Public Sector Spending Reductions on Low Income Households in Hampshire*. Bill Sargent Trust: Hampshire.

<http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/cresr-PublicSectorCutsHampshireFullReport.pdf>

<sup>2</sup> MacLennan, D. *et al* (2008) *The English Indices of Deprivation 2010*. CLG: London.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/6320/1870718.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6320/1870718.pdf)

**Figure 1.2: Distribution of IMD in Hampshire, by LSOA**



Source: Index of Multiple Deprivation 2010

As with the 2007 IMD, it is possible to examine the data for all the Lower Super Output Areas (LSOAs)<sup>3</sup> within each local authority. Figure 1.2 above presents the distribution of the IMD rank for LSOAs in Hampshire and the South East. The first decile contains the most deprived LSOAs and the tenth decile contains the least deprived. Therefore, if the profile in Hampshire was to mirror exactly the national distribution of the IMD, then there would be an even split of ten per cent of LSOAs within each decile. Figure 1.2 shows that Hampshire LSOAs are heavily skewed towards the less deprived areas of England; a distribution that remains largely in line with the pattern seen in the 2007 data. This is a similar picture to that which can be seen for the whole of the South East Region represented as the line in the chart. It is worth noting that Hampshire contains proportionately more residents than the South East falling within the 20 per cent *most* deprived areas of the country (the first 2 bars in Figure 1.2); and notably more Hampshire residents are bracketed within the ten per cent *least* deprived areas of the country in comparison to the South East as a whole. This suggests extreme poles within the county in terms of the socio-economic position of those at the margins.

Whilst Hampshire as a whole can be seen in a relatively favourable light in terms of the IMD, Figure 1.2 illustrates that pockets of deprivation do exist. As in the previous report it is necessary to look at variation within Hampshire and its constituent districts to highlight the range of circumstances evident across local areas within the county. The next section therefore considers the IMD within the context of each of the local authorities in Hampshire.

As part of the 2010 IMD, a composite score and ranking position was given to each of the 326 local authority and unitary districts (LAs) across England. As with LSOAs, **a rank of 1 indicates that the LA is the most deprived** according to the measure, and **a rank of 326 represents the least deprived**.

<sup>3</sup> At the time of the 2010 IMD there were 32,482 LSOAs in England which on average contain a population of approximately 1,500 people. The combined area of Hampshire, Portsmouth and Southampton covers 1,091 LSOAs, a fifth of all 5,319 LSOAs in the South East Region with a total population of just over 1.78 million people.

The LA level IMD is structured slightly differently to that for LSOAs, with the following components:

- **extent:** a measure of the proportion of a district's population that lives in the most deprived LSOAs in England
- **local concentration:** a measure of the severity of multiple deprivation within each LA, measuring "hotspots" of deprivation
- **income and Employment Scales:** the number of people experiencing income and employment deprivation.

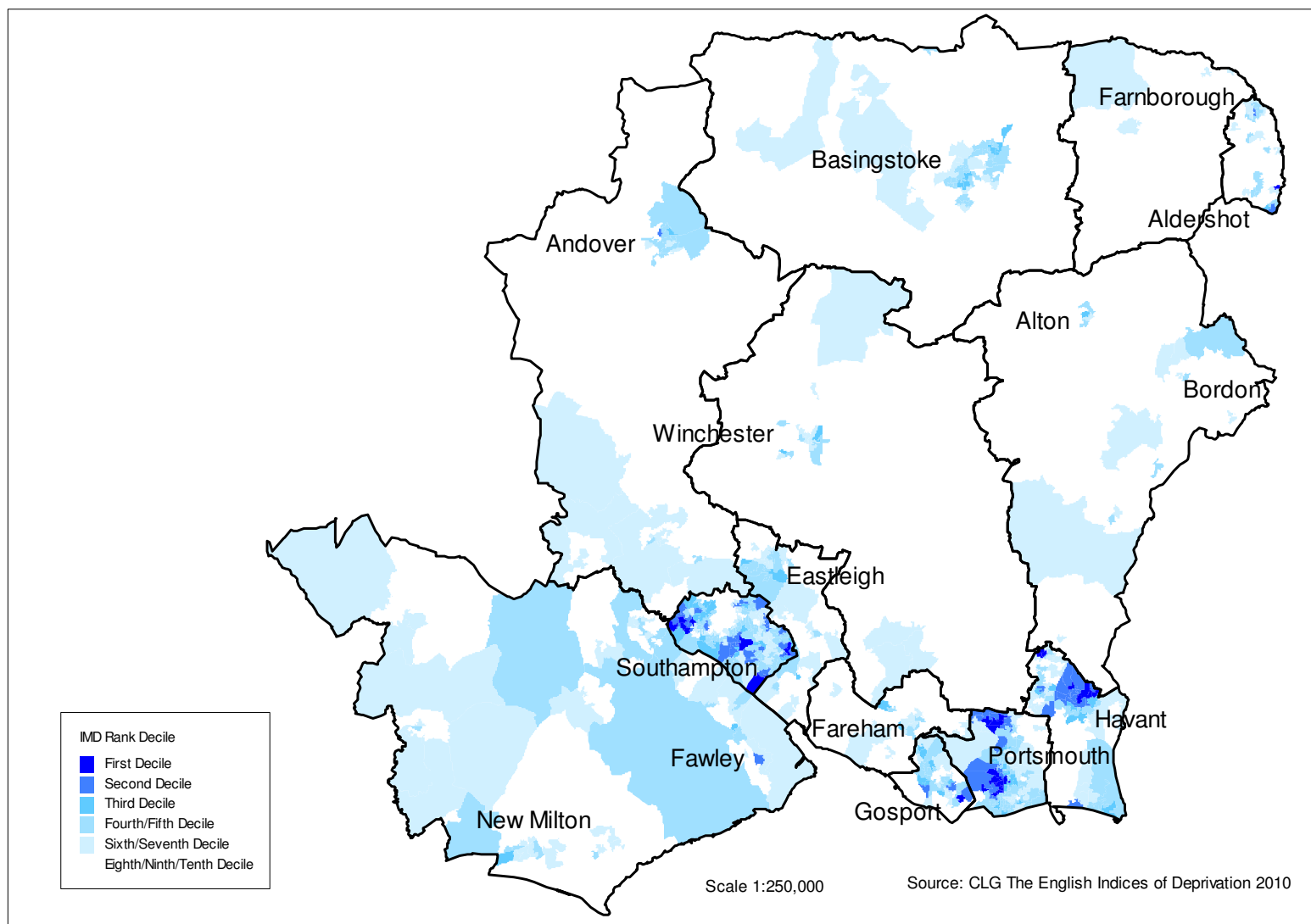
The LA level IMD ranks for Hampshire districts are set out in Table 1.1. The relative order of LAs has remained the same since the 2007 IMD. The table shows that Southampton and Portsmouth are within the most deprived 25 per cent of LAs in the country, Havant is within the most deprived third and Gosport is within the more deprived half of the country. This is very similar to the picture seen in 2007, but Havant's position has deteriorated slightly from being within the bottom 40 per cent of districts in 2007. Most LAs in Hampshire are, however, towards the least deprived on all IMD indicators, with six in the top decile of least deprived districts nationally; and, as in 2007, Hart is the least deprived district in England both in 2007 and 2010. Gosport fairs better on the Income and employment domains of the IMD, but New Forest joins the other three more deprived LAs in being below the mid-point ranking in terms of income and is only marginally above the employment mid-point ranking.

**Table 1.1: Local authority level summary of IMD ranks**

	IMD	Extent	Local Concentration	Income Scale	Employment Scale
Southampton	72	86	103	66	70
Portsmouth	76	93	52	84	88
Havant	107	76	90	139	158
Gosport	161	160	157	237	250
Rushmoor	248	207	214	267	262
New Forest	264	249	260	149	169
Basingstoke and Deane	277	272	242	184	184
Eastleigh	281	260	241	242	234
Test Valley	289	255	259	259	267
East Hampshire	302	290	299	268	272
Winchester	309	285	297	275	274
Fareham	315	270	295	281	275
Hart	326	294	326	319	319

Source: Index of Multiple Deprivation 2010

Figure 1.3: Index of Deprivation ranks, LSOAs in Hampshire, 2010



**Table 1.2: Percentage of LSOAs in Hampshire districts within 20 per cent most deprived LSOAs in England, IMD 2010**

	IMD	Income	Employment	Health & Disability	Education & skills	Barriers to Housing & Services	Crime	Living environment
Havant	28	26	19	3	31	72	22	19
Southampton	25	21	14	19	35	4	55	40
Portsmouth	23	15	11	15	27	9	38	71
Gosport	8	10	6	4	31	2	23	19
Rushmoor	5	7	5	8	15	2	3	0
Test Valley	1	1	0	0	9	21	10	0
New Forest	1	4	1	0	4	18	7	1
Basingstoke and Deane	0	0	0	1	17	13	18	0
East Hampshire	0	1	0	0	4	17	1	0
Eastleigh	0	1	3	0	9	3	6	0
Fareham	0	1	0	0	5	4	1	1
Hart	0	0	0	0	0	9	0	0
Winchester	0	0	0	0	6	19	1	0
<b>Hampshire</b>	<b>9</b>	<b>8</b>	<b>5</b>	<b>5</b>	<b>16</b>	<b>14</b>	<b>18</b>	<b>16</b>
<b>South East</b>	<b>7</b>	<b>7</b>	<b>6</b>	<b>7</b>	<b>13</b>	<b>18</b>	<b>13</b>	<b>10</b>

Source: Index of Multiple Deprivation 2010

The overall LAD indicators appear to mask quite marked local variations within their boundaries. Figure 1.3 shows the geographical distribution across Hampshire of LSOAs falling into national deciles as measured by the IMD 2010. The picture remains largely similar to that presented by the previous 2007 IMD data. This shows heavy concentrations of deprivation in particular parts of Portsmouth, Southampton, Gosport, Havant, Aldershot and Farnborough, with isolated outliers in Basingstoke, Andover and Fawley. Apart from a scattering of neighbourhoods in the third decile, the rest of the county is characterised by relatively low levels of deprivation.

This variation within districts is supported by the figures in Table 1.2. There is a concentration of deprivation in four of the Solent Local Economic Partnership districts (Portsmouth, Southampton, Havant and Gosport), with isolated neighbourhoods elsewhere. The proportion of LSOAs within Havant in 2010 which are within the most deprived 20 per cent nationally (28 per cent) has actually over taken Southampton and Portsmouth since 2007, which were then top of the list with 24 per cent and 23 per cent respectively. In addition, even in some of the wealthiest LSOA's there will be small pockets of disadvantaged residents in social housing, privately rented flats or houses in multiple occupation (HMOs) that are less visible to policy makers or researchers but who face very real challenges.

## **The welfare reform agenda**

The stated aims of the coalition government's welfare reform agenda are threefold:

- to introduce a greater degree of 'fairness' by reducing the burden of welfare expenditure on the tax payer
- that all sections of society should contribute towards the reduction of the deficit: reforms are designed to encourage people into employment
- to provide a safety net for the most vulnerable and a transitional support system for those without work during temporary periods of hardship.

Current welfare reforms aim to tackle what has been characterised by the Government as "dependency" on the benefits system. As such they are designed to incentivise work by:

- simplifying the complexity of the benefits system
- ensuring that work pays (i.e. that people are better off in work than they are on benefits)
- increasing levels of conditionality and sanctions upon those in receipt of benefits and compelling them to look for work.

The DWP press release accompanying the 2010 Emergency Budget<sup>4</sup> states these aims clearly and they have become recurrent themes throughout many of the government's policy agendas:

*'In keeping with the commitment to fairness and reform, the Department today confirmed the details of its emergency budget settlement based around the key principles of: protecting the most vulnerable, ensuring the best value for the taxpayer, reforming the welfare and benefits system, creating real incentives to make work pay. At*

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<sup>4</sup> HM Treasury (2010) Budget 2010, HC61. TSO, London. [http://www.direct.gov.uk/prod\\_consum\\_dg/groups/dg\\_digitalassets/@dg/@en/documents/digitalasset/dg\\_188581.pdf](http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_188581.pdf)

*its heart, is the commitment to help and support the poorest and most vulnerable in society, whilst making almost £5 billion worth of savings for the taxpayer by 2014-15.'*

### **DWP Press release for the Emergency Budget 22 June 2010**

The initial plans announced in the Budget included reforming Housing Benefit (HB), Disability Living Allowance (DLA), Tax Credits (TCs), Income Support (IS) for lone Parents and changing the indexation of benefits to be in line with the Consumer Price Index (CPI).

From July 2010 to October 2010 the Government held a consultation - *21<sup>st</sup> Century Welfare*<sup>5</sup> - on *"What steps should the Government consider to reduce the cost of the welfare system and reduce welfare dependency and poverty?"* This included their proposals for Universal Credit (UC) designed to bring the majority of benefits all within one payment system:

*'The Coalition Government is determined to reform the benefits system to make it fairer, more affordable and better able to tackle poverty and reliance on welfare. We want to deliver real change to the benefits system by making it simpler and more efficient, with fewer benefits, fewer layers of bureaucracy and with financial support firmly focused on making work pay.'*

#### **p1 paragraph 1, DWP (November 2010)**

Welfare reform has remained prominent in the government's policy agenda, the media and the public debate. The *2012 Autumn Statement*,<sup>6</sup> released on 5<sup>th</sup> December 2012, announced further cuts in the welfare system, primarily in the form of restricting indexation of benefits to a below inflation flat rate increase of one per cent. This subsequently passed into law through the *Welfare Benefits Up-rating Act 2013*.<sup>7</sup>

Whilst the ultimate aim of current welfare reform is to culminate in a simplifying of the benefits system via the introduction of UC, this is still a long way off with UC coming under increasing scrutiny and criticism.<sup>8</sup> In the meantime, a raft of changes to an extensive list of working age benefits have been implemented gradually since April 2011, with the latest changes being implemented in April 2013. These changes are still on-going and the reforms have led to reduced eligibility and entitlement for many claimants of in-work and out-of-work benefits. This report will quantify the expected impact at the point they will have been fully implemented, which in the majority of cases will be by 2014/15.<sup>9</sup>

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<sup>5</sup> DWP (November 2010) *Consultation Responses to 21<sup>st</sup> Century Welfare*, Cm 7971. <http://www.dwp.gov.uk/docs/21st-century-welfare-response.pdf>

<sup>6</sup> HM Treasury (2012) *Autumn Statement 2012*, Cm8480. TSO: London. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221550/autumn\\_statement\\_2012\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221550/autumn_statement_2012_complete.pdf)

<sup>7</sup> *Welfare Benefits Up-rating Act 2013 (c. 16)*. TSO: London. [http://www.legislation.gov.uk/ukpga/2013/16/pdfs/ukpga\\_20130016\\_en.pdf](http://www.legislation.gov.uk/ukpga/2013/16/pdfs/ukpga_20130016_en.pdf)

<sup>8</sup> National Audit Office (2013) *Universal Credit: Early Progress*. TSO: London.

<sup>9</sup> Reforms to Disability Living Allowance will not be fully implemented until 2017/18, and the wider application of means testing to Employment and support Allowance and the 1 per cent up-rating both of which do not fully impact until 2015/16.



## Universal Credit

Many respondents to the *21<sup>st</sup> Century Welfare* consultation broadly agreed with the principles of Universal Credit: simplifying the system and making work pay. However, many also made the point that until the details for the development and implementation of the system were released, they were not able to fully endorse the proposals. Concerns were raised relating to:

- ensuring that the most vulnerable are protected
- whether there were sufficient jobs available within the economy to sustain the reforms
- the fact that an immediate move into employment was not realistic for many individuals faced with significant barriers to labour market entry
- the implications for tenants and landlords of housing costs being met from a single award. It was feared that paying the housing element directly to the Universal Credit recipient may have a negative impact on landlords' rent collection while causing individuals to fall into debt.

The White Paper providing details of UC - *Universal Credit: welfare that works*<sup>10</sup> - was released alongside the responses to the consultation. The subsequent *2011 Welfare Reform Bill* to implement these changes had its first reading in parliament in February 2011 and passed into law with only minor amendments in March 2012 as the *Welfare Reform Act 2012*.<sup>11</sup>

UC will ultimately replace just about all means-tested working age benefits under a single benefits regime. This will simplify the benefits system and makes it more transparent as to the total amount of in-work and out-of work benefits received by a claimant, including their HB and TCs. The system will work in real-time, adjusting payments on a month by month basis to take account of any earnings during each period. UC will bring about greater convergence in elements of conditionality and sanctions across groups of claimants and will also create a harsher sanctioning regime. The aim is for UC to be paid monthly and direct to the claimant making the claimant "responsible" for payment of their rent and, in the main, removing direct payment of HB to social landlords.

However, full implementation of UC is a long way off for all claimants. The initial stage of implementation has also been slower than first anticipated. Originally it was planned to be introduced in April 2013 in four pilot areas and in October 2013 for new claimants. It is likely to be 2018 before UC is fully implemented.

Information on the finer details of how UC will be implemented is only just emerging.<sup>12</sup> There is still only limited information available in the impact assessment for UC on the extent to which households will gain or lose under the new system, and no information on the geographic spread of the beneficiaries or losers. Claimants who are actively moved over to

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<sup>10</sup> DWP (2010) *Universal Credit: welfare that works*. TSO: London. <http://www.dwp.gov.uk/docs/universal-creditfull-document.pdf>

<sup>11</sup> *Welfare Reform Act 2012 (c. 5)*. TSO: London. [http://www.legislation.gov.uk/ukpga/2012/5/pdfs/ukpga\\_20120005\\_en.pdf](http://www.legislation.gov.uk/ukpga/2012/5/pdfs/ukpga_20120005_en.pdf)

<sup>12</sup> House of Commons Library (2013) *Draft Universal Credit Regulations*, Standard Note SN 06548. <http://www.parliament.uk/briefing-papers/SN06548>; House of Commons Library (2013) *The Housing Element of Universal Credit*, Standard Note SN 06547. <http://www.parliament.uk/briefing-papers/SN06547>

the new system will receive transitional protection to ensure they are "no worse off" than the package of benefits they receive at the point of migration to the new system. Overall the policy is held to be relatively fiscally neutral and in the long-run the net cost to the Exchequer of UC will be £0.1bn per year. This represents an increase of £2.3bn due to changes in entitlement and increased take-up and £2.2bn of savings due to reduced fraud, error and overpayments.<sup>13</sup> It is estimated that approximately 3.1 million households will benefit from a higher entitlement under UC with an average gain of £168 per month; and that three quarters of the households seeing a gain will be those in the bottom two quintiles of income distribution for those in benefit receipt. It is further estimated that 2.8 million households will have a lower entitlement as a result of the changes and will experience an average reduction of £137 per month. A further 2.8 million households would experience no change in their entitlement. Overall the average impact of UC across all households is estimated at £16 per month. Given the limited detailed information available on the impact of UC when fully implemented, the lack of local-level household data (which makes it extremely difficult to model the local impact of UC), and the long time span before it is applicable to all claimants, an assessment of the local impacts of UC are not included in this study. Suffice to say here that at this very early stage of implementation one of the major points of contention and criticism is the wholesale shift to paying HB direct to the tenant instead of the landlord in both the PRS (where this happens already for many) and the SRS. These issues are discussed in more depth in subsequent sections on HB reform.

## **Scope of the reforms included in this report**

The figures presented in the report cover all the major welfare reforms that are currently underway. In brief, these are:

### **Housing Benefit – Local Housing Allowance**

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.

### **Housing Benefit – Under-occupation**

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').

### **Non-dependant deductions**

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.

### **Household benefit cap**

New ceiling on total payments per household, applying to the sum of a wide range of benefits for working age claimants.

### **Council Tax Benefit**

Reductions in entitlement of working age claimants arising from ten per cent reduction in total payments to local authorities.

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<sup>13</sup> DWP (December 2012) Universal Credit Impact Assessment. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220177/universal-credit-wr2011-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220177/universal-credit-wr2011-ia.pdf)

**Disability Living Allowance**

Replacement of DLA by Personal Independence Payments (PIP), including more stringent and frequent medical tests, as the basis for financial support to help offset the additional costs faced by individuals with disabilities.

**Incapacity benefits**

Replacement of Incapacity Benefit 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.

**Child Benefit**

Three-year freeze, and withdrawal of benefit from households including a higher earner.

**Tax Credits**

Reductions in payment rates and eligibility for Child Tax Credit and Working Families Tax Credit, paid to lower and middle income households.

**1 per cent up-rating**

Reduction in annual up-rating of value of most working-age benefits.

When fully implemented, the welfare reforms covered in this report are expected to save the UK Treasury almost £19bn a year. The remainder of this report draws on a detailed assessment of the local impacts of these welfare reforms for all local authorities in Britain.<sup>14</sup> It evidences the scale of the financial loss which will fall upon households in Hampshire and maps the spatial distribution of impact across the county.

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<sup>14</sup> Beatty, C. and Fothergill S. (2013) *Hitting the Poorest Places Hardest: The local and regional impact of welfare reform*. CRESR, Sheffield Hallam University, Sheffield.  
[http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/hitting-poorest-places-hardest\\_0.pdf](http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/hitting-poorest-places-hardest_0.pdf)

# Housing Benefit – Local Housing Allowance

## Introduction

Housing Benefit (HB) is one of the key areas of concern for the government in terms of welfare expenditure. After State Pensions, which accounted for 47 per cent of DWP benefits expenditure in 2011/12,<sup>15</sup> HB was the second largest single component. At £22.8 billion in 2011/12 HB was double the level seen in 2000/01 and accounted for 14 per cent of the total DWP benefits expenditure.<sup>16</sup> Given the government has decided to protect pensions from cuts in the current round of welfare reform, HB has been a key area of policy interest. This chapter will consider the changes to the Local Housing Allowance (LHA) which is the way HB is calculated for tenants in the deregulated private rented sector (PRS). Reforms to the LHA system were amongst the first to be announced in the June 2010 Emergency Budget.

The government's basis for concern about the rising expenditure for HB, especially in the PRS, can be seen in Figure 2.1. The growth in HB expenditure is due to a number of factors including:

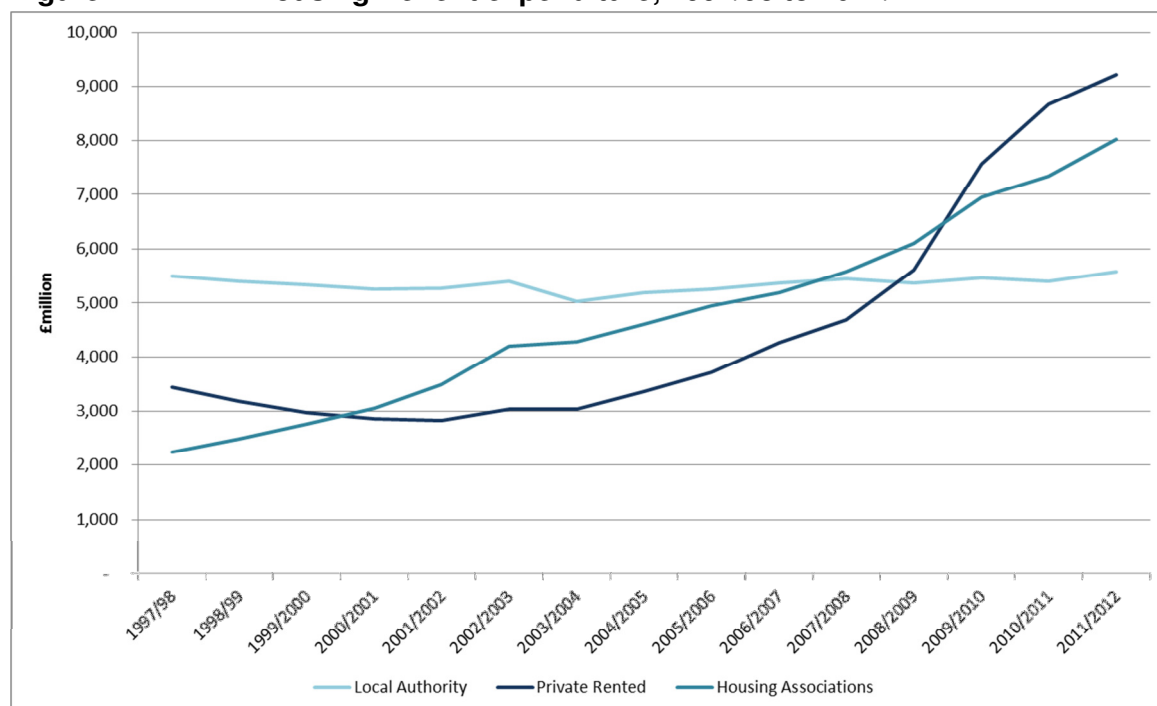
- the growth in claimants since 2008 due to the recession
- increasing numbers of in-work families on low incomes claiming HB
- a shift in the balance of claims from the Social Rented Sector (SRS) to the PRS where rents are higher; for example, in February 2013, the average HB award for Local Authority (LA) tenants in England was £78 a week, £88 a week for tenants of Registered Landlords (RSLs) and £108 a week in the PRS.

Figure 2.1 shows the balance of HB expenditure in Great Britain across these tenures over time. Though rents have increased across all tenures the steeper curve pertaining to the PRS highlights a marked tenure shift as local authority housing continues to shrink through the large scale voluntary transfer (LSVT) of stock and the Right to Buy (RTB). Reducing HB expenditure in the PRS was therefore seen as a priority for the coalition government and key elements of the reforms to LHA have been focused on reducing rents in the sector.

<sup>15</sup> <https://www.gov.uk/government/publications/benefit-expenditure-by-local-authority>

<sup>16</sup> Expenditure on Tax Credits is slightly higher but falls within the HMRC budget: £27.8 billion in 2010/11. DWP (2013) Tax Credit Expenditure in Great Britain. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/223090/gb\\_tax\\_credit\\_estimates.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223090/gb_tax_credit_estimates.pdf)

**Figure 2.1: DWP Housing Benefit expenditure, 1997/98 to 2011/12**



Source: DWP Statistical and Accounting Data

The nature of the reforms to HB for tenants in the PRS will be discussed in detail later in this chapter but first a profile of the PRS in Hampshire is presented before trends in PRS HB claims are considered.

### The private rented sector in Hampshire

The UK PRS is extremely diverse and serves an important housing market function for many households outside the owner-occupied and social rented sectors. Many households are in the PRS out of choice, for example because they wish to be mobile or they do not wish to take on the burden of a mortgage. Others find themselves there because they cannot afford to access the owner-occupied market and/or they are excluded from the shrinking social rented sector.

Table 2.1 below shows the tenure profile of Hampshire districts ranked by the proportion of households in the PRS and benchmarked against those for the South East and England as a whole. Again the diversity across Hampshire districts is underscored. The PRS accounts for a quarter of all households in the larger urban centres of Portsmouth and Southampton and just ten per cent of households in Fareham and Havant. The lesser affected areas in terms of the housing reforms are clearly discernible from Table 2.1: the districts of Hart and Fareham stand out with an owner-occupation rate of around 80 per cent, a massive 17 per cent higher than the national average. By contrast, owner-occupied households in Southampton account for only half of the total, 13 per cent below the national average, owing to the larger SRS and student population. The tenure split for Hampshire as a whole shows a degree of consistency in comparison to the South East and England.

**Table 2.1: Tenure in Hampshire districts, 2011**

	Owned	Social rented	Private rented
Southampton	50	23	25
Portsmouth	55	18	25
Rushmoor	64	16	18
Gosport	65	16	16
Winchester	68	15	14
Test Valley	70	14	13
Eastleigh	74	12	12
New Forest	75	11	12
Hart	78	8	12
Basingstoke and Deane	68	18	12
East Hampshire	74	12	12
Fareham	80	8	10
Havant	69	20	10
<b>Hampshire</b>	<b>67</b>	<b>16</b>	<b>16</b>
<b>England</b>	<b>63</b>	<b>18</b>	<b>17</b>
<b>South East</b>	<b>68</b>	<b>14</b>	<b>16</b>

Source: 2011 Census of Population

Note: Row totals may not sum to 100 as additional small category of living rent free

Table 2.2 below shows PRS households by household type in absolute numbers for all Hampshire districts. The first column presents figures for all PRS households and illustrates the sheer scale of the sector in Portsmouth and Southampton relative to the other 11 local authorities. New Forest and Basingstoke and Deane also contain sizeable private rented sectors in absolute terms. Table 2.2 also shows the concentration of Houses of Multiple Occupation (HMOs) within areas with a high student population: Portsmouth, Southampton and Winchester.

Table 2.3 presents this data as a percentage of all PRS households. Proportions for Hampshire are consistent with those of the South East and England as a whole with single person households most common (at around 30 per cent). Combining couple and lone parent households with dependent children produces the same proportion of around a third of all households. However, in Rushmoor this figure is around ten per cent higher at 44 per cent owing to the relative concentration of armed service families within the PRS (see below) and the lower proportion of single households in the PRS in that district (21 per cent). Households with dependents in the PRS are also shown to be more common in Gosport (45 per cent), Hart (40 per cent) and Havant (38 per cent). In Gosport and Havant the number of lone parent households in the PRS (18 per cent) is significantly higher than the regional (12 per cent) and national (13 per cent) averages. In the PRS in Portsmouth and Southampton there are proportionately fewer households with dependents - 28 and 22 per cent respectively. This is a reflection of the larger social rented sectors in these districts and the tendency for younger adults without children, including students, to gravitate towards urban centres.

**Table 2.2: Private rented sector households by household type - numbers**

<b>Area</b>	<b>All h/holds</b>	<b>One person h/hold</b>	<b>Couple h/hold: with deps</b>	<b>Couple h/hold: no deps</b>	<b>Lone parent h/hold: with deps</b>	<b>Lone parent h/hold: No deps</b>	<b>Multi-person h/hold</b>
Basingstoke & Deane	9,075	2,701	1,917	2,827	863	156	611
East Hampshire	6,227	1,996	1,464	1,746	563	152	306
Eastleigh	6,852	2,132	1,409	1,796	904	147	464
Fareham	5,057	1,418	1,205	1,393	630	105	306
Gosport	6,119	1,678	1,641	1,285	1,085	140	290
Hart	4,639	1,110	1,376	1,322	451	95	285
Havant	5,606	1,765	1,127	1,354	1,029	113	218
New Forest	10,312	3,288	2,184	2,698	1,330	236	576
Portsmouth	22,140	6,340	3,333	4,481	2,960	376	4,650
Rushmoor	6,681	1,387	2,212	1,832	705	133	412
Southampton	25,501	8,560	3,658	5,412	2,140	392	5,339
Test Valley	6,960	1,797	1,699	2,222	727	150	365
Winchester	7,550	2,118	1,543	2,285	489	111	1,004
<b>Hampshire</b>	<b>122,719</b>	<b>36,290</b>	<b>24,768</b>	<b>30,653</b>	<b>13,876</b>	<b>2,306</b>	<b>14,826</b>
<b>South East</b>	<b>624,193</b>	<b>197,872</b>	<b>126,601</b>	<b>152,943</b>	<b>72,455</b>	<b>13,104</b>	<b>61,218</b>
<b>England</b>	<b>4,011,034</b>	<b>1,316,913</b>	<b>722,544</b>	<b>918,288</b>	<b>515,452</b>	<b>89,444</b>	<b>448,393</b>

Source: 2011 Census of Population

Table 2.4 below provides an indicator of the ethnic diversity within the PRS and shows the proportion of households in the sector by the ethnicity of the Household Reference Person (HRP), which broadly refers to the Head of the Household. The private rented sectors in Hampshire and the South East are less diverse than that nationally with almost 90 per cent of HRPs recording their ethnicity as White compared to 83 per cent for England overall. For the majority of districts within Hampshire, this figure is even higher at around 92-96 per cent. Only four districts record a PRS with more than ten per cent of households headed by a non-White individual: Basingstoke and Deane, Portsmouth, Rushmoor and Southampton. Households headed by Asian and Asian British HRPs show a relative concentration in Rushmoor and Southampton.

**Table 2.3: Private rented sector households by household type - per cent**

Area	All h/holds	One person h/hold	Couple h/hold: with deps	Couple h/hold: no deps	Lone parent h/hold: with deps	Lone parent h/hold: No deps	Multi-person h/hold
Basingstoke & Deane	100	30	21	31	10	2	7
East Hampshire	100	32	24	28	9	2	5
Eastleigh	100	31	21	26	13	2	7
Fareham	100	28	24	28	12	2	6
Gosport	100	27	27	21	18	2	5
Hart	100	24	30	28	10	2	6
Havant	100	31	20	24	18	2	4
New Forest	100	32	21	26	13	2	6
Portsmouth	100	29	15	20	13	2	21
Rushmoor	100	21	33	27	11	2	6
Southampton	100	34	14	21	8	2	21
Test Valley	100	26	24	32	10	2	5
Winchester	100	28	20	30	6	1	13
<b>Hampshire</b>	<b>100</b>	<b>30</b>	<b>20</b>	<b>25</b>	<b>11</b>	<b>2</b>	<b>12</b>
<b>South East</b>	<b>100</b>	<b>32</b>	<b>20</b>	<b>25</b>	<b>12</b>	<b>2</b>	<b>10</b>
<b>England</b>	<b>100</b>	<b>33</b>	<b>18</b>	<b>23</b>	<b>13</b>	<b>2</b>	<b>11</b>

Source: 2011 Census of Population

The significant number of Asian and Asian British households in Rushmoor is partly explained by the sizeable population of Gurkhas residing in the district within Farnborough. Rushmoor accounts for 72 per cent of all people in Hampshire recording their ethnicity as Nepalese (which includes Gurkha), and a quarter of those in the South East.<sup>17</sup> This amounts to over 6,100 people or 6.5 per cent of the total population of Rushmoor. This compares to a figure of 0.5 per cent for Hampshire and 0.1 per cent for England. A similar, though less obvious effect is evident in Basingstoke and Deane where over 1,000 people recording their ethnicity as Nepalese are located.

<sup>17</sup> 2011 Census of Population.



**Table 2.4: Private rented sector ethnicity by Household Reference Person**

<b>Area</b>	<b>All</b>	<b>White</b>	<b>Mixed/ multiple ethnic group</b>	<b>Asian/ Asian British</b>	<b>Black/ African/ Caribbean/ Black British</b>	<b>Other ethnic group</b>
Rushmoor	100	77	2	16	5	1
Southampton	100	82	2	10	4	2
Portsmouth	100	87	2	6	3	2
Basingstoke & Deane	100	88	1	8	2	1
Hart	100	92	2	5	1	1
Eastleigh	100	92	2	4	1	1
East Hampshire	100	93	1	4	1	1
Gosport	100	94	2	2	2	1
Winchester	100	94	2	3	1	0
Test Valley	100	95	1	2	1	1
Fareham	100	95	1	3	1	1
New Forest	100	95	1	2	1	1
Havant	100	96	1	2	1	0
<b>Hampshire</b>	<b>100</b>	<b>89</b>	<b>2</b>	<b>6</b>	<b>2</b>	<b>1</b>
<b>South East</b>	<b>100</b>	<b>88</b>	<b>2</b>	<b>6</b>	<b>3</b>	<b>1</b>
<b>England</b>	<b>100</b>	<b>83</b>	<b>2</b>	<b>9</b>	<b>5</b>	<b>2</b>

Source: 2011 Census of Population

### **Housing Benefit claimants in the private rented sector**

There were 113,760 HB claimants in Hampshire in February 2013 of which 68 per cent were living in the SRS and 32 per cent were living in the PRS, a similar pattern to that seen nationally (Table 2.5). There is substantial variation across local authorities with more than three quarters of HB tenants housed in the SRS in Basingstoke, Winchester and Test Valley compared to less than 60 per cent of all HB tenants in Portsmouth and Rushmoor. When considered as a whole, only 16 per cent of households in Hampshire receive HB as shown in Table 2.6 below. This is on a par with the South East region which has the lowest rate of all English regions at 15 per cent of households. However, the figure varies considerably by local authority and is above the England average (20 per cent) in Southampton (25 per cent) and Portsmouth (23 per cent), and is less than half the national rate in Fareham (nine per cent) and Hart (seven per cent). The impact of the LHA reforms is likely to be more keenly felt in absolute terms in areas where the PRS is larger. However, the lack of PRS accommodation in other districts may pose problems for those seeking cheaper accommodation locally as a result of changes to their LHA entitlement (see table 2.10 below).

**Table 2.5: Housing Benefit claims by tenure, February 2013**

	HB claimants			% of HB claims		
	PRS	SRS	Total	PRS	SRS	Total
Rushmoor	2,750	3,980	6,730	41	59	100
Portsmouth	8,060	11,750	19,800	41	59	100
New Forest	3,240	5,510	8,750	37	63	100
Fareham	1,450	2,620	4,070	36	64	100
Southampton	7,980	16,150	24,130	33	67	100
Gosport	2,090	4,290	6,380	33	67	100
Hart	850	1,780	2,620	32	68	100
Eastleigh	1,890	4,210	6,100	31	69	100
Havant	2,480	6,960	9,450	26	74	100
East Hampshire	1,210	3,430	4,630	26	74	100
Test Valley	1,430	4,560	5,990	24	76	100
Winchester	1,310	4,290	5,600	23	77	100
Basingstoke and Deane	1,980	7,530	9,520	21	79	100
<b>Hampshire</b>	<b>36,710</b>	<b>77,060</b>	<b>113,760</b>	<b>32</b>	<b>68</b>	<b>100</b>
<b>South East</b>	<b>212,130</b>	<b>338,700</b>	<b>550,820</b>	<b>39</b>	<b>61</b>	<b>100</b>
<b>England</b>	<b>1,487,550</b>	<b>2,849,030</b>	<b>4,336,580</b>	<b>34</b>	<b>66</b>	<b>100</b>

Source: Stat-Xplore, Department for Work and Pensions

The extent to which the HB sub-market dominates the local PRS in each area may, in the longer term, have some bearing on the extent to which the market adjusts to the reforms to LHA being implemented. That is, where landlords have fewer alternative markets (e.g. suppressed homebuyers, students, migrant workers) then evidence suggests that they are more likely to reduce rents due to the difficulties in replacing LHA tenants with non-LHA tenants.<sup>18</sup> Table 2.6 below shows that just under a third of all PRS households in Hampshire claim HB which indicates that the HB sub-market makes up a smaller proportion of all the PRS than is seen in the South East region or nationally. This may be indicative of a buoyant and more diverse PRS market in Hampshire with high demand from non-HB claimants. The reduction in HB entitlement under the reforms to the LHA system (discussed later in this chapter) may therefore make it more difficult for tenants on HB in these areas to find suitable accommodation at the rent levels available to them. The variation across districts is again apparent with a dominant HB sub-market in Havant, where almost half of all PRS households in are in receipt of HB, compared to only one in five PRS households in Winchester and Hart. HB claimants are far more prevalent in the SRS which accounts for just over two thirds of all tenants in receipt of HB. This is similar to the levels seen in the South East region. The pattern is also more consistent across areas ranging from three out of five SRS tenants in Winchester, Basingstoke and East Hampshire to three quarters of all tenants in Portsmouth and Gosport.

<sup>18</sup> See Beatty, C., Brewer, M., Browne, J., Cole, I., Crisp, R., Emmerson, C., Joyce, R., Kemp, P. A., Pereira, I. and Powell, R. (2013) *Monitoring the Impact of Changes to the Local Housing Allowance System of Housing Benefit: Interim Report* (Research Report No. 838). DWP.

**Table 2.6: Housing Benefit claimants as a percentage of all households in each tenure, February 2013**

	HB claims as % of households		
	PRS	SRS	All HB
Southampton	33	71	25
Portsmouth	38	75	23
Rushmoor	43	67	19
Havant	49	69	18
Gosport	36	74	18
Basingstoke and Deane	24	61	14
Test Valley	23	67	13
Winchester	20	59	12
Eastleigh	29	66	12
New Forest	35	65	11
East Hampshire	22	60	10
Fareham	31	69	9
Hart	20	65	7
<b>Hampshire</b>	<b>32</b>	<b>68</b>	<b>16</b>
<b>South East</b>	<b>37</b>	<b>69</b>	<b>15</b>
<b>England</b>	<b>40</b>	<b>73</b>	<b>20</b>

Source: Stat-Xplore, Department for Work and Pensions; 2011 Census

Although there are two HB claimants living in the SRS for every one living in the PRS, the latter has increased in importance over time and experienced considerable growth since the 2008 financial crisis. The growth of the PRS has been seen in both the sector as a whole and within the HB sub-sector. National figures show that the number of households living in the PRS in England increased by 25 per cent between 2008/9 and 2011/12.<sup>19</sup> This rapid expansion of the sector occurred alongside a relatively static number of households in the SRS and owner occupation over the same period (these sectors declined by one per cent and two per cent respectively). A lack of availability of mortgage finance coupled with the increasing deposits required for first-time buyers has contributed significantly to these trends. This growth of the PRS alongside the small contraction in other tenures meant that the share of all households in England living in the PRS had risen to 17 per cent by 2011/12. For the first time since the 1960s the PRS was on a par with the SRS, which also accounted for 17 per cent of all households - significantly below its peak of over 30 per cent in the 1980s.<sup>20</sup> Table 2.1 (see above) shows that 16 per cent of all households in Hampshire and the South East region live in the PRS, similar to the national picture.

Table 2.7 below shows that total HB claims in Hampshire increased by 27 per cent between the beginning of the recession in November 2008 and February 2013. This amounts to an increase of nearly 24,000 claims since the recession in absolute terms. This rate of increase is slightly higher than that seen in England as a whole over the same period, where the equivalent was 23 per cent. The growth in PRS HB claimants between 2008 and 2013 (61 per cent) was far faster than that seen amongst SRS tenants (15 per cent). As is the case

<sup>19</sup> Department for Communities and Local Government (2013) English Housing Survey: HOUSEHOLDS 2011-12, DCLG, London. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/212496/EHS\\_HOUSEHOLDS\\_REPORT\\_2011-12.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212496/EHS_HOUSEHOLDS_REPORT_2011-12.pdf)

<sup>20</sup> BSHF (2010) *Tenure Trends in the UK Housing System: Will the PRS Continue to Grow*. BSHF: Coalville.

nationally, the growth of HB claimants living in the PRS in Hampshire has resulted in the balance of claimants across the PRS and SRS gradually shifting over time. Whereas 25 per cent of all HB claimants in Hampshire were living in the PRS at the start of the recession in November 2008, by February 2013 this proportion had risen to 32 per cent.

**Table 2.7: Housing Benefit claimants in Hampshire by tenure, November 2008 - February 2013**

HB claimants	November 2008	February 2013	% increase
Private rented sector <i>as % of all HB claims</i>	22,740 <i>25%</i>	36,710 <i>32%</i>	61%
Social rented sector <i>as % of all HB claims</i>	67,050 <i>75%</i>	77,060 <i>68%</i>	15%
<b>Total</b>	<b>89,790</b>	<b>113,760</b>	<b>27%</b>

Source: Stat-Xplore, Department for Work and Pensions

The DWP HB data provided on Stat-Xplore also provides a limited number of characteristics of LHA tenants. This data for Hampshire shows that in February 2013:

- 40 per cent of all LHA tenants were in employment
- the percentage of claimants in work has risen over time and compares with a third of LHA tenants with income from some employment in April 2011
- 49 per cent of LHA tenants were on passported benefits, which is on a par with the South East region
- 18 per cent of LHA tenants were entitled to the SAR, 25 per cent the one bedroom rate, 37 per cent the two bedroom rate, 14 per cent the three bedroom rate and four per cent the four bedroom rate - this is a very similar distribution as is seen in England
- 36 per cent of LHA claimants are single with no dependent children
- 35 per cent are lone parent families
- 22 per cent are couples with dependent children
- seven per cent are couples with no dependent children
- this profile of household types in is similar to that seen amongst LHA tenants in England as a whole.

## Local Housing Allowance

The remainder of this chapter will focus on those HB claimants in the PRS who receive their HB under the LHA system.<sup>21</sup>

The LHA system was introduced in April 2008 and is a way of calculating rents in the deregulated PRS. It was designed to ensure that HB tenants in the same area and in similar circumstances receive the same level of financial assistance in meeting their housing costs. Any new claims for HB in the PRS since April 2008 would automatically be on the new LHA system. Existing tenants would be brought under the new regime when they changed address or experienced a change in their circumstances. Up until 2011 LHA rates were calculated at the median market rent level which, in theory, ensured that 50 per cent of properties in a given area were within the financial reach of LHA tenants. This assumes that all private landlords are willing to let to all LHA tenants however, when in reality some landlords have an aversion to LHA tenants. LHA rates were therefore calculated based on household size and the median rate for households of that size in a particular area, with size criteria used to determine the number of bedrooms needed.

There were 30,390 LHA tenants in Hampshire in February 2013 (Table 2.8). There were a further 1,020 PRS HB claimants who still have regulated rents and a further 5,290 who have HB claims which started pre-2008 when the LHA system was introduced for new claimants. These tenants will not be subject to the new LHA rules unless they have a change of circumstances requiring a new HB claim. LHA claims account for 83 per cent of all PRS HB tenants. This proportion varies across districts with less than 70 per cent of all PRS HB claimants subject to the LHA system in Hart and Winchester compared to 89 per cent of PRS HB claims in Gosport and 91 per cent in Rushmoor.

**Table 2.8: PRS HB Claimants in Hampshire, February 2013**

	PRS HB tenants			Total
	Regulated	Deregulated		
		LHA	Non-LHA	
Portsmouth	140	6,770	1,140	8,060
Southampton	150	6,780	1,060	7,980
New Forest	180	2,420	640	3,240
Rushmoor	30	2,500	220	2,750
Havant	40	2,150	290	2,480
Gosport	20	1,850	220	2,090
Basingstoke and Deane	50	1,650	280	1,980
Eastleigh	60	1,580	250	1,890
Fareham	40	1,220	190	1,450
Test Valley	80	1,100	250	1,430
Winchester	100	910	300	1,310
East Hampshire	80	890	240	1,210
Hart	60	580	210	850
<b>Hampshire</b>	<b>1,020</b>	<b>30,390</b>	<b>5,290</b>	<b>36,710</b>
<b>South East</b>	<b>5,820</b>	<b>171,840</b>	<b>34,470</b>	<b>212,130</b>
<b>England</b>	<b>34,980</b>	<b>1,235,900</b>	<b>216,670</b>	<b>1,487,550</b>

Source: Stat-Xplore, Department for Work and Pensions

<sup>21</sup> We will refer to these PRS HB claimants whose entitlement is calculated under the LHA system as LHA claimants or LHA tenants for the purposes of this report.

## Overview of the reforms to LHA

Reforms to the LHA system were amongst the first to be announced in the June 2010 Emergency Budget. Details of the reforms can be found in a series of DWP Impact Assessments<sup>22</sup> and a Housing Commons Standard Note<sup>23</sup> summarising the changes which consist of:

- abolishing the 5-bedroom Local Housing Allowance (LHA) rate and thereby restricting the maximum benefit entitlement to the 4-bedroom rate (from April 2011)
- capping maximum weekly LHA rates for different sizes of property (£250 per week for 1 bedroom, £290 per week for two bedrooms, £340 per week for 3 bedrooms and 4 bedrooms a week for 4 bedrooms) (from April 2011)
- setting LHA rates based on the 30<sup>th</sup> percentile of private sector rents as opposed to the median or 50<sup>th</sup> percentile (April 2011)
- removing the £15 weekly excess available to some claimants (April 2011) (i.e. in cases where the contractual rent is below the LHA rate claimants were previously allowed to retain a maximum of £15 per week)<sup>24</sup>
- increased expenditure on Discretionary Housing Payments (DHPs) of £10 million in 2011/12 and £40 million thereafter in acknowledgement of the potential transitional costs for some households.

A second set of measures was introduced in the Comprehensive Spending Review in October 2010:

- increasing the age limit for the shared room rate for PRS tenants from 25 to 35 (January 2012)
- basing future changes to LHA rates for PRS tenants on the Consumer Price Index (CPI) rather than on the basis of local rents (April 2013).

As part of the measures there was also a temporary widening of the discretion of local authorities (LAs) to direct payment of the rent to landlords in return for rent reductions. The changes to the LHA system were amongst the first of all the welfare reforms to be implemented in April 2011. In the first instance only new claimants were directly affected. Existing tenants were given nine months transitional protection from the point of the annual renewal of the HB claim, so all claimants under the LHA system were not subject to the new rules until January 2012.

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<sup>22</sup> DWP (2010) *Housing Benefit: Changes to the Local Housing Allowance Arrangements: Impact Assessment*. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214327/lha-impact-nov10.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214327/lha-impact-nov10.pdf);

DWP (2010) *Impacts of Housing Benefit proposals: Changes to the Local Housing Allowance to be introduced in 2011-12*. <http://www.dwp.gov.uk/docs/impacts-of-hb-proposals.pdf>;

DWP (2012) *Housing Benefit - Uprating Local Housing Allowance rates by CPI from April 2013: Impact Assessment*. <http://www.parliament.uk/documents/impact-assessments/IA11-040H.pdf>

<sup>23</sup> House of Commons Library (2013) *The reform of Housing Benefit (Local Housing Allowance) for tenants in private rented housing*, SN/SP/4957. [http://www.parliament.uk/briefing-papers/SN04957/the-reform-of-housing-benefit-\(local-housing-allowance\)-for-tenants-in-private-rented-housing](http://www.parliament.uk/briefing-papers/SN04957/the-reform-of-housing-benefit-(local-housing-allowance)-for-tenants-in-private-rented-housing)

<sup>24</sup> This was already planned by the previous Labour Government was introduced in April 2011 alongside the measures announced in the 2010 Emergency Budget.

The government also announced that from April 2011 the size criteria used to assess HB for people in the PRS would be increased to include an additional bedroom for those with a long term health problem or disability and a proven need for overnight care from a non-residential carer. The Government also announced that it would provide local authorities with additional funding for Discretionary Housing Payments (DHPs) to help them to provide assistance to those with shortfalls in their rent due to the introduction of the reforms. It is up to local councils how they utilise this money to help those who need it most. Baseline funding for DHPs was £20m a year. In 2011/12 an additional £10m was provided for the LHA reforms rising to £40m a year from 2012/13 to 2014/15. However, it needs to be noted that an additional £40m in DHPs will only offset approximately 2.5 per cent of the reduction in HB payments due to the reforms. DHPs are therefore likely to be targeted at the most adversely affected vulnerable households locally.

### **National impact of LHA reforms**

The aims of the reforms to the LHA system are fourfold. As with all the welfare reforms being implemented, the fundamental desire to reduce the overall welfare expenditure is core to the reform, but only part of the picture. The second stated aim of the reforms to the LHA system is to provide a fairer HB system by removing situations where individuals can potentially receive large HB payments in areas of high market rents:

*'From April 2011 the overall caps on Local Housing Allowance rates will address excessively high rates of benefit paid to some customers'*

***DWP Impact Assessment p6***

However, whilst much was made at the time in the press of examples of families living in very high rent properties in central parts of London, in reality only a very small proportion of all HB claims were above the level of the maximum caps. An analysis by DWP<sup>25</sup> shows that only 0.2 per cent, or just over 10,000 of the total 4.8m HB awards, were over £400 in November 2010.

The third stated aim of the reforms reinforces the idea of "fairness" by stating that those families on benefits cannot choose to live in properties that would be unaffordable to many people in work and thereby remove work disincentives created by receiving high rates of benefit:

*'Importantly, the measures announced will provide a fairer and more sustainable Housing Benefit scheme by taking steps to ensure that people on benefit are not living in accommodation that would be out of reach of most people in work. This will also begin to address the disincentives to work in the current system created by high rates of benefit.'*

***DWP Impact Assessment p6***

Finally the government also hopes to exert a downward pressure on private sector rent levels through the break with the link to average PRS market rents and restricting growth in LHA rates to CPI, or in later years a one per cent up-rating. The National Housing

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<sup>25</sup> DWP (2011) *Housing Benefit by Level of Awards*, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/223081/hb\\_awards\\_march\\_2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223081/hb_awards_march_2011.pdf)

Federation,<sup>26</sup> Shelter and the Chartered Institute of Housing (CIH) have been amongst those trying to highlight the potential long term impact of such a break from market rates. They estimate that in the last five years PRS market rents have increased by 37 per cent and that increases of six per cent a year between 2015-18 were not unreasonable to expect, making it more and more difficult for HB tenants in the PRS in high rent areas to access suitable housing in the longer term.

The official DWP Equality Impact Assessment shows<sup>27</sup> the cumulative impact of the first measures announced for LHA. This includes the removal of the £15 excess, the caps on LHA payments, the abolition of the 5-bedroom rate and the shift from setting LHA rates at the 50<sup>th</sup> to the 30<sup>th</sup> percentile. In practice, however, the overall caps on entitlements do not impact on Hampshire as the incidence of that measure is largely confined to areas of central London with very high rents. This cumulative impact assessment *does not* account for the changes to the SAR or the move to up-rating LHA based on the CPI rather than the RPI which are discussed later.

Turning to the impact of these combined measures then it is estimated that, nationally:

- 92 per cent of claims affected will be of working age with the remaining 8 per cent of claimants are of retirement age
- 19 per cent will have a disability (where this is measured as claimants with a HB award with a Disability Premium or Severe Disability Premium or those passported to full HB by an award of Employment and Support Allowance (ESA) or Income Support with a Disability Premium
- 32 per cent will be lone parents (predominantly females)
- 15 per cent will be couples with children
- 5 per cent couples with no children
- 40 per cent will be single
- around 13 per cent will be non-white.

Therefore larger families, BME groups and women are more likely to be affected by the LHA cuts. As the Equality Impact Assessment for these combined measures notes:

*'The assessment of the impact by individual measure shows that families are likely to be affected disproportionately by the overall caps in Local Housing Allowance rates and the removal of the five bedroom rate. As some ethnic minority groups tend to have a higher proportion of large families, these measures may impact on them disproportionately. However, limitations in current data prevent the scope to draw on quantitative evidence to establish the scale of this potential effect.'*

#### **p14 DWP Equality Impact Assessment**

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<sup>26</sup> National Housing Federation (2012) Home Truths.

<sup>27</sup> DWP (2010) *Equality Impact Assessment Housing Benefit: Changes to the Local Housing Allowance arrangements and Housing Benefit size criteria for people with non-resident overnight carers*, November 2010. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214328/lha-eia-nov10.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214328/lha-eia-nov10.pdf)



The Equality Impact Assessment<sup>28</sup> for the up-rating of LHA by the CPI shows a similar pattern in terms of gender and ethnicity as the combined measures above. However, the assessment uses a different definition of Disability based on the Disability Discrimination Act (DDA). When this measure is used half of all HB PRS renters affected by the measure are estimated to have a DDA disability.

The Equality Impact Assessment<sup>29</sup> for the increase in age threshold from 25 to 35 for the Shared Accommodation Rate (SAR) indicates that approximately 10 per cent of all the LHA caseload will be single without dependents, and aged 25 to 34 and thereby affected by the new rules. However, approximately a third of these will already live in shared accommodation so:

- six per cent of all LHA claimants will be affected by the reform
- up to another four per cent of LHA claimants already living in shared accommodation could potentially be affected by the rules if they moved properties before their 35<sup>th</sup> birthday as they would no longer be entitled to the one bedroom LHA rate
- most of those affected are men (72 per cent); this reflects that whereas there are more younger women than men on HB in general, many of these women are lone parents and so are not affected by the policy
- 16 per cent of those aged 25-34 who are directly affected because they are currently in a one bedroom property will be in work
- 44 per cent of those affected will be on income-related JSA
- eight per cent of those affected are on income-related ESA - this does not include those on contribution-based ESA or IB
- 18 per cent of all single childless LHA recipients aged 25-34 will receive disability elements to their HB (this excludes those with a Severe Disability Premium as they are exempt from the new rules); about half of these will come under the Equality Act 2010 (EA) definition of disability
- the ethnicity of those who are affected is not known, but it is known that 21 per cent of all single private renters aged 25-34 without children are from BME groups.

## **Impact of LHA reforms in Hampshire**

The LHA rate in any given locality is calculated at the Broad Rental Market Area (BRMA) level which, in most cases, is inconsistent with conventional administrative geographies. As a result BRMAs may straddle several local authorities; and different parts of the same local authority may have different LHA rates. In Hampshire there are 11 BRMAs covering the 13 local authority districts and these are set out in Table 2.9 below.

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<sup>28</sup> DWP (2011) *Housing Benefit: Up-rating Local Housing Allowance by the Consumer Price Index: Determination of Appropriate Maximum Housing Benefit in the Private Rented Sector: Equality Impact Assessment*, March 2011. <http://www.parliament.uk/documents/impact-assessments/IA11-022AX.pdf>

<sup>29</sup> DWP (2011) *Housing Benefit Equality Impact Assessment: Increasing the Shared Accommodation Rate age threshold to 35*, Revised August 2011. <http://www.dwp.gov.uk/docs/eia-hb-shared-accommodation-age-threshold.pdf>

Only the BRMAs of Portsmouth, Southampton, Basingstoke and Winchester fall wholly within the county of Hampshire. All other BRMAs extend beyond the county boundary. While BRMAs are created on the basis of local rent consistency it is likely that there may be some skewing effect where there are internal differences in rents. This may impact on the resulting LHA level. For instance, part of East Hampshire falls within the Guildford BRMA, which largely covers areas of Surrey and has a higher LHA level than other areas of Hampshire.

**Table 2.9: BRMAs covering Hampshire districts**

LAD	BRMA1	BRMA2	BRMA3	BRMA4
<b>Basingstoke &amp; Deane</b>	Basingstoke	Newbury	Reading	Winchester
<b>East Hampshire</b>	Basingstoke	Guildford	Portsmouth	Winchester
<b>Eastleigh</b>	Southampton	-	-	-
<b>Fareham</b>	Portsmouth	Southampton	-	-
<b>Gosport</b>	Portsmouth	-	-	-
<b>Hart</b>	Basingstoke	Blackwater Valley	Reading	-
<b>Havant</b>	Chichester & Sussex	Portsmouth	-	-
<b>New Forest</b>	Bournemouth	Salisbury	Southampton	-
<b>Portsmouth</b>	Portsmouth	-	-	-
<b>Rushmoor</b>	Blackwater Valley	-	-	-
<b>Southampton</b>	Southampton	-	-	-
<b>Test Valley</b>	Basingstoke	Salisbury	Southampton	Winchester
<b>Winchester</b>	Portsmouth	Southampton	Winchester	-

Source: Valuation Office Agency

Table 2.10 below shows the change in weekly LHA rates by BRMA between March 2011, when the reforms were first introduced, and August 2013. The vast majority of households face some reduction in their LHA entitlement as a result of the changes. The biggest decreases are for larger households. Households with a 5-bedroom need face the most severe cuts to their LHA, given the abolition of the 5-bedroom rate. These households, though small in number, can only claim a maximum of the four-bedroom rate which, over the longer term is likely to result in an increase in overcrowding as larger, more suitable properties are put beyond the reach of households. This measure also has a disproportionate impact on BME households, some of who tend to have larger households due to relatively larger family sizes, which are often inter-generational.

**Table 2.10: Change in LHA rates for BRMAs covering Hampshire, March 2011-August 2013**

	LHA rate					
	Shared	1 Beds	2 Beds	3 Beds	4 Beds	5 Beds
<b>March 2011</b>						
Basingstoke	£69	£137	£167	£196	£277	£404
Blackwater Valley	£83	£138	£173	£213	£300	£415
Bournemouth	£73	£127	£160	£196	£276	£346
Chichester	£72	£137	£167	£207	£284	£392
Guildford	£90	£167	£213	£277	£404	£691
Newbury	£80	£127	£162	£200	£260	£415
Portsmouth	£69	£119	£144	£173	£254	£340
Reading	£80	£150	£185	£208	£312	£369
Salisbury	£69	£127	£156	£183	£242	£306
Southampton	£68	£121	£156	£185	£270	£338
Winchester	£77	£156	£196	£231	£323	£381
<b>August 2013</b>						
Basingstoke	£65	£133	£162	£189	£254	
Blackwater Valley	£74	£138	£173	£207	£300	
Bournemouth	£67	£121	£150	£187	£254	
Chichester	£70	£132	£160	£196	£265	
Guildford	£83	£167	£212	£271	£369	
Newbury	£68	£121	£153	£185	£254	
Portsmouth	£68	£115	£142	£171	£236	
Reading	£75	£150	£185	£211	£300	
Salisbury	£67	£118	£147	£173	£230	
Southampton	£65	£115	£153	£182	£231	
Winchester	£72	£145	£179	£208	£307	
<b>Change March 2011 and August 2013</b>						
Basingstoke	-£ 4	-£ 5	-£ 6	-£ 7	-£23	-£150
Blackwater Valley	-£ 9	£ 0	£ 0	-£ 7	£ 0	-£115
Bournemouth	-£ 6	-£ 6	-£10	-£ 9	-£22	-£ 92
Chichester	-£ 1	-£ 5	-£ 7	-£10	-£18	-£127
Guildford	-£ 7	£ 0	-£ 1	-£ 6	-£35	-£322
Newbury	-£12	-£ 6	-£ 8	-£15	-£ 6	-£162
Portsmouth	-£ 1	-£ 3	-£ 3	-£ 2	-£18	-£105
Reading	-£ 5	£ 0	£ 0	£ 3	-£12	-£ 69
Salisbury	-£ 3	-£ 9	-£ 8	-£10	-£13	-£ 76
Southampton	-£ 3	-£ 6	-£ 2	-£ 2	-£39	-£107
Winchester	-£ 5	-£10	-£17	-£23	-£16	-£ 74

Source: Valuation Office Agency

While these reductions in LHA rates may appear relatively small, the figures presented above are per week. So, for example, households living within the Basingstoke BRMA and previously claiming the two-bedroom rate will incur a reduction of £6 a week or over £24 per month in their HB entitlement. Unless their landlord agrees to lower their rent, or they move to a cheaper property within the reduced LHA rate available, this would be a significant amount of money to find for households on low incomes, especially for those also affected by cuts to other benefits they may receive.

The Table above also highlights the severe impact of the SAR for those single tenants aged between 25 and 34 and not in shared accommodation at the time of the reforms. Where previously this group could claim the one-bedroom rate, post-reform they are only eligible for the SAR (the first column in the table above). For example, a single person in that age group in Basingstoke and Deane living in a one-bedroom flat could previously claim up to £137 per week. Now however, that person would only be entitled to £65 per week - a huge drop of £72 per week (around £300 a month), or 53 per cent. The implications of this measure are likely to be more acute in areas with a relative paucity of shared accommodation, which would limit the options available in the local area and could lead to displacement effects.

This report will now draw upon local data underpinning a major study of the local and regional impacts of welfare reform undertaken by CRESR in April 2013.<sup>30</sup> The study was funded by *The Financial Times*, the Scottish Parliament and Sheffield Hallam University. The assessment is firmly grounded in official government data from the HM Treasury Budget and Spending Reviews, Impact Assessments from DWP and HMRC, and the distribution of claimants across local authorities in Britain. Full details of the methodology and data underpinning each of the calculations are available in the Technical Appendix of the report. The findings from the study for each of the major reforms to the benefits system for the 13 districts within Hampshire are presented here.

HM Treasury estimates that the total estimated financial loss to households incurred in the UK as a result of the combined elements of the LHA reforms listed above will amount to **£1,645 million a year** when the reforms are fully implemented by 2014/15. This comprises of: £1,040 million per annum as a result of the reduction in LHA rates to the 30<sup>th</sup> percentile, capping the LHA rates by property size and removing the £15 excess; a reduction of £215 million per annum in HB payments through the introduction of the increase in the SAR age threshold from 25 to 35; and £390 million per year due to moving the indexation of LHA rates to the CPI.

Table 2.11 below shows the estimated impact of how much of these cuts will fall on households in Hampshire. Information contained within the DWP impact assessments (see above) on the distribution of households affected, average losses incurred and HB claimant data were all utilised to estimate the local impacts.<sup>31</sup> The estimates are for financial losses per year when the changes are fully implemented in 2014/15 with *all other factors held constant*. What this means in practice is that it makes no assumptions about the growth of the economy or about future levels of employment and unemployment. The main thrust of all the major welfare reforms are targeted at working age people and so the financial loss per working age person in each area is given, rather than financial loss per head of population so that losses across benefit groups can be compared.

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<sup>30</sup> Beatty, C. and Fothergill, S.(2013) *Hitting the Poorest Places Hardest: The local and regional impact of welfare reform*. CRESR, Sheffield Hallam University, Sheffield.

<sup>31</sup> The figures for affected households are not directly comparable with those published in the GB report. The calculations have been revised to take into account updated LHA claimant figures for February 2013 now available from Stat-Xplore.

**Table 2.11: Impact of reforms to Housing Benefit: Local Housing Allowance**

Housing Benefit: Local Housing Allowance				
	No. of households affected	Estimated loss £m per year	No. of households affected per 10,000	Financial loss per working age adult £ per year
Portsmouth	6,800	7	790	52
Southampton	6,800	8	690	46
Gosport	1,900	2	520	40
Rushmoor	2,500	2	690	36
Havant	2,200	2	420	30
New Forest	2,400	3	310	25
Eastleigh	1,600	2	300	22
Fareham	1,200	1	260	17
Test Valley	1,100	1	230	17
Basingstoke and Deane	1,700	2	240	16
East Hampshire	900	1	190	14
Winchester	900	1	190	14
Hart	600	1	160	11
<b>Hampshire</b>	<b>30,400</b>	<b>32</b>	<b>420</b>	<b>29</b>
<b>South East</b>	<b>171,800</b>	<b>203</b>	<b>480</b>	<b>37</b>
<b>Great Britain</b>	<b>1,390,300</b>	<b>1,645</b>	<b>540</b>	<b>41</b>

Source: Updated from Beatty and Fothergill 2013.

Over **30,000 households in Hampshire will be affected by the reforms to LHA**, amounting to a loss to the local economy of **£32m per year**, with 420 affected households per 10,000. This equates to an annual loss to the Hampshire economy of £29 for every adult of working age. These impacts are less severe than those at the regional and national level. In the South East, the financial loss per working age adult is £37 per year and in England, £41 per year. There are wide variations in terms of the impact across local authorities however.

Perhaps unsurprisingly, given the larger PRS in Hampshire's urban areas, Portsmouth and Southampton are the worst affected districts along with Gosport and Rushmoor. In terms of the number of households affected all four fare worse than the regional and national averages. Portsmouth and Southampton exhibit the largest annual losses per working age adult at £52 and £46 respectively. At the other end of the spectrum the impact of LHA reform in East Hampshire, Hart and Winchester is minimal.

We can also apply the details from the national impact assessments above to estimate the local impacts of the combined LHA measures on sub-groups in Hampshire as 100 per cent of claimants are expected to be affected by at least one of these measures. **Of the 30,400 LHA claims affected approximately:**

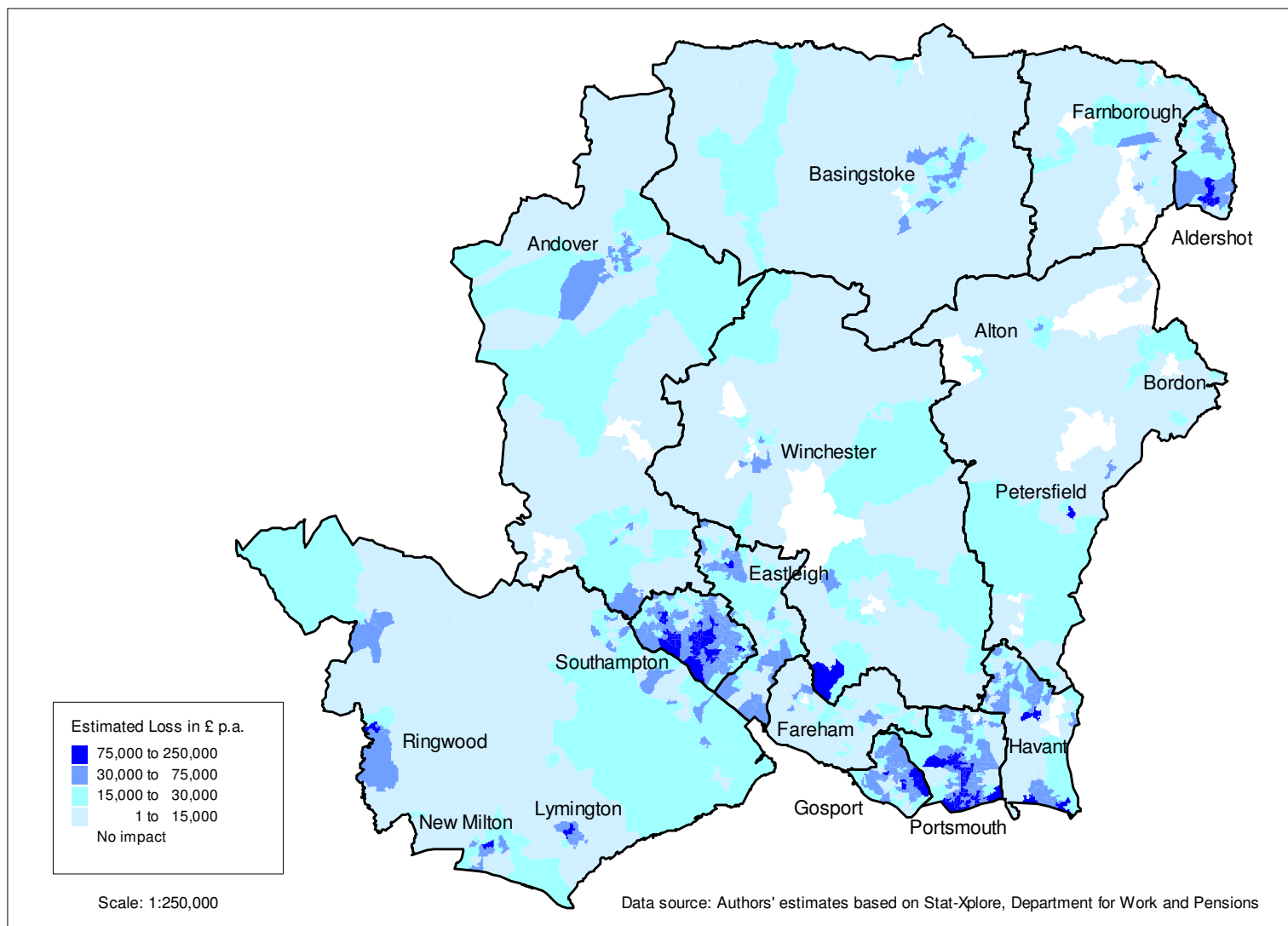
- 28,000 (92 per cent) will be of working age and 2,400 (8 per cent) over the age of 65
- 5,800 (19 per cent) of those affected are estimated to have a disability
- 9,700 (32 per cent) will be lone parents
- 4,600 (15 per cent) of affected claims will be couple households with children
- 1,500 (five per cent) affected claims will be couples with no children
- 12,200 (or two-fifths) of affected claimants will be single persons.

In addition the impact assessment for the specific measures of the increase in the age threshold to 35 years old for the SAR indicates that in Hampshire approximately:

- 1,800 (six per cent of all claimants) will be directly affected by the SAR reform
- 1,300 (72 per cent) of those affected will be men
- 290 (16 per cent) of those affected will be in work
- 790 (44 per cent) of those affected will be on JSA
- 140 (eight per cent) of those affected will be on income-related ESA (there will be others on contribution-based Incapacity Benefit (IB) or ESA)
- 320 (18 per cent) will receive disability elements to their HB and not be exempt from the reforms and 160 of these will fall under the EA definition of disability.

An assessment at the county and local authority district level can mask localised differences in the distribution of households affected by the bedroom size criteria. Figure 2.2 below presents the geographical impact of the LHA reforms in Hampshire by the estimated loss in pounds per annum for all LSOAs. The darker the shading on the map, then the greater the impact in pounds per annum. Given this measurement the greater impact is to be found in the LSOAs containing larger numbers of LHA tenants, which again points to Portsmouth and Southampton, and is clearly discernible in the map below. A "second tier" impact (which is less acute than the large urban districts but still significant) amounting to a total loss to the respective local authority of £2-3m includes Gosport, Havant, New Forest and Rushmoor.

**Figure 2.2: Impact of Housing Benefit reform to the LHA system in Hampshire, by LSOA**



## Summary

- 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
- these changes have a major impact in Hampshire with all claims affected in some way, equating to over **30,000 households**
- LHA cuts 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**
- in the most extreme cases some households may run up rental arrears, be faced with eviction and/or be forced to look for cheaper accommodation elsewhere. This has serious consequences for school age children and households relying on informal support networks at the neighbourhood level
- the adverse effects of LHA reform fall disproportionately on single person households (especially those aged between 25 and 34 affected by the SAR), lone parents and claimants with disabilities
- Gosport, Portsmouth, Rushmoor and Southampton are the worst affected districts within Hampshire
- 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

## Introduction

In the 2010 Emergency Budget the government announced that from 1<sup>st</sup> April 2013 it would restrict Housing Benefit (HB) for working age tenants who lived in social housing and were deemed to be under-occupying their property. This change has been commonly referred to as introducing a "bedroom tax", although the government uses the term removing the "spare room subsidy". As with many of the measures introduced in the Emergency Budget, this reform was specifically targeted at working age claimants with the stated aim of increasing work incentives. In addition, the policy aims to contribute to reducing HB expenditure, encourage mobility within the social rented sector (SRS) and make more efficient use of the housing stock by freeing up larger properties for families on the waiting list. Households where both the tenant and any partner are above pensionable age are not included in the new rules.<sup>32</sup>

Previously, there had been no consideration of the size of property that a household in the SRS occupied when making a HB calculation. It was simply based on the rent for the property that they occupied. In effect, the change means that from April 2013 tenants in the SRS became subject to the same size criteria already in use for tenants in the private rented sector (PRS) who claim HB under the Local Housing Allowance (LHA) system.

The government initially provided for an additional £30m a year from 2013/14 to the Discretionary Housing Payment (DHP) fund to mitigate the effects on some of those households which will face difficulties with their housing costs as a result of these changes. This was especially focused on helping disabled tenants, whose properties may have undergone significant adaptations, to remain in their current accommodation. On the 30<sup>th</sup> July 2013 DWP announced a further £35m in DHPs to help claimants in the SRS who need extra support because of the changes underway. However as this fund is discretionary it is actually up the LAs how they decide their local priorities and allocate the funds.

This chapter will first provide an overview of SRS tenants in Hampshire before considering in detail the implementation of the reform and estimating the scale of the impact on tenants in the PRS.

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<sup>32</sup> Until April 2010 pensionable age within the benefits system was taken as 60. This is gradually increasing in line with the changes in state pension age for women and by 2028 will be 67.

## Housing Benefit claimants in the social rented sector

Table 3.1 below shows SRS households by household type in absolute numbers for all Hampshire districts alongside the regional and national figures. There are just under 114,000 SRS households in Hampshire. 61,000 of these (or 54 per cent) are concentrated within four districts: Basingstoke and Deane, Havant, Portsmouth and Southampton. The largest SRS by local authority is Southampton where almost 23,000 households live in social rented accommodation (see Table 2.1 on tenure above).

**Table 3.1: Social rented sector households by household type - numbers**

Area	All h/holds	One person h/hold	Couple h/hold: with deps	Couple h/hold: no deps	Lone parent h/hold: with deps	Lone parent h/hold: No deps	Multi-person h/hold
Basingstoke & Deane	12,346	4,598	2,279	2,417	2,166	639	247
East Hampshire	5,681	2,044	1,199	1,113	892	340	93
Eastleigh	6,411	2,464	1,128	1,258	1,103	344	114
Fareham	3,785	1,535	663	615	699	201	72
Gosport	5,815	2,352	917	1,036	1,119	315	76
Hart	2,718	1,034	505	585	385	175	34
Havant	10,037	3,779	1,771	1,852	1,901	578	156
New Forest	8,440	3,166	1,565	1,686	1,451	437	135
Portsmouth	15,611	6,525	2,555	2,263	3,054	841	373
Rushmoor	5,927	2,121	1,243	1,000	1,064	372	127
Southampton	22,867	9,966	3,584	3,776	3,957	1,152	432
Test Valley	6,854	2,540	1,290	1,469	1,076	364	115
Winchester	7,243	3,090	1,274	1,575	867	302	135
<b>Hampshire</b>	<b>113,735</b>	<b>45,214</b>	<b>19,973</b>	<b>20,645</b>	<b>19,734</b>	<b>6,060</b>	<b>2,109</b>
<b>South East</b>	<b>487,473</b>	<b>197,288</b>	<b>83,254</b>	<b>89,002</b>	<b>81,324</b>	<b>27,744</b>	<b>8,861</b>
<b>England</b>	<b>3,903,550</b>	<b>1,680,797</b>	<b>572,170</b>	<b>642,984</b>	<b>688,220</b>	<b>235,083</b>	<b>84,296</b>

Source: 2011 Census of Population

There are a number of key differences between the PRS and the SRS in terms of household type. The PRS contains more multi-person households, especially in urban areas and University towns, due to the concentration of young people and students. In contrast, the SRS shows a greater number of single person and lone parent households. The latter is a reflection of the fact that social housing is allocated on the basis of need with households with dependents struggling to access home ownership and the PRS more likely to be allocated social housing.

Table 3.2 below presents these figures as a proportion of all households in the SRS by district. Unlike the PRS, all districts show a relative degree of consistency in terms of household type. Of most note for what follows on the bedroom tax are the relatively high proportions of single person households in Portsmouth, Southampton and Winchester. All of

which are above the average of 40 per cent for Hampshire and the South East. Also noteworthy are the smaller proportions of lone parent households with dependents in the SRS in the affluent districts of Hart and Winchester. This is also a reflection of the older age structure to be found in these districts.

**Table 3.2: Social rented sector households by household type - per cent**

Area	All h/holds	One person h/hold	Couple h/hold: with deps	Couple h/hold: no deps	Lone parent h/hold: with deps	Lone parent h/hold: No deps	Multi-person h/hold
Basingstoke & Deane	100	37	18	20	18	5	2
East Hampshire	100	36	21	20	16	6	2
Eastleigh	100	38	18	20	17	5	2
Fareham	100	41	18	16	18	5	2
Gosport	100	40	16	18	19	5	1
Hart	100	38	19	22	14	6	1
Havant	100	38	18	18	19	6	2
New Forest	100	38	19	20	17	5	2
Portsmouth	100	42	16	14	20	5	2
Rushmoor	100	36	21	17	18	6	2
Southampton	100	44	16	17	17	5	2
Test Valley	100	37	19	21	16	5	2
Winchester	100	43	18	22	12	4	2
<b>Hampshire</b>	<b>100</b>	<b>40</b>	<b>18</b>	<b>18</b>	<b>17</b>	<b>5</b>	<b>2</b>
<b>South East</b>	<b>100</b>	<b>40</b>	<b>17</b>	<b>18</b>	<b>17</b>	<b>6</b>	<b>2</b>
<b>England</b>	<b>100</b>	<b>43</b>	<b>15</b>	<b>16</b>	<b>18</b>	<b>6</b>	<b>2</b>

Source: 2011 Census of Population

Table 3.3 below shows SRS households by the ethnicity of the HRP. The table shows that SRS tenants are almost exclusively White in most districts, with nine out of 13 local authority areas containing less than five per cent of households headed by a non-White individual. Thus, social rented tenants in Hampshire are more likely to be of White ethnicity than their counterparts in the PRS. Whereas over ten per cent of PRS tenants are non-White in the four most ethnically diverse districts of Basingstoke and Deane (12 per cent), Portsmouth (13), Southampton (18) and Rushmoor (23), not one of these districts has a minority ethnic SRS population of ten per cent or more. In contrast, 16 per cent of SRS households in England record the ethnicity of the HRP as non-White, significantly higher than the five per cent in Hampshire overall.

**Table 3.3: Social rented sector ethnicity by Household Reference Person**

Area	All	White	Mixed/ multiple ethnic group	Asian/ Asian British	Black/ African/ Caribbean/ Black British	Other ethnic group
Southampton	100	91	2	4	3	1
Portsmouth	100	91	1	4	2	1
Rushmoor	100	92	2	3	2	0
Basingstoke & Deane	100	95	1	2	2	0
Hart	100	96	2	1	1	0
Eastleigh	100	96	1	1	1	0
Winchester	100	97	1	1	0	0
Test Valley	100	97	1	1	1	0
Fareham	100	98	1	1	1	0
East Hampshire	100	98	1	1	1	0
Gosport	100	98	1	1	0	0
New Forest	100	98	1	0	0	0
Havant	100	98	1	0	0	0
<b>Hampshire</b>	<b>100</b>	<b>95</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>0</b>
<b>South East</b>	<b>100</b>	<b>93</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>England</b>	<b>100</b>	<b>84</b>	<b>2</b>	<b>4</b>	<b>8</b>	<b>1</b>

Source: 2011 Census of Population

### Overview of the under-occupation of social housing reforms

The reforms were introduced for all working age households in the SRS from 1<sup>st</sup> April 2013. The amount of HB a household receives from this point of time is determined by the same **size criteria** as used in the operation of the LHA system for PRS tenants. In effect this means that SRS tenants will face the same situation as PRS tenants. If their property is larger than the rules allow for they are faced with having to move to a smaller property, or to stay put and contribute towards the shortfall between the HB allowed by their household size and the size of the property they occupy. The size criteria allows for one bedroom each for:

- each adult or couple living within the household
- two children aged 15 or under will be expected to share with another child of the same gender
- two children aged nine or under would be expected to share with one other child aged nine or under regardless of gender
- an additional room will be allowed for those households who need overnight care from a non-residential carer.

Additional exemptions from the size criteria were announced by the Secretary of State on the 12<sup>th</sup> March 2013. An additional room will be allowed for:

- households caring for a foster child or households accepted as foster carers but who do not have a foster child with them currently, so long as this period does not exceed 52 weeks
- households with adult children in the armed forces who continue to live with their parents but are deployed on operations.

There were strong arguments put forth during the passing of this reform for two further groups of exemptions, these were not accepted by the government at the time, but subsequent legal challenges have been mounted and in some cases have been successful in ensuring additional exemptions.

Firstly, the new rules mean that children of parents who don't live together will be treated as living with the parent who is responsible for them and provides their main home. If the child spends equal amounts of time with both parents then this will be counted as the parent who receives Child Benefit for them. Therefore, for a parent who claims HB in the SRS, is separated from their partner and may only have their children reside with them for part of the week or the weekend, then the reduction to their HB will apply to the room(s) which they may use for their children while they reside with them. Currently campaign group Liberty is seeking a judicial review for the under-occupation provisions with regards to such cases. They argue that the regulations are discriminatory and in breach of the European Convention on Human Rights.

Secondly, legal challenges were made with regards to the new rules being discriminatory to households with disabled residents. The Equality Impact Assessment<sup>33</sup> shows that 63 per cent of all working age SRS HB claimants affected will have a Disability Discrimination Act (DDA) recognised disability. This is a higher proportion of affected tenants than amongst the population of working age SRS HB tenants as a whole (56 per cent of all have a DDA disability). The Court of Appeal subsequently accepted that the new regulations were discriminatory in the case of households where two children cannot share a room because of disability. DWP subsequently changed their position and accepted that LAs should allow for an extra bedroom where children were unable to share because of severe disabilities. The DWP decided it is up to the LAs on a case by case basis to decide that sufficient medical evidence exists and that the nature of the disability means the other child would be disturbed at night time if they shared the room. However, as of yet, DWP has failed to legislate for the new regulations to enforce the rights of families in these circumstances. Whilst the Court also accepted on 31<sup>st</sup> July 2013<sup>34</sup> that the under-occupation regulations in relation to adults with disabilities were discriminatory, it decided that the discrimination was justified and therefore lawful because discretionary payments are available to cover HB losses as a result of the bedroom tax. The lawyers bringing this case have said they will appeal this decision.

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<sup>33</sup> DWP (2012) *Housing Benefit: Size Criteria for People Renting in the Social Rented Sector, Equality Impact Assessment*. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220154/eia-social-sector-housing-under-occupation-wr2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220154/eia-social-sector-housing-under-occupation-wr2011.pdf)

<sup>34</sup> <http://www.leighday.co.uk/News/2013/July-2013/Bedroom-Tax-Judgment-to-be-appealed>

## National impact of under-occupation of social housing reforms

As well as reducing costs on HB expenditure the government also hopes that this reform will act as a work incentive and eventually lead to some households moving off of HB. However, this is based on the following assumption in the latest DWP Impact Assessment<sup>35</sup>:

*'Where the choice is to move, a lower rent will help to provide an additional work incentive, and enable claimants to "float off" Housing Benefit at lower income levels than is currently the case.'*

**Para 19, p7, DWP Impact Assessment**

Therefore, the assumption is that the incentive to take a low-paid job may be more attractive as a household would have lower out-goings on rent for a smaller property and therefore would potentially have no further need for HB once in work. However, given the mismatch between the number of households needing to downsize and the availability of smaller accommodation (see below), those wishing to move may struggle to do so; or may have to move into the PRS where rents tend to be higher. So a move to a smaller property in the PRS may not actually result in a lower rent.

Others who are in receipt of partial housing benefit may find that the reduction in their entitlement means their claim ceases altogether and they may "float-off" HB this way. The Impact Assessment estimates that **seven per cent of the households affected by the change will "float off" HB** - 40,000 in all nationally. If a similar pattern was seen amongst claimants affected by the under-occupancy rules then **640 HB claimants in the SRS might be expected to "float off" HB in Hampshire.**

The government's second stated aim with the policy is that it will encourage mobility and free up accommodation for larger households on the SRS waiting list, thereby utilising stock more effectively and reducing the cost of housing these larger households either in temporary accommodation or more expensive accommodation in the PRS. However, the original DWP Impact Assessment<sup>36</sup> acknowledges that:

*'Estimates of Housing Benefit savings are based upon the current profile of tenants in the social rented sector, with little tenant mobility assumed. If a significant number of tenants wished to move, this would reduce direct savings and place extra demands on social landlords.'*

**DWP Impact Assessment, p2**

The Impact Assessment also acknowledges that there is a mismatch between the number of tenants who may need to downsize and the supply of one bedroom properties available:

*'According to estimates from DCLG there is a surplus of three bedroom properties, based on the profile of existing working age tenants in receipt of Housing Benefit, and a lack of one bedroom accommodation in the social sector. In many areas this mismatch could mean that there are insufficient properties to enable tenants to move to accommodation of an appropriate size even if tenants wished to move and landlords were able to facilitate this movement.'*

**DWP Impact Assessment, para 38, p12**

<sup>35</sup> DWP (2012) *Housing Benefit: Under Occupation of Social Housing, Impact Assessment*. 28<sup>th</sup> June 2012, <http://www.dwp.gov.uk/docs/social-sector-housing-under-occupation-wr2011-ia.pdf>

<sup>36</sup> DWP (2012) *Housing Benefit: Under Occupation of Social Housing Impact Assessment*, 16<sup>th</sup> February 2012.

Many social landlords and housing groups have raised concerns about the lack of availability of smaller properties within the SRS which will impede the mobility of those who may wish to downsize. This may result in individual hardship as tenants try to stay in their property and subsume the HB cut within their current limited income as moving within the sector may not be an option to many. A shortage of smaller properties available in the SRS means a move to the PRS is a more likely outcome for those who do choose to move. In February 2013, average HB awards for LA tenants in England was £78 a week, £88 a week for tenants of Registered Social Landlords (RSLs) and £108 a week in the PRS. So a move to the PRS may actually increase rents for those who move into a smaller property.

This mismatch in supply and demand of smaller properties in the SRS is highlighted by the National Housing Federation (NHF).<sup>37</sup> They estimate that whilst 180,000 households are under-occupying two bedroom homes in the SRS, only 85,000 one bedroom properties became available in the social housing sector in 2011-12. In addition, a further 970,000 people are on waiting lists in England for this size of property. Further research commissioned by NHF<sup>38</sup> showed that approximately 52 per cent of housing associations in the South East (61 per cent nationally) expect the size criteria to have a significant impact on their businesses with rent arrears, rent collection difficulties and falling rental incomes coming high on the list of expected outcomes.

The government's Impact Assessment estimates that the reforms will impact on nearly a third (31 per cent) of all working age HB claimants in the SRS, **660,000 claimants nationally, will face a reduction in their HB because of this reform.** This is equivalent to 19 per cent of all SRS HB claimants nationally. These figures differ by region given the nature of the housing stock and number of SRS HB claimants in each region. Regionally the number of claimants affected is 40,000, equivalent to **12 per cent of all SRS HB claimants in the South East.**

Of the 660,000 claimants affected nationally:

- 540,000 (81 per cent) will be under occupying their accommodation by one bedroom
- 120,000 (19 per cent) will be under-occupying by two or more bedrooms
- 390,000 (59 per cent) of the total households affected will be LA tenants
- 270,000 (41 per cent) will be tenants in the RSL sector.

Households who continue to under-occupy a property will face a reduction in their HB of 14 per cent (or an average of £12 per week) if under-occupying by one bedroom; or 25 per cent (or an average of £22 per week) if under-occupying by two or more bedrooms.

Overall, these percentage reductions in HB entitlement are estimated to result in an average loss of **£14 per week per affected claimant.** The estimated impact on claimants within the South East Region is £15 a week. The DWP Equality Impact Assessment also provides some details on the 660,000 households affected in terms of their household composition:

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<sup>37</sup> The National Housing Federation (2013) *The Bedroom Tax: Some home truths.*

[http://s3-eu-west-1.amazonaws.com/doc.housing.org.uk/News/Bedroom\\_tax\\_home\\_truths.pdf](http://s3-eu-west-1.amazonaws.com/doc.housing.org.uk/News/Bedroom_tax_home_truths.pdf)

<sup>38</sup> Ipsos MORI (2013) *Impact of Welfare Reform on Housing Associations - Baseline Report 2012.* <http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/Impact%20of%20welfare%20reform%20on%20housing%20associations%20-%20IPSOS%20MORI%20report.pdf>

- 48 per cent of the those affected will be single people aged under 60
- 22 per cent of those affected will be lone parents
- 10 per cent of all those affected will be couples with children
- women-headed households will account for 51 per cent of all those households affected, men 24 per cent and couples 24 per cent; this reflects the higher proportion of women amongst working age tenants as a whole
- BME households are less likely to be affected by the measure than white claimants (ten per cent of affected households) which is lower than the proportion of all working age SRS HB households that are BME (15 per cent); this may be due to average family sizes being larger amongst BME claimants and a higher proportion having children (and sometimes parents) living with them as part of their household and therefore not under-occupying
- 63 per cent of all households affected will have a recognised disability under the Disability Discrimination Act (DDA).

### **Impact of under-occupation of social housing reforms in Hampshire**

Table 3.4 below details the impact of the implementation of the bedroom size criteria ("bedroom tax") within the SRS in Hampshire by district and benchmarked against the regional and national averages. The impact at the national level is more severe than that in Hampshire with 260 affected households for every 10,000 across England, compared to 110 households for the county. For Hampshire this represents a loss to the local economy of around £7m per year.

The biggest impact at the LAD level is apparent in Southampton and Portsmouth, in absolute terms and also in Havant (160) in relative terms, with the number of affected households per 10,000 estimated at 200 and 160 respectively. For three other districts - Gosport (140), Basingstoke and Deane (130) and Rushmoor (130) - the proportion of households affected is greater than that at the regional level (120). Again, the wealthy districts at the bottom of the table show only a marginal impact in relative terms at the local authority level of analysis.



**Table 3.4: Impact of reforms to Housing Benefit: Under-occupation ('bedroom tax')**

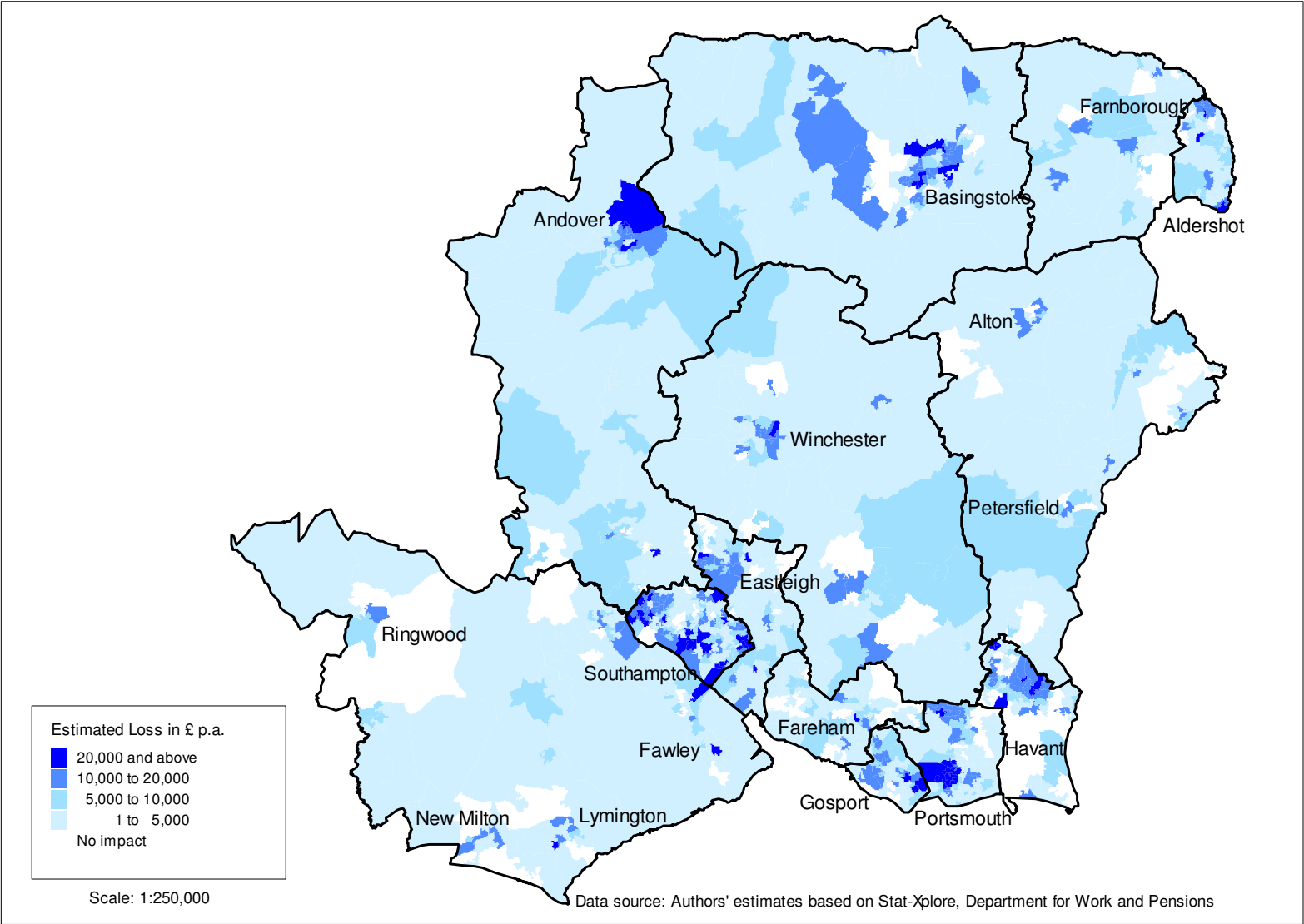
<b>Housing Benefit: Under-occupation ('bedroom tax')</b>				
	<b>No. of households adversely affected</b>	<b>Estimated loss £m per year</b>	<b>No. of households adversely affected per 10,000</b>	<b>Financial loss per working age adult £ per year</b>
Southampton	1,900	1.5	200	9
Havant	800	0.6	160	9
Portsmouth	1,400	1.1	160	8
Gosport	500	0.4	140	7
Basingstoke and Deane	900	0.7	130	6
Rushmoor	500	0.4	130	6
Test Valley	500	0.4	110	6
Eastleigh	500	0.4	100	5
New Forest	700	0.5	80	5
Winchester	500	0.4	110	5
East Hampshire	400	0.3	90	4
Fareham	300	0.2	70	3
Hart	200	0.2	60	3
<b>Hampshire</b>	<b>9,100</b>	<b>7</b>	<b>120</b>	<b>6</b>
<b>South East</b>	<b>40,000</b>	<b>31</b>	<b>110</b>	<b>6</b>
<b>Great Britain</b>	<b>660,000</b>	<b>490</b>	<b>260</b>	<b>12</b>

Source: Hitting the Poorest Places Hardest, Beatty and Fothergill 2013

Applying the figures from the national Impact Assessment and the Equality Impact Assessment enables the characteristics of those households in the SRS impacted on by new size criteria rules to be considered. It also allows an estimate of the number of households affected by sub-group (though these groups are not mutually exclusive). **Of the 9,100 households affected in Hampshire** approximately:

- 7,400 (81 per cent) are estimated to have one spare bedroom and face a 14 per cent reduction in HB
- 1,700 households (19 per cent) are estimated to be under-occupying by two bedrooms or more - resulting in a 25 per cent reduction in HB
- 5,700 households (63 per cent) will contain a claimant with a recognised disability under the Disability Discrimination Act (DDA)
- 5,400 households will be LA tenants
- 3,700 households will be RSL tenants
- 4,400 will be single person households under the age of 60 (48 per cent)
- 4,600 will be single female headed households (51 per cent)
- 2,200 will be single male headed households (24 per cent)
- 2,200 will be couple households (24 per cent)
- 2,000 will be lone parent households (22 per cent)
- 900 families affected (10 per cent) will be couple households with children.

Figure 3.1: Impact of Housing Benefit under-occupation reform in the SRS in Hampshire, by LSOA



An assessment at the county and local authority district level can mask localised differences in the distribution of households affected by the bedroom size criteria. Figure 3.1 above presents the geographical impact of the bedroom tax across Hampshire by the estimated loss in pounds per annum for all LSOAs. The darker the shaded area on the map, then the greater the impact for that particular LSOA. The darker blue areas represent the worst affected areas, which stand to lose over £20,000 per year. These greater impacts are concentrated in Basingstoke, Portsmouth and Southampton with other small pockets in Aldershot and Andover for instance. Of course this also reflects the distribution of social housing across Hampshire and so the districts with the least social housing - East Hampshire, Fareham and Hart for instance - show a relatively minor impact in terms of the absolute loss in pounds per annum. However, though the numbers affected are smaller in these areas the effects for any low income households are likely to be similar.

### **Direct Payments to tenants**

A key concern for both private and social sector landlords is the coalition government's commitment to making HB payments direct to tenants - a key plank of the new Universal Credit. The policy rationale for this move is that tenants and households will be instilled with greater responsibility and will alter their behaviour. It is assumed that this will help prepare out-of-work HB claimants for the world of work by making them take more control of their financial affairs and budget accordingly - on a month-to-month basis in line with most employee wages. The concern of landlords is that for many claimants on low incomes the management of their household budgets can be extremely difficult and this shift will therefore result in increased rent arrears.

In the PRS the presumption of direct payments to the tenant has been in place since 2008 with exceptions made for vulnerable groups (e.g. care leavers, those with drug and alcohol dependencies) and for tenants who are in rental arrears of eight weeks or more. A further exception was made as part of the raft of LHA measures in a bid to encourage landlords to enter into rental negotiations. Where landlords were willing to reduce rents for claimants adversely affected by the reforms, then they too were able to access direct payments as a policy "carrot" designed to maintain tenancies and keep evictions and non-renewal of tenancies down.

Evidence from the DWP-commissioned research monitoring the impact of the LHA reforms<sup>39</sup> suggests that the change to direct payments (since 2008) has contributed to increased arrears in some cases and is one of the most prominent issues of concern cited by private landlords operating within the LHA market. Evidence also suggests that the policy of direct payments is interpreted variably at the local level and some landlords report always being able to receive LHA payments into their bank accounts; while others are unwilling to let to LHA tenants unless they are able to receive direct payments. In terms of the latter, this is especially the case where a tenant in substantial arrears has absconded leaving the landlord out of pocket and unable to recoup those losses.

In the SRS direct payments to tenants is a more recent policy shift. Currently this is being piloted nationally in six areas referred to as the Direct Payments Demonstration Projects

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<sup>39</sup> See Beatty, C., Brewer, M., Browne, J., Cole, I., Crisp, R., Emmerson, C., Joyce, R., Kemp, P. A., Pereira, I. and Powell, R. (2013) *Monitoring the Impact of Changes to the Local Housing Allowance System of Housing Benefit: Interim Report* (Research Report No. 838). London: DWP

(DPDPs): Edinburgh, Oxford, Southwark, Shropshire, Torfaen and Wakefield. DWP-commissioned research on the DPDPs has produced some early findings in terms of the experiences of both tenants and social landlords.<sup>40</sup> In a baseline survey tenants participating in the research were mostly *unsupportive* of direct payments with **32 per cent reporting that they would "cope poorly" and 38 per cent suggesting they would find it difficult to manage their finances**. The existing high levels of indebtedness, including rent arrears as well as other debt, were a key consideration here. Early experiences of direct payments were also negative with rent collection rates lower across all six areas. Furthermore, some tenants who had previously never been in arrears before had fallen behind with their rental payments since the introduction of direct payments. Social landlords reported being surprised by the resource-intensive nature of providing support to tenants and that capacity to do so was limited. This is problematic given that personalised support was the preferred option of tenants, which is by its very nature more resource-intensive. The cooperation between local HB departments and social landlords was deemed crucial in implementation and delivery through enabling flexibility. However, this would be lost when UC is rolled out and HB claims are managed centrally at the national level. Social landlords also highlighted the importance of providing multiple payment methods given that some tenants do not have bank accounts. They also pointed to SMS messaging as having a positive impact on rent collection rates.

These are of course early findings, but the challenges ahead for both tenants and social landlords are clear with budgeting and debt management advice likely to be in high demand once UC is implemented.

## Summary

- 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')
- despite attracting significant media attention the overall impact of the bedroom tax is less significant than most of the other welfare reforms. **The measure affects over 9,000 households representing a total loss to the Hampshire economy of £7m per annum**
- HB cuts as a result of under-occupation account for just 2 per cent of the total impact of all welfare reforms in Hampshire
- the adverse effects of the under-occupation measure fall disproportionately on single person households, women and households and households containing a claimant with a recognised disability
- Havant, Portsmouth and Southampton are the worst affected districts within Hampshire, a reflection of the distribution and concentration of social housing within the county
- looking ahead, a key factor and challenge in mitigating the effects of under-occupation will be the ability of social housing providers to place affected tenants in suitable alternative accommodation. The fears of long-standing tenants in terms of leaving the familiarity of their neighbourhood and social support networks, however, are likely to be a major factor.

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<sup>40</sup> Hickman, P. and Reeve, K. (2013) *Direct Payments Demonstration Projects: Learning the lessons, six months in*. (Research Report No 839). London: DWP.

# Non-dependant deductions

## Introduction

Traditionally, non-dependant adults have been expected to make a contribution towards the housing costs of their accommodation if they live in a household of people claiming income-related benefits. Those classified as non-dependants include adult children, other relatives, or friends who live within the household. Children under the age of 18, partners, or lodgers are not counted as non-dependants. A non-dependant deduction (NDD) is made from a claimant's Housing Benefit (HB) or Council Tax Benefit (CTB) with the expectation that the non-dependant will make this contribution to the claimant's housing costs. In theory the claimant should be no worse off given any level that the NDD is set at, however, in practice this relies on the non-dependant's ability and willingness to pay said contribution.

Several levels of NDD are applicable to HB, CTB or support towards housing costs for home owners on income-related benefits. The appropriate level of deduction is based on the circumstances of the non-dependant including their age, their earnings from work, or if they are claiming benefits themselves. For example household members who are under 25 and in receipt of income related benefits are not expected to make a contribution, but those aged over 25 and on income-related benefits are. All non-dependants aged 18 or over who are in paid work are expected to make a contribution linked to their level of pay. There are exceptions from applying a NDD<sup>41</sup> and these include where the claimant is in receipt of the care component of Disability Living Allowance (DLA) or Attendance Allowance (AA) and since 2005 NDDs were no longer made for non-dependants in receipt of Pension Credit.

In 2001 the Labour Government froze the NDD rates. The coalition government announced in the 2010 Emergency Budget that it intended to reverse the policy of freezing NDDs. The NDDs have been increased in three stages between 2011 to 2013 in line with what they would have been had they been fully uprated in line with eligible rents and Council Tax since 2001. This chapter will consider the evidence from the government's quality Impact Assessment<sup>42</sup> as to what these changes might mean for residents claiming HB or CTB<sup>43</sup> in Hampshire.

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<sup>41</sup> See DWP (2011) *Equality impact assessment Income-related benefits: change to the non-dependant deduction rates*, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220283/eia-ndd-2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220283/eia-ndd-2011.pdf)

<sup>42</sup> See footnote 41.

<sup>43</sup> Detailed information is only available for HB or CTB cases and therefore this chapter focuses on the impacts to these groups and does not include owner occupiers who receive support for their housing costs and will also be subject to NDDs.

## Overview of non-dependant deduction reforms

In 2001 the NDDs were frozen at a range from £7.40 to £47.75 a week for HB and £2.30 to £6.95 per week for CTB, depending on the circumstances of the non-dependant. These rates of NDD were in place until 2010/11. Three stages of increases were then implemented from 2011/12 and by 2013/14 NDDs increased to between £13.60 and £87.75 a week for HB and between £3.65 and £10.95 a week for CTB. The rate of increase has therefore been rapid and for HB is equivalent to an 84 per cent increase for HB NDDs and a 59 per cent increase for CTB NDDs.

The substantial increase in the NDDs **may act as a work disincentive** for some who live with their families as their net pay after contributing to housing costs will reduce significantly. Others may also be discouraged from sharing accommodation with their family and be encouraged to move out of the family home into their own separate accommodation. For non-dependants aged over 25 and on income-related benefits who are expected to make a contribution (under 25s are not expected to) this in turn may result in subsequent demand for SRS housing or an increase in HB claims. The rapid increases in the NDDs could potentially lead to an increase in rent arrears if the claimant finds it difficult to obtain the full increased NDD from the non-dependant who lives with them. Potentially, household formation rates may be influenced by this policy which may encourage some to set-up their own home. In turn older children leaving the family household may also result in under-occupation leading to an increase in families in the SRS subject to the "bedroom tax".

The NDD system for those in receipt of HB as it is currently operationalised will however change under Universal Credit (UC). The system for deductions will be simplified and will become known as a 'Housing Cost Contribution' (HCC). Eventually, the full implementation of UC across the country will, for some non-dependants, reverse the potential disincentives to work or to remain in the family home of parents who receive income-related benefits. A flat rate deduction of £68 per calendar month will be made for non-dependants aged 21 and over. This will mean that the majority of non-dependant household members with earnings will be better off under the new system. For example, those aged 18 to 21 and in work will no longer be subject to the deduction. Those aged over 21 and with gross income above £126 a week will also pay substantially less under the new flat rate system than they do now - between £67 and £312 a calendar month less depending on income level.

There are some households with non-dependants with lower incomes or receiving income-related benefits that will be worse off under the UC system of HCC. Those aged 21-24 and in receipt of income-related benefits would previously have been exempt from NDDs but will now be expected to contribute £68 per month to housing costs. Those who are aged 21 or over and have a gross income of less than £126 per week, or who are aged 25 or over and are in receipt of income-related benefits, will see their required contribution to housing costs rise by £39 per calendar month.

The analysis presented here relates to the information provided in the HMRC Budget statements and DWP Equality Impact Assessment for the financial losses that will occur as a result of the up-rating of NDDs and does not consider the impacts relating to the introduction of the HCC as part of UC, which includes transitional protection and is some way off full implementation.

## National impact of up-rating non-dependant deductions

The primary aim stated in the government's Equality Impact Assessment for the up-rating of NDDs is that the reform will contribute to bringing HB expenditure under control and contribute to reducing the deficit. In this sense it is one of the few reforms where the stated policy aims do not include increasing incentives to work. This in part reflects the fact that this reform is also one of the few which will affect pensioner claimants as well as working age claimants. To some extent, as discussed earlier, the rapid increase in rates may actually create some disincentives to work for some non-dependents living with a family who receive HB.

*'The decision to uprate the non-dependant deduction rates in three stages to what they would have been had they been fully uprated since 2001 in line with growth in eligible rents and Council Tax was announced in the June 2010 Budget as part of a package of measures designed to bring Government expenditure under control and reduce the fiscal deficit. Up-rating the non-dependant deduction rates is a reverse of the policy since 2001-02 to freeze the rates and is intended to provide a fairer deal for taxpayers and provide an expectation that adults make a reasonable contribution towards their housing costs.'*

**DWP (2011) Equality Impact Assessment, p3**

The Equality Impact Assessment estimates that **300,000 HB and CTB claimants nationally will have their benefit reduced** to account for non-dependants living in their homes. It is estimated that of the 300,000 claimants affected:

- 60 per cent will be aged under 60
- of whom more than half (58 per cent) will be aged 45-59
- 47 per cent will be women headed households; this reflects the fact that there are substantially more single women who claim HB or CTB than men
- 23 per cent will be men
- just under one in five claimants will have children
- 12 per cent will be lone parent households
- seven per cent will be couples with children
- 64 per cent will have a self-reported DDA disability
- 16 per cent of claimants will be BME
- 49 per cent will live in the SRS
- 18 per cent will live in the PRS
- 33 per cent will be owner occupiers.

There will be approximately **350,000 non-dependants living in the households affected** who will be expected to make up the shortfall in HB caused by increased deductions. The characteristics of this group include:

- 92 per cent will be aged under 60
- of whom 41 per cent will be aged under 25

- 82 per cent will be single
- 59 per cent will be men
- more than half (56 per cent) will have an income of less than £180 per week<sup>44</sup>
- seven per cent will have children
- 26 per cent will be BME.

The characteristics of those claimants and the non-dependants affected by reform broadly reflect the characteristics of the HB and CTB caseload as a whole. A small number of non-dependants have dependent children (seven per cent) which has the potential to lead to increased child poverty amongst some households, but the Equality Impact Assessment assumes the effect on child poverty will be minimal. However, there are two exceptions where particular groups may be disproportionately affected by the policy. Only 10 per cent of HB/CTB customers as a whole are BME but:

*'A higher proportion of ethnic minorities appear to be affected by the measure, both in terms of customers and the non-dependants themselves, than their share of the wider Housing Benefit and Council Tax Benefit, and indeed their share of the wider population, and this implies a potential risk that this group may be disproportionately affected. This may, in part, reflect the differences in living arrangements across ethnic groups, such as extended families.'*

**DWP (2011) Equality Impact Assessment, p13**

In addition, a disproportionate number of non-dependants who will be expected to make the higher contribution to HB as the NDDs increase will be single males. Younger, working age people will also be disproportionately affected as a group.

### **Impact of up-rating non-dependent deductions in Hampshire**

Table 4.1 below details the impact of the reforms to non-dependant deductions in Hampshire. A total of 6,400 Hampshire households are affected by the measures, or 90 in every 10,000 households across the county. This figure rises to 140 and 130 in Portsmouth and Southampton respectively. The impact at the national level is more severe than in Hampshire as a whole with the financial loss per working age adult at £9 per year for Great Britain compared to £6 per year in Hampshire. Only Portsmouth loses more than the national average per working age adult.

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<sup>44</sup> Including those on income related benefits.



**Table 4.1: Impact of reforms to non-dependant deductions in Hampshire**

	Non-dependant deductions			
	No. of households adversely affected	Estimated loss £m per year	No. of households adversely affected per 10,000	Financial loss per working age adult £ per year
Portsmouth	1,200	1.4	140	10
Southampton	1,300	1.5	130	9
Gosport	400	0.4	100	8
Havant	400	0.5	80	7
New Forest	600	0.6	70	6
Rushmoor	400	0.4	100	6
Basingstoke and Deane	500	0.6	70	5
Eastleigh	400	0.4	70	5
Test Valley	300	0.4	70	5
Winchester	300	0.4	70	5
East Hampshire	300	0.3	60	4
Fareham	300	0.3	60	4
Hart	200	0.2	40	3
<b>Hampshire</b>	<b>6,400</b>	<b>7</b>	<b>90</b>	<b>6</b>
<b>South East</b>	<b>32,000</b>	<b>36</b>	<b>90</b>	<b>7</b>
<b>Great Britain</b>	<b>300,000</b>	<b>340</b>	<b>120</b>	<b>9</b>

Source: Hitting the Poorest Places Hardest, Beatty and Fothergill 2013

Applying the findings from the national impact assessment at the local level enables an estimate of the characteristics of those households affected in Hampshire. **Of the 6,400 households affected in Hampshire:**

- 3,800 (60 per cent) will be aged under 60
- of whom more than 2,200 (58 per cent) will be aged 45-59
- 3,000 (47 per cent) will be women headed households; this reflects the fact that there are substantially more single women who claim HB or CTB than men
- 1,500 (23 per cent) will be men
- 1,300 (just under one in five) claimants will have children
- 800 (12 per cent) will be lone parent households
- 400 (seven per cent) will be couples with children
- 4,100 (64 per cent) will have a self-reported DDA disability
- 1,000 (16 per cent) of claimants will be from BME backgrounds
- 3,100 (49 per cent) will live in the SRS
- 1,200 (18 per cent) will live in the PRS
- 2,100 (33 per cent) will be owner occupiers.

From these figures it can be discerned that the impact of the NDDs will fall disproportionately on disabled claimants, women and those living in the social rented sector. The latter is an

important point given that where non-dependants choose to move out of their current home as a result of the changes, they may leave the claimant under-occupying their property; and will therefore be subject to the bedroom tax.

Our estimate for Hampshire is that a total of 6,400 households will be affected by NDDs. If we apply the same ratio for non-dependents included in the DWP Impact Assessment (350,000 dependents affected in 300,000 households: a ratio of 1.17 dependents per household), then it is estimated that 7,500 (rounded) non-dependents living in these 6,400 households are affected. Therefore, **of the 7,500 non-dependants living in the households affected** (who will be expected to make up the shortfall in HB caused by increased deductions):

- 6,900 (92 per cent) will be aged under 60
- of whom 2,800 (41 per cent) will be aged under 25
- 6,200 (82 per cent) will be single
- 4,400 (59 per cent) will be men
- 4,200 (56 per cent) will have an income of less than £180 per week<sup>45</sup>
- 500 (seven per cent) will have dependent children
- 2,000 (26 per cent) will be from BME backgrounds.

A map of the distribution of the financial losses incurred as a result of the up-rating of NDDs within local authorities is not possible due to the unavailability of small area CTB caseload data.

## Summary

- 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 of NDDs 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 NDD rates is equivalent to an 84 per cent increase for HB NDDs and a 59 per cent increase for CTB NDDs between 2010/11 and 2013/14
- the effects of the measures fall disproportionately on claimants aged 45-59, women headed households, the SRS and households containing an individual with a self-reported DDA disability
- in terms of non-dependents those affected are more likely to be single, to be men and to be on an income of less than £180 per week
- the larger urban areas of Portsmouth and Southampton are the worst affected districts in Hampshire.

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<sup>45</sup> Including those on income-related benefits.

# Household benefit cap

## Introduction

Three of the government's key principles underpinning the overhaul of the welfare system have been the stated aims of making the benefits system fairer, tackling the deficit and increasing the incentives to work. A completely new policy which epitomises these key aims was announced in the October 2010 Spending Review: the benefit cap. The total amount of benefits that any family will be able to receive will be capped at the average earnings of a working family. The reform has received much attention in the press, policy and practitioner circles although in reality it affects relatively few benefit claimants. However, those individual families affected by the measure, although relatively small in number, will be hit hard.

*"The state can no longer afford to pay people disproportionate amounts of benefit each week, sometimes in excess of what someone in work may take home in wages."*

**DWP (2012) *Impact Assessment*,<sup>46</sup> p1**

As a key aim of the policy is to encourage claimants into work or to increase the number of hours they work, the benefit cap only applies to working age claimants and pensioners are not included in the policy. Those on **Working Tax Credits are also exempt from the cap** in-order to increase the incentive to enter paid work and remain in paid work to avoid being subject to the cap. There are also a number of other exempt groups who may have less ability to reduce their housing costs, alter their spending patterns, have additional care or mobility costs, or are families from the Armed Forces who should be supported to recognise the sacrifices they have made. These exempt groups include those households receiving:

- Disability Living Allowance
- Personal Independence Payment
- Industrial Injuries benefit (and equivalent payments made as part of a War Disablement Pension or the Armed Forces Compensation Scheme)
- Support Component of Employment and Support Allowance
- War widows and war widowers.

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<sup>46</sup> DWP (2102) *Benefit Cap (Housing Benefit) Regulations 2012: Impact assessment for the benefit cap.*  
<http://www.dwp.gov.uk/docs/benefit-cap-wr2011-ia.pdf>

During the passing of the Welfare Reform Bill an additional concession was made to introduce a grace period of nine months (39 weeks) for people who lose their jobs. However, this only applies to those who have worked for at least 50 weeks of the last 52 weeks before they lost their job. More recently in the 2012 Autumn Statement an additional exemption was introduced to include a disregard for housing costs for those in supported Exempt Accommodation (S(E)A).<sup>47</sup>

Because of the level of controversy the benefit cap generated it was also announced that a review of the cap would be published in 2014 after the first year of its operation (April 2013-April 2014). The review will consider specific issues of concern raised during the passing of the bill including:

- the qualifying period of working for 50 out of past 52 weeks to be eligible for the grace period of nine months
- the impact of the introduction of the Personal Independence Payment system on the 8<sup>th</sup> April 2013 which will replace Disability Living Allowance (one of the groups currently exempt from the benefit cap)
- differences in regional housing costs, costs for temporary and supported accommodation which tend to be more expensive than mainstream provision.

## Overview of the benefit cap

When the benefit cap was announced in October 2010 it was originally planned to be introduced for all working age people in April 2013. However, in December 2012 it was announced that in the first instance the benefit cap would be implemented in four London boroughs - Bromley, Croydon, Enfield and Haringey - in April 2013. The cap was then rolled out in two tranches from July 2013 and August 2013 and by the end of September 2013 all households subject to the reform had had their benefits capped. The benefit cap has been introduced in all districts in Hampshire since July 2013. Immediate employment support via Jobcentre Plus and its partners including the Work Programme and Work Choice<sup>48</sup> will be available to all those who are affected by the cap.

Initially local authorities (LAs) will administer the benefit cap through the Housing Benefit (HB) system. The LA will reduce a claimant's HB by the excess amount over the relevant benefit cap. However, the local authority will ensure that a claimant has a HB payment of at least £0.50 (which is the minimum amount needed to keep a HB claimant live) to enable claimants to access support through their local authority such as Discretionary Housing Payments (DHPs). The Government is providing up to<sup>49</sup> an additional £65m in 2013/14 and £35m in 2014/15 in the DHP fund to provide short term assistance to claimants affected specifically

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<sup>47</sup> Exempt supported accommodation is defined as a resettlement place; or accommodation provided by a county council, housing association registered charity or voluntary organisation where that body or person acting on their behalf provides the claimant with care, support or supervision. For further details see National Housing Federation (2013) *Briefing: Benefits for people living in supported and sheltered housing*. <http://s3-eu-west-1.amazonaws.com/pub.housing.org.uk/Federation%20update%20on%20exempt%20accommodation%20Jan%202013.pdf>

<sup>48</sup> **Work Choice** provides support to disabled individuals who find it hard to work to find, keep and get on in a job. This scheme is open to those who have a recognised disability as defined by the Equalities Act 2010. Participants must be able to work at least 16 hours a week after Work Entry Support which includes addressing employability needs through training and developing skills, building confidence and interview coaching.

<sup>49</sup> The exact figure has not been confirmed since the exemption for S(E)A.

by this measure. Eventually the Benefit Cap will be administered through Universal Credit (UC).

The aim is to limit the total amount of benefits workless households can receive so that it is no longer possible to receive more in welfare benefits than the average weekly wage for working households. The caps are based on national net median earnings as a benchmark of average take home pay amongst working households and are set at:

- **£500 per week** for couples and lone parent households, equivalent to £2,167 per month or £26,000 per year
- **£350 per week** for single person households without children, equivalent to £1,517 per month or £18,200 per year.

The cap will be based on the combined value of the following benefits:

- Bereavement Allowance/ Widowed Parent's/Mother's Allowance
- Carer's Allowance
- Child Benefit
- Child Tax Credit
- Employment and Support Allowance (ESA) (contribution-based and income-related) except where the Support Component has been awarded
- Guardian's Allowance
- Housing Benefit
- Incapacity Benefit
- Income Support
- Jobseeker's Allowance (contribution-based and income-based)
- Maternity Allowance
- Severe Disablement Allowance (SDA)
- Widow's Pension.

Free School meals and Council Tax Reduction (CTR) are excluded from the cap as will be the childcare element of UC when it is introduced. There are a number of other payments which will be disregarded when calculating the cap including Discretionary Housing Payments, Social Fund Payments and Crisis Loans.<sup>50</sup>

### **National impact of benefit cap**

The Government's expectations are that the benefit cap will result in a range of behavioural responses by the claimants affected. These include: encouraging out-of-work benefit claimants to enter work or increase their hours; reducing non-rent expenditure; using other income to make up a shortfall in HB; or moving to cheaper accommodation or a cheaper area. A full overview of the potential impacts and passage of this measure through the

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<sup>50</sup> For a full list of benefits disregarded see: House of Commons Library (2013) *The Housing Benefit Cap*, Standard Note: Sn/SP/6294. <http://www.parliament.uk/briefing-papers/SN06294>

passing of the Welfare Reform Act is contained in a House of Commons Library Standard Note on the Household Benefit Cap (see footnote 50 above).

The original DWP Impact Assessment for the benefit cap (January 2012) estimated that 67,000 households would be affected by the cap. This figure was subsequently revised downwards to 56,000 in the revised Impact Assessment in July 2012<sup>51</sup>. More recently (April 2013) the figure has been revised downwards again to indicate **40,000 households would be affected** and this reflected the additional exemption for S(E)A and advances in the estimation methodology<sup>52</sup>. The fiscal savings to the Exchequer from the implementation of the benefit cap were originally estimated to be £270m per year when fully implemented but this figure has also been **revised downwards in the 2013 Budget to savings of £185m per year**.

On the basis of the current HB caseload the 40,000 affected households would represent just 0.8 per cent of the total current GB HB caseload. If the national figures from the latest Impact Assessment are adjusted in line with the revised estimate of 40,000 affected households, then it is estimated that they will contain approximately **57,000 adults and 136,000 children**.

The households affected are workless and more likely to be larger than average with three plus children and/or living in high-rent areas. The **mean reduction of benefit is estimated at £89 per week** but this includes some households with very large reductions and the **median reduction is going to be in the region of £60 a week**. Estimated characteristics of households affected in 2013/14 in the impact assessment include:

- 49 per cent are in Greater London
- nearly three quarters of local authorities will have less than 100 families affected
- 39 per cent will be on Income Support
- 34 per cent will be on Jobseeker's Allowance
- 25 per cent will be on ESA (excludes those in the Support Group)
- 54 per cent will live in the PRS
- 46 per cent will live in the SRS
- 50 per cent will be lone parents
- 39 per cent will be couples
- 10 per cent will be single
- 62 per cent have been on benefit for more than two years.

## Impact of benefit cap in Hampshire

Table 5.1 below shows the impact of the overall benefit cap on households in Hampshire by local authority district and benchmarked against the regional and national figures. Over half

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<sup>51</sup> DWP (2102) *Benefit Cap (Housing Benefit) Regulations 2012: Impact assessment for the benefit cap*. <http://www.dwp.gov.uk/docs/benefit-cap-wr2011-ia.pdf>

<sup>52</sup> DWP (2013) *Ad hoc statistics on Households identified as potentially impacted by the benefit cap*. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/223253/Ben\\_Cap\\_Updated\\_Estimate.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223253/Ben_Cap_Updated_Estimate.pdf)

of the households affected by the cap are in London where housing costs are much more expensive; and 20 of the worst affected local authorities are also to be found in the capital.

**Table 5.1: Impact of the household benefit cap in Hampshire**

	Household benefit cap			
	No. of households adversely affected	Estimated loss £m per year	No. of households adversely affected per 10,000	Financial loss per working age adult £ per year
Portsmouth	140	0.6	16	5
Southampton	140	0.7	15	4
Gosport	50	0.2	14	4
Havant	70	0.3	13	4
Basingstoke and Deane	50	0.3	8	2
Eastleigh	30	0.1	6	2
New Forest	50	0.2	6	2
Rushmoor	30	0.1	9	2
East Hampshire	20	0.1	5	1
Fareham	20	0.1	4	1
Hart	10	0.1	4	1
Test Valley	20	0.1	5	1
Winchester	20	0.1	5	1
<b>Hampshire</b>	<b>670</b>	<b>3</b>	<b>7</b>	<b>3</b>
<b>South East</b>	<b>3,780</b>	<b>18</b>	<b>11</b>	<b>3</b>
<b>Great Britain</b>	<b>40,000</b>	<b>185</b>	<b>16</b>	<b>5</b>

Source: Authors estimates<sup>53</sup>

Interestingly, although the benefit cap has attracted significant media attention, its impact outside of London is relatively marginal. For example, the household benefit cap accounts for just one per cent of the total impact of the full range of welfare reform in Hampshire and affects just **670 households**. The same is also true of the bedroom tax which has received even more press and TV coverage than the overall cap. In reality the bedroom tax accounts for just two per cent of the total impact of welfare reform in Hampshire. In contrast, LHA cuts account for eight per cent of the total impact and Child Benefit for a fifth. However, although the number of households adversely affected by the overall cap is low, the impact on those households is often very significant in monetary terms. A recent report on the impact of the household benefit cap in Haringey found that the impact falls disproportionately on households who are already the most marginalised within society and on children.<sup>54</sup>

Although the numbers are fairly small, it is still helpful to apply the national impact assessment estimates to the Hampshire context in order to provide an indicative assessment of the local consequences of the benefit cap. **Of the 670 households affected** (figures are rounded to the nearest 10):

- 260 (39 per cent) will be on Income Support

<sup>53</sup> These figures differ from those produced in 'Hitting the poorest Places Hardest' report as they have been updated to take account of revised government estimates of the total number of households affected and financial savings made.

<sup>54</sup> CIH (2013) *Experiences and Effects of the Benefit Cap in Haringey*. London: CIH.

- 230 (34 per cent) will be on Jobseeker's Allowance
- 170 (25 per cent) will be on ESA (excludes those in the Support Group)
- 360 (54 per cent) will live in the PRS
- 310 (46 per cent) will live in the SRS
- 340 (50 per cent) will be lone parents
- 260 (39 per cent) will be couples
- 70 (10 per cent) will be single
- 420 (62 per cent) have been on benefit for more than two years.

Looking across the characteristics of those impacted by the benefit cap there is a disproportionate impact on the long-term unemployed, lone parents (who are much more likely to be women), and claimants living in the PRS where housing costs tend to be higher.

There is no information available on the distribution of the households affected at sub LA level. Therefore it is not possible to produce a local area map of where these families are likely to live within each district.

### Summary

- 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
- in a similar vein to the bedroom tax the overall benefit cap has attracted significant media attention but affects only approximately **670 households** in Hampshire
- over half of the affected households are estimated to be resident in the districts of Havant, Portsmouth or Southampton
- this measure has the least impact of all the different reforms amounting to a loss of **£3m per year** to the local Hampshire economy
- the effects fall disproportionately on the long-term unemployed, lone parents and households in the PRS where housing costs tend to be higher
- 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 also
- in extreme cases some households may have to find cheaper and/or smaller accommodation elsewhere, which could lead to overcrowding and detachment from social networks of support.



# Council Tax Benefit

## Introduction

Council Tax Benefit (CTB) was an income related benefit which low-income households could claim towards their Council Tax if they met means testing thresholds. CTB was administered by local authorities (LAs) according to a nationally-set criteria and the full amount was reimbursed to the LAs by the Department of Work and Pensions (DWP). In the 2010 Spending Review the government announced that from April 2013 it would abolish CTB, reduce expenditure on Council Tax support by ten per cent and move to a localised system of support for Council Tax. This localisation of the new Council Tax Reduction (CTR) scheme makes this welfare reform very different from all the others introduced as the level of support received no longer depends only on the claimant's circumstances but where they live. Two sets of families in exactly the same financial situation may therefore receive very different levels of support depending on which district they live in.

The legislation for the CTR was passed through the Local Government Finance Act 2012 which stated that a resident's liability may be reduced *"to such an extent as the billing authority thinks fit"*. Key aims of reforming CTB included making a contribution to a reduction in the national deficit via the ten per cent cut in funding. The reform is also targeted at those of working age and pensioners are protected from this cut in funding. By targeting working age recipients the aim again is to reinforce work incentives and encourage an increase in the number of hours worked by benefit claimants. The third aim is a departure from the other welfare reforms as it was underpinned by the government's localisation agenda to support LAs local-decision making and accountability over spending decisions:

*"To give local authorities a greater stake in the economic future of their local area, and so support the Government's wider agenda to enable stronger, balanced economic growth across the country."*

**House of Commons Library (2013)<sup>55</sup>, p6**

The New Policy Institute (NPI) carried out a study for the Joseph Rowntree Foundation to analyse all the CTR schemes to be introduced across all LAs in England.<sup>56</sup> That data forms the basis of the estimates provided here on the number of households affected in LAs within Hampshire.

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<sup>55</sup> House of Commons Library (2013) Localising support for Council Tax - background. Standard Note SN/SP/6101. <http://www.parliament.uk/briefing-papers/SN06101>

<sup>56</sup> Bushe, S., Kenway, P. and Aldridge, H. (2013) The impact of localising council tax benefit. Joseph Rowntree Foundation. <http://www.jrf.org.uk/sites/files/jrf/council-tax-benefit-localisation-summary.pdf>

## National impact of Council Tax Benefit reforms

Council Tax is a devolved matter in Scotland and Wales and both governments have decided not to pass on the ten per cent to their local authorities and so no residents in Scotland and Wales will experience a reduction in the level of support they receive towards their Council Tax bill. The Northern Ireland Executive have also decided to subsume the ten per cent cut in funding and are not passing it onto residents there either.<sup>57</sup>

The NPI analysis estimates that 82 per cent of all 326 LAs in England will be reducing the level of support previously given to CTB claimants. However, 18 per cent are making no change to their local system and will, just like Scotland, Wales and Northern Ireland, absorb the ten per cent cut in funding. In all, the ten per cent reduction in funding will save the government £490m per year but on this basis it is estimated that only **£340m of this a year will be passed onto claimants**. The Resolution Foundation<sup>58</sup> estimates that a typical working age non-employed claimant of CTB will on average face council tax bills of between £1.80 and £4.90 a week.

There have been real concerns expressed that many low paid workers and benefit claimants who previously received CTB, but who may now be expected to contribute, may struggle to find the money especially when it comes alongside other cuts to their benefits package leading families to fall into arrears. The LAs may also find it difficult or cost effective to collect these small payments from large numbers of households and hence lead to shortfalls in their local tax base.

There is very little information available on the characteristics of the individuals who will be impacted by the changes to the CTB system, not least as the localisation means that an assessment from national data is no longer possible. However, it is worth bearing in mind a limited number of characteristics of the national caseload which it is reasonable to expect might be reflected amongst key groups affected. The CTR will only impact on those of working age, so if those over 65 are excluded and if we assume most families with dependent children are below pensionable age then amongst those affected:

- 46 per cent will have dependent children
- 30 per will be lone parent families
- 59 per cent will be on passported benefits
- 29 per cent will be on Income Support
- 16 per cent will be on JSA
- 14 per cent will be on ESA.

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<sup>57</sup> In Northern Ireland the equivalent to the Council Tax system is known as Regional Rates Rebate.

<sup>58</sup> Pennycook, M. and Hurrell, A. (2013) *No Clear Benefit: The financial impact of Council Tax Benefit reform on low income households*. Resolution Foundation. [http://res.a-g-a-i-n.com/media/media/downloads/No\\_Clear\\_Benefit.pdf](http://res.a-g-a-i-n.com/media/media/downloads/No_Clear_Benefit.pdf)

New Policy Institute (2013)

## Impact of Council Tax Benefit reforms in Hampshire

There were approximately 122,000 CTB claimants in Hampshire in February 2013 before the new CTR was introduced in April 2013. The number of claimants in Hampshire had been consistently around this level for the previous twelve months. Nationally, it is known that 63 per cent of all CTB claimants are aged under 65. In Hampshire, if a similar proportion was seen, then there would be approximately 77,000 working age CTB claimants who could potentially be affected by the reforms if all councils passed on the ten per cent budget cut.

**Table 6.1: Impact of reforms to Council Tax Benefit in Hampshire**

	Council Tax Benefit			
	No. of households affected	Estimated loss £m per year	No. of households affected per 10,000	Financial loss per working age adult £ per year
Portsmouth	12,500	2.2	1,460	16
Southampton	15,400	1.4	1,570	8
Basingstoke and Deane	-	-	-	-
East Hampshire	-	-	-	-
Eastleigh	3,600	n/a	690	n/a
Fareham	2,400	0.5	520	8
Gosport	4,200	0.8	1,190	15
Hart	-	-	-	-
Havant	6,100	0.5	1,190	6
New Forest	5,100	0.4	660	4
Rushmoor	3,600	0.3	990	4
Test Valley	-	-	-	-
Winchester	-	-	-	-
<b>Hampshire</b>	<b>52,900</b>	<b>6</b>	<b>730</b>	<b>5</b>
<b>South East</b>	<b>282,800</b>	<b>30</b>	<b>810</b>	<b>5</b>
<b>Great Britain</b>	<b>2,435,800</b>	<b>343</b>	<b>980</b>	<b>9</b>

Source: Author's estimates; Hitting the Poorest Places Hardest, Beatty and Fothergill 2013; New Policy Institute

The estimate of the impact of the new CRT schemes in Hampshire (Table 6.1 above) is based on the Hitting the Poorest Places Hardest report which in turn utilises the NPI analysis. The NPI categorises LAs into three main categories: those with no changes to the system because the LA is subsuming the ten per cent budget cut; minor changes to the system; and major changes to the system. In Hampshire five LAs are not passing on the ten per cent cut to their CTR claimants (Basingstoke, East Hampshire, Hart, Test Valley and Winchester). In Eastleigh, minor changes have been made including reducing the savings threshold for means testing from £16,000 to £10,000. In all the other districts major changes have been made including requiring all working age people to pay at least a proportion of the Council Tax Liability, counting some benefits as part of the income disregard, increasing the non-dependant deductions and removing the ability to back date a claim. A full list of the changes made to the local schemes can be found in the NPI dataset<sup>59</sup> which accompanies the research. The figures in Table 6.1 update the previously published estimates of

<sup>59</sup> <http://counciltaxsupport.org/the-story-so-far/>

households affected as it includes the number of households affected by minor as well as major changes to the system.<sup>60</sup> It has however not been possible to assess the financial impact for these minor changes in Eastleigh.

Drawing on the national figures on characteristics of impacted households, **of the 52,900 households impacted in Hampshire:**

- 24,300 (46 per cent) will have dependent children
- 15,900 (30 per cent) will be lone parent families
- 31,200 (59 per cent) will be on passported benefits
- 15,300 (29 per cent) will be on Income Support
- 8,500 (16 per cent) will be on JSA
- 7,400 (14 per cent) will be on ESA.

Though the above information on the characteristics of those affected is fairly limited there are some important observations to make. Firstly, that three-in-five households affected by CT localisation are on passported benefits points to the **cumulative impact** of the full range of welfare reforms. The changes to CT benefit may be manageable in isolation for households on low incomes, but considered alongside the raft of other changes they appear much less so. Secondly, almost half of the households affected comprise dependent children, a common thread throughout the impact assessments which underscores the disproportionate impact of welfare reforms on children in Hampshire and across the country.

There is no information available on the distribution of the CTB at sub-LA level and therefore it is not possible to produce a local area map of where the households affected by the reforms to CTB live within each district.

## Summary

- 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 measure affects **52,900 households** resulting in a loss of **£6m per year** to the Hampshire economy
- claimants in eight of Hampshire's 13 local authority districts are affected; 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 worst affected districts in Hampshire are Gosport and Portsmouth in terms of the relative loss per working age adult
- CT localisation accounts for two per cent of the total impact of all welfare reforms
- for those areas affected the impact of this change falls disproportionately on claimants on passported benefits.

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<sup>60</sup> The figures previously reported in 'Hitting the Poorest Places Hardest' only included those LAs with a major change to their CTR system. This reflected the fact that only four per cent of all LAs were undertaking minor changes and it was difficult to assess how much of the budget cut was being passed onto residents.

# Incapacity benefits

## Introduction

There has been an on-going process of reforming the incapacity benefits system (which includes Incapacity Benefit (IB), Severe Disablement Allowance (SDA), and Employment and Support Allowance (ESA)) which pre-dates the current welfare reform programme introduced by the coalition government. The impetus for reforming the system is rooted in the growth in numbers of long term sick and disabled residents claiming work replacement, sickness related benefits since the mid-1980s. The three-fold growth in claimants nationally over the past thirty years means that even at the height of the recent recession in Great Britain there were far more claimants of incapacity benefits than claimant unemployed; 2.62m and 1.49m respectively in August 2009. Unlike claimant unemployment, which had fallen substantially during the period of sustained economic growth from the late 1990s to the recession, the numbers on incapacity benefits had remained stubbornly high.

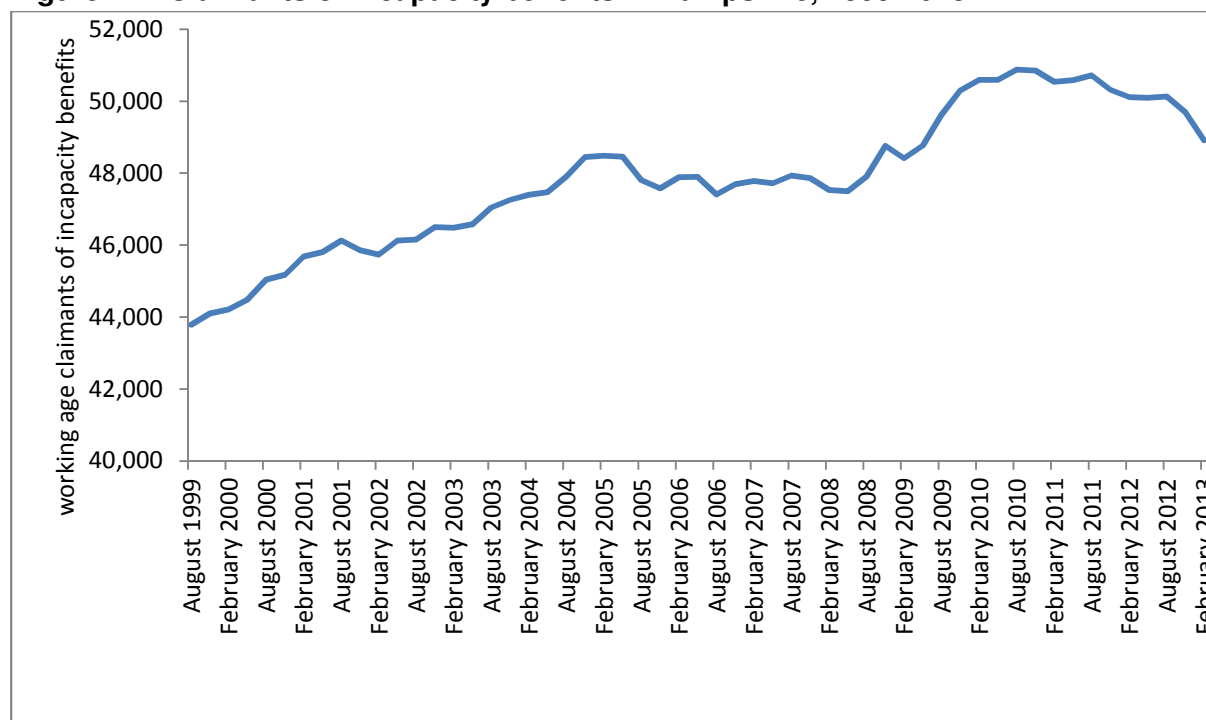
Much has been written about the growth in claimants nationally<sup>61</sup> and the uneven geography of the claims with the highest concentrations of claimants being located in the older industrial regions of Britain. These are the areas which have also had to contend with persistently weak demand for labour. In large parts of the South East, including Hampshire, which have maintained buoyant labour markets with strong demand for labour, the incapacity benefits rate amongst working age residents has been much lower than nationally; 4.3 per cent working age population in Hampshire compared to 6.2 per cent nationally in February 2013. However, even in Hampshire, both at the height of the recession and now, there were far more incapacity benefits claimants than claimant unemployed; 48,910 and 27,410 claimants respectively in February 2013. The numbers of incapacity benefit claimants in Hampshire (Figure 7.1 below) and nationally have only recently begun to fall, primarily as a consequence of the reforms which are discussed in this chapter. These include reforms introduced to restrict eligibility for ESA, the transfer of IB claimants over to the ESA system and time-limiting ESA to one year after which point it is means tested.

Because those on incapacity benefits account for the single largest group of working age out-of-work benefit claimants and because the scale of the multiple reforms are substantial, the financial loss to this benefit group is the greatest of all the reforms underway.

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<sup>61</sup> Beatty, C., Fothergill S. and Gore T. (2013) *The Real Level of Unemployment*. CRESR Sheffield Hallam University.

**Figure 7.1: Claimants of incapacity benefits in Hampshire, 1999-2013**



Source: DWP working age benefits, NOMIS

## Overview of the reforms to incapacity benefits

Three key elements of reform are underway. The first two elements were instigated by the previous Labour government. Firstly, in October 2008 IB was replaced by ESA with **eligibility restricted** due to the implementation of a tougher medical test called the Work Capability Assessment (WCA). The WCA has been controversial since its introduction and a major yearly review process has been underway to assess its implementation. Government figures<sup>62</sup> show that 59 per cent of those undergoing an initial assessment for ESA are found to be "fit-for-work". 40 per cent of these decisions are appealed against and 38 per cent of those appeals have been successful.

Secondly, **all existing IB claimants are gradually being transferred over to ESA** and are therefore being subject to the new WCA. This measure was announced by the labour government but it did not actually get underway until after the coalition government came to power and reassessment remains a key priority for the current Government.<sup>63</sup> The process started gradually from 1 October 2010 with full national implementation from April 2011. Additional conditionality is required from claimants who successfully pass the WCA and move over to ESA. The exception is those with the most severe health problems in the Support Group for who there is no conditionality. DWP's initial assessment of those being transferred from IB to ESA indicated that **30 per cent of IB claimants fail the new tougher WCA and are found "fit-for-work"** therefore removing them from sickness-related benefits. Some of this group are eligible to income-related benefit and it is estimated that 50 per cent are placed on the lower rate of benefit available via Jobseeker's Allowance (JSA) and another 20 per cent move onto other benefits. Another 30 per cent of former IB claimants

<sup>62</sup> House of Commons Library (2012) The Work Capability Assessment for Employment and Support Allowance. <http://www.parliament.uk/briefing-papers/SN05850>

<sup>63</sup> Source Hansard 25 Jan 2011 : Column 6WS; <http://www.disabilityalliance.org/lbmigrate.htm>

are removed from benefit altogether because they are found fit-for-work and do not meet means testing thresholds required to access other benefits. This may be because they have savings or other sources of income such as a partner in work. The process of moving IB claimants over to ESA will not be complete until March 2014.

Thirdly, the coalition government announced in the 2010 Spending Review that from April 2012 **contributory ESA entitlement was to be time-limited to a year** for those in the Work Related Activity Group (WRAG). Those in the WRAG group who had already received one year's support by April 2012 were affected by this change immediately. This was a major departure from the previous situation where IB/ESA had not been means tested for those with sufficient National Insurance contributions to receive the benefit. Those in the Support Group will not be affected by the change. The aims of the policy included reducing expenditure, reinforcing the idea that the welfare system needs to be seen as a transitional support system for all but the most severely sick and disabled and simplifying the benefits system so that contributory ESA is aligned with contributory JSA, which is means tested after six months:

*"To ensure that ESA is paid for a temporary period thereby creating a culture that does not allow people to stay permanently in the WRAG, that they are expected to move towards work or into the Support Group if there is deterioration in their functional impairment."*

**DWP (2011) Impact Assessment, p1**

### **National impact of incapacity benefits reforms**

The first two elements of the reform of incapacity benefits are estimated to impact upon **550,000 claimants** of which 30 per cent will not claim alternative benefits (see Hitting the Poorest Places Hardest). The government Impact Assessment<sup>64</sup> on the impacts of time-limiting ESA estimates that 60 per cent of all ESA claimants, equivalent to **700,000 claimants**, will be on contributory ESA and thereby affected by this measure in 2015/16. Of these 60 per cent will be eligible to go on and claim income related ESA either at the same rate or a lower rate depending on their other income. The remaining **40 per cent of contributory based ESA WRAG claimants will lose their benefit entirely - equivalent to 24 per cent of all ESA claimants**. This measure will also affect the large number of claimants who have been migrated from contributory IB into the ESA WRAG group.

Using Treasury 2010 Spending Review figures for 2014/15 updated by inflation and additional numbers affected by 2015/16, then it is estimated there will be savings of £2,600m per year by 2015/16 from the time-limiting measure. In addition, using calculations from *'Incapacity Benefit Reform: The local regional and national impact'* produced by Beatty and Fothergill in 2011 and calculations in *'Hitting the Poorest Places Hardest'* it is estimated that the remaining measures affecting IB/ESA claimants will amount to savings of £1,750m per year. In total this means that reform of the incapacity benefits system will result in financial losses to the individuals involved of £4,350m a year by 2015/16 - by far the largest of any of the reforms considered here.

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<sup>64</sup> DWP (2011) Time limit Contributory Employment and Support Allowance to one year for those in the Work-Related activity Group: Impact Assessment. <http://www.dwp.gov.uk/docs/esa-time-limit-wr2011-ia.pdf>

## Impact of incapacity benefits reforms in Hampshire

Table 7.1 indicates that **21,600 claimants of incapacity benefits in Hampshire will be affected by the reforms by 2015/16**. Some of these claimants will lose all their of their entitlement to any benefit, whilst others will receive a reduced amount due to: the introduction of means testing after one year for contributory-based ESA claimants; or being removed from sickness related benefits but remaining eligible for other income-related out-of work benefits, such as JSA. The 21,600 claimants affected by at least one of these measures is equivalent to 44 per cent of the current caseload of working age incapacity benefits claimants in Hampshire. The reforms will amount to **claimants in Hampshire receiving £78m a year less by 2015/16, the equivalent of £69 per year for every working age adult in Hampshire**, than would have been the case if the reforms had not been undertaken. The scale of the financial loss in Hampshire (per working age adult per year) is similar to that seen in the South East region. However, on this measure none of the LAs in Hampshire are hit as hard as the national average (£109), although Havant is not far behind (£103) and both Portsmouth and Southampton face losses of more than £90 per working age adult per year. The substantial differences in circumstances across the county can be seen with Hart only experiencing a loss of £31 per working age adult per year which is less than half the rate seen in Hampshire or the South East and less than a third of the impact seen nationally.

**Table 7.1: Impact of reforms to Incapacity benefits in Hampshire**

	No. of individuals adversely affected	Incapacity benefits		Financial loss per working age adult £ per year
		Estimated loss £m per year	No. of individuals adversely affected per 10,000	
Havant	2,100	8	290	103
Southampton	4,500	16	270	98
Portsmouth	3,500	13	250	91
Gosport	1,200	4	230	84
New Forest	2,000	7	190	69
Rushmoor	1,000	4	160	59
Eastleigh	1,300	5	160	57
Basingstoke and Deane	1,600	6	140	53
Test Valley	1,000	4	140	51
East Hampshire	1,000	4	140	50
Fareham	900	3	130	48
Winchester	1,000	4	130	48
Hart	500	2	80	31
<b>Hampshire</b>	<b>21,600</b>	<b>78</b>	<b>190</b>	<b>69</b>
<b>South East</b>	<b>108,000</b>	<b>389</b>	<b>200</b>	<b>71</b>
<b>Great Britain</b>	<b>1,251,300</b>	<b>4,350</b>	<b>310</b>	<b>109</b>

Source: Hitting the Poorest Places Hardest, Beatty and Fothergill 2013



There is no information available from the impact assessments on the characteristics of the claimants affected by the reforms. However, it is worth considering some of the characteristics of the group of claimants as a whole, given that so many are affected. Of all working age ESA/IB/SDA claimants:

- 53 per cent are male
- 60 per cent have been on incapacity benefits from five or more years
- 43 per cent have at least one dependent child
- all will have significant long term health problems.

Table 7.2 below shows the economic activity and inactivity rates for districts in Hampshire for adults aged 16 to 74 years old. The four columns to the right of the Table provide a breakdown of economic inactivity. This table goes some way to explaining why the impact of the IB reforms are less pronounced within Hampshire.

**Table 7.2: Economic activity and inactivity in Hampshire, percentage of 16-74 year olds**

	Economically active	Economically Inactive	Economically Inactive			
			Retired	Student	Looking after home / family	Long-term sick or disabled
Basingstoke & Deane	77	23	13	3	4	2
East Hampshire	73	27	15	4	4	2
Eastleigh	75	25	14	3	4	3
Fareham	73	27	17	3	3	2
Gosport	72	28	15	4	4	4
Hart	75	25	14	3	4	1
Havant	69	31	17	3	4	4
New Forest	70	30	20	3	4	3
Portsmouth	69	31	11	11	4	4
Rushmoor	78	22	10	4	4	3
Southampton	68	32	10	12	4	4
Test Valley	73	27	15	3	4	2
Winchester	71	29	14	7	4	2
<b>Hampshire</b>	72	28	14	6	4	3
<b>South East</b>	72	28	14	5	4	3
<b>England</b>	70	30	14	6	4	4

Source: 2011 Census of Population

As can be seen from the final column the proportion of 16 to 74 year olds economically inactive due to long-term sickness or disability is consistent in Hampshire and the South East at around three per cent. The English average is only slightly higher at four per cent. However, individuals out of work due to long-term sickness and/or disability are more likely to be concentrated in the older industrial regions of the UK such as the North East, South Yorkshire, central Scotland and the South Wales Valleys. Therefore benchmarking the

impacts of IB reform in Hampshire and its districts against Great Britain produces a much greater variation than doing so against England on its own. The four districts worst affected by the IB reforms - Gosport, Havant, Portsmouth and Southampton - also have the highest proportion of individuals economically inactive due to long-term sickness or disability

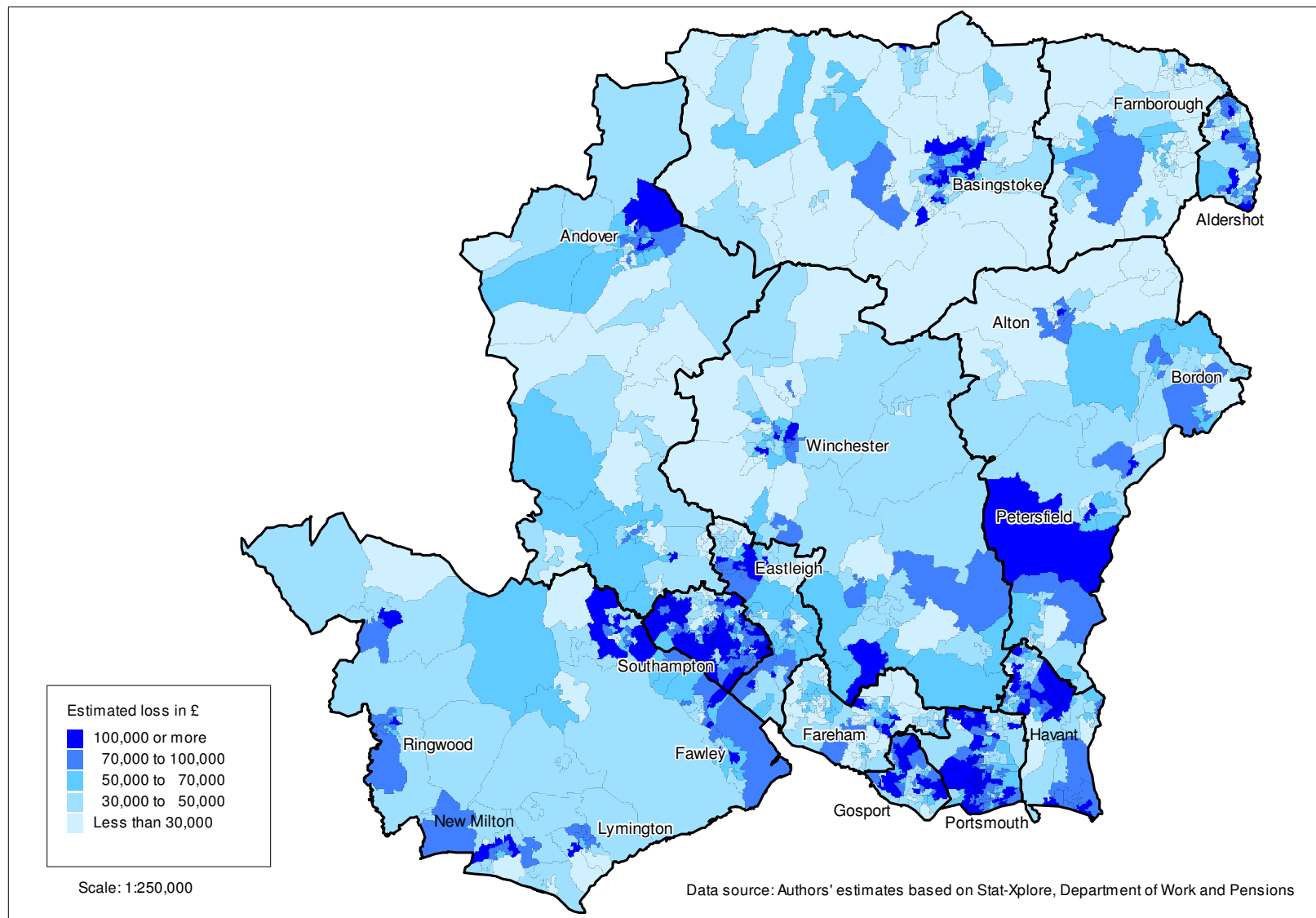
The table above also underscores the importance of students to the economies of Portsmouth, Southampton and Winchester. Their relative concentration also serves to bring down the economic activity rate in those districts: students in Portsmouth and Southampton account for a third of the economically inactive total.

Figure 7.2 below shows the distribution of the financial impact of the reform of incapacity benefits on local areas within Hampshire. These losses have been allocated to LSOAs on the basis of the distribution of working age incapacity benefits claimants. It can be seen that the impacts of IB reform in Hampshire are felt more in the principal towns and cities of the county. While there is a clear correlation with the more populated areas of Hampshire, the distribution across districts is more even than the impact of other welfare reforms. That said LSOAs within the former industrial areas on the coast, from Havant up to Southampton, exhibit greater concentrations of IB claimants and are therefore more adversely affected.

## Summary

- incapacity benefit reforms involve the replacement of IB and related benefits by 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.

Figure 7.2: Impact of the incapacity benefits reforms in Hampshire, by LSOA



# Disability Living Allowance

## Introduction

Disability Living Allowance (DLA) was introduced in 1992 to make a contribution towards the higher living costs associated with having a serious health problem or disability. DLA is therefore not a work replacement benefit and is available to children and adults, whether in work or not. There are currently 3.32m DLA claimants in Great Britain of whom 2.04m are of working age (February 2013). The benefit is split into a mobility component to help with walking difficulties which is paid at two levels (Higher and Lower), and a care component to help with personal care needs which is available at three levels of payment (Highest, Middle and Lowest). It is possible to receive any combination of these two components and the benefit is not means tested or taxable. To make a claim an individual had to be under the age of 65, but the benefit continues to be paid to claimants after retirement age. DLA was awarded for either a fixed period or, in 71 per cent of cases, for an open-ended indefinite period.<sup>65</sup> A claimant has to have needed help for a qualifying period of at least three months and pass a prospective test of needing the support for at least another six months.

The numbers on DLA have steadily increased since its introduction and from 2002 to 2011 the caseload had risen by a third. The increase was attributable to the maturing of the benefit which was introduced in 1992, demographic factors given people are living for longer and can receive DLA post retirement age, and increased awareness of the benefit including signposting to making a DLA claim amongst the growing number of people who were claiming incapacity benefits.

In the June 2010 Emergency Budget the coalition government announced a major overhaul of the DLA system with respect to **working age claimants**: it would be replaced by a new simplified benefit called the **Personal Independence Payment (PIP)**. Those aged under 16 or over 65 will continue on DLA for now. The key aims underpinning the reforms are to reduce the growing caseload on DLA and working age DLA expenditure by 20 per cent; reduce complexity and subjectivity from the system; check that awards remain correct over time; and remove the perception that DLA can act as a barrier to work since receipt of DLA appears to reduce the likelihood of being in employment, even after taking into account the impact of health conditions.

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<sup>65</sup> House of Commons (2011) Disability Living Allowance Reform. <http://www.parliament.uk/briefing-papers/SN05869>

## Overview of the replacement of DLA by PIP

The government carried out a consultation<sup>66</sup> on the proposed reforms from December 2010 to the 18<sup>th</sup> February 2011. However, the framework for PIP was introduced via the Welfare Reform Bill on the 16<sup>th</sup> of February 2011 before the responses to the consultation could be considered. The consultation responses have therefore been used to inform the passage of the Bill and secondary legislation. The government subsequently announced a series of concessions for PIP as the Bill passed through parliament including two biennial independent reviews within the first four years of implementation.<sup>67</sup>

The government also announced that in response to a further consultation undertaken in March 2012 it would undertake a significantly slower migration profile for all claimants to be moved over from DLA to the PIP system.<sup>68</sup> The PIP system began to be introduced for new claimants from April 2013 in a limited number of postcodes in the North West and North East of England and in the rest of England from the June 2013. From October 2013 a sub-group of existing DLA claimants will be invited to make a PIP claim. This group will include children turning 16, those with changes in circumstances or those with fixed term awards which will expire from February 2014. Finally, from October 2015 the rest of DLA claimants will gradually be invited to make a PIP claim but this process will not be complete until 2017/18.

The PIP system will be based on a new "**objective medical assessment**" and regular re-testing of claimants would be undertaken to review entitlement. The medical assessment is designed to provide "*a more holistic assessment of the impact of a health condition on an individual's ability to participate in everyday life*". The new system also means that most PIP claimants will have to attend a face to face consultation with an independent "Healthcare Professional" (HCP) but the final decision will be taken by a DWP Decision Maker. To date two key private firms have won the contracts to provide the HCPs - Atos Healthcare and Capita Business Services Ltd.

Other elements of the reform include fewer groups than previously having exemptions from assessment, and aids and adaptations used by disabled people would be taken into consideration when making an assessment of the level of support needed. The new benefit will, like DLA, have two components but these will now be classified as the **mobility component and the daily living component**. These components will be payable at either the standard or the enhanced rate simplifying the combination of rates which were available under the DLA system.

## National impact of the DLA reforms

The revised Impact Assessment (footnote 66) indicates that the PIP caseload will be 1.75 million by the end of the reassessment exercise in October 2018, some **450,000 (25 per cent) fewer than would have been under the DLA system. A further 510,000 (29 per**

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<sup>66</sup> DWP (2010) *Disability Living Allowance Reforms*

<sup>67</sup> See page 5, House of Commons (2011) *Disability Living Allowance Reform*. <http://www.parliament.uk/briefing-papers/SN05869>

<sup>68</sup> DWP(2012) *Personal Independence Payments: Reassessments and Impacts*  
<http://webarchive.nationalarchives.gov.uk/+/http://dwp.gov.uk/docs/pip-reassessments-and-impacts.pdf>

cent) claimants will experience a reduction in their award, the same amount will experience an increased award and the remainder will experience no change.

There are potentially other knock on effects to other benefits as a result of the changes. In May 2011, approximately **700,000 working age DLA claimants are also entitled to premia** in income-related benefits. This is the equivalent of 34 per cent of all working age DLA claimants, the majority of whom will receive premia for IS or IB. Although the Impact Assessment<sup>69</sup> assumes that the level of expenditure will remain the same after the PIP is introduced, it does expect there will be caseload movement as DLA claimants are migrated to the new benefit. Approximately a **quarter of a million (or 13 per cent of) working age DLA claims also have a Carer's Allowance claim linked to their claim**. Two-thirds of those receiving the Carer's Allowance are women and therefore those affected by changes in entitlement to Carer's Allowance linked to a working age DLA claim are more likely to be women.<sup>70</sup>

### Impact of DLA reforms in Hampshire

In February 2013 there were 69,690 DLA claimants in Hampshire of whom 44,970 are of working age (65 per cent). The DWP impact assessment estimates that savings of £1,500m per year will be made by the time all working age claimants have been moved over to the new PIP system in 2017/18.

Table 8.1<sup>71</sup> below is again based on the *Hitting the Poorest Places Hardest* report but updated to include the revised estimates of the number of claimants adversely affected by the change from DLA to PIP. The local estimates of the number of claimants affected and the resultant financial loss is allocated on the basis of the working age DLA claimants across Hampshire relative to the national distribution of claimants. Unsurprisingly, in terms of absolute numbers, the larger districts of Portsmouth and Southampton are the worst affected areas. Hart, which invariably emerges "top" in terms of the national distribution of disability and health-related benefits in the UK, has just 600 adversely affected DLA claimants.

In terms of the financial loss to the local economy however, Havant emerges as the biggest loser where the monetary impact amounts to a loss of £40 per year per working age adult in the district. This is slightly higher than the equivalent amounts for Portsmouth (£33), Gosport (£35) and Southampton (£37). The reforms to DLA result in a not insignificant loss to the Hampshire economy as a whole of £33m per year, with a third of that figure accounted for by Portsmouth and Southampton.

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<sup>69</sup> DWP (2012) *Disability Living Allowance Reform: Impact Assessment*.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220176/dla-reform-wr2011-ia.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220176/dla-reform-wr2011-ia.pdf)

<sup>70</sup> DWP (2012) *Disability Living Allowance Reform: Equality Impact Assessment*.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220151/eia-dla-reform-wr2011.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220151/eia-dla-reform-wr2011.pdf)

<sup>71</sup> In the present report the figures on the numbers of individuals adversely affected by the DLA reforms include those experiencing a reduction in payment which is now available from the Revised Impact Assessment. These figures differ from those published in the *Hitting the Poorest Places Hardest* report, which only referred to complete loss of entitlement. The statistics on overall financial losses are however comparable.

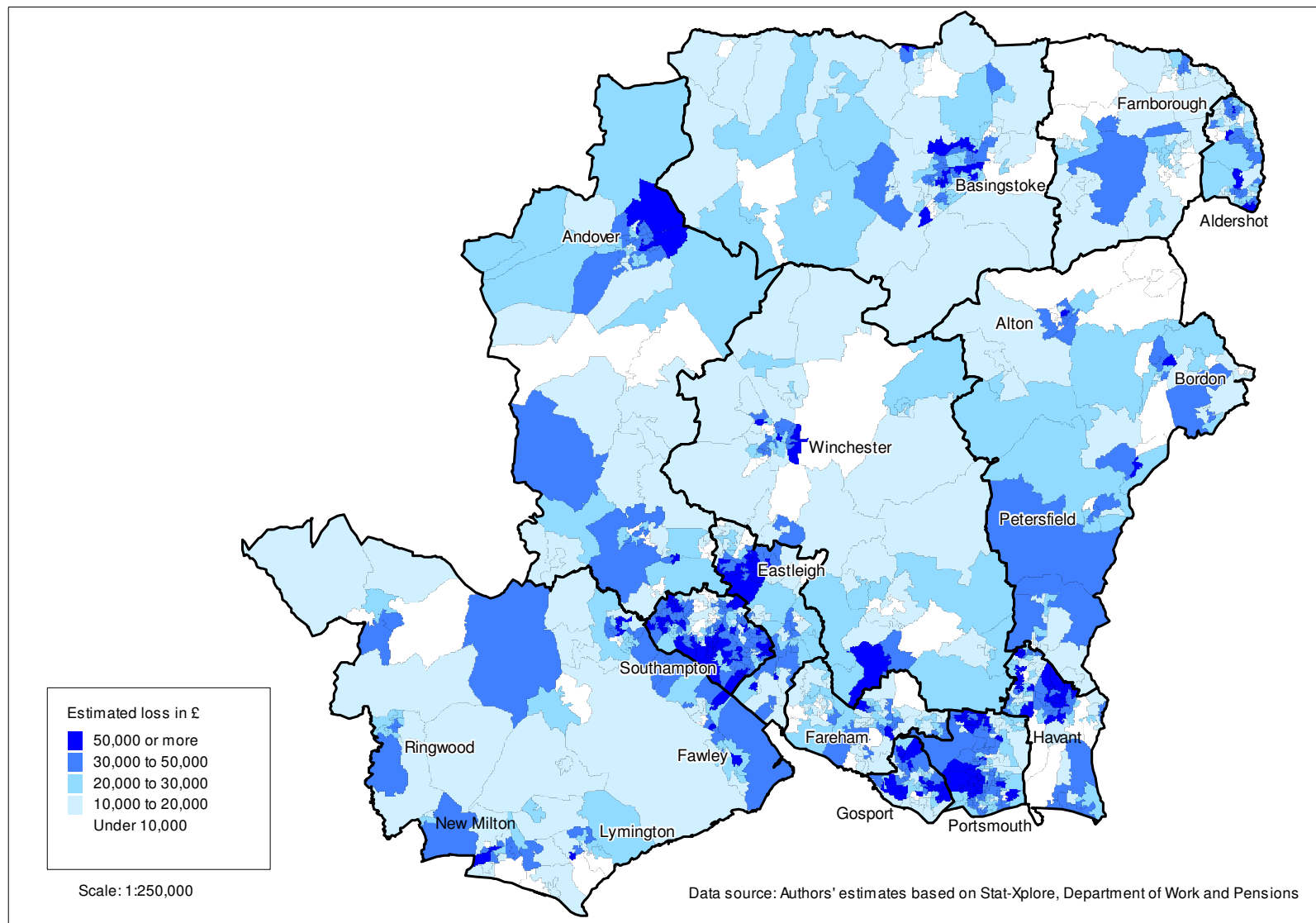
**Table 8.1: Impact of reforms to Disability Living Allowance in Hampshire**

	Disability Living Allowance			
	No. of individuals adversely affected	Estimated loss £m per year	No. of individuals adversely affected per 10,000	Financial loss per working age adult £ per year
Havant	1,900	3	260	40
Southampton	3,900	6	240	37
Gosport	1,200	2	220	35
Portsmouth	2,900	5	210	33
New Forest	2,000	3	190	30
Eastleigh	1,400	2	170	27
Rushmoor	1,100	2	170	26
Test Valley	1,200	2	160	26
Basingstoke and Deane	1,700	3	150	24
East Hampshire	1,100	2	150	23
Fareham	1,000	2	150	23
Winchester	1,100	2	140	23
Hart	600	1	100	16
<b>Hampshire</b>	<b>21,000</b>	<b>33</b>	<b>190</b>	<b>29</b>
<b>South East</b>	<b>101,400</b>	<b>158</b>	<b>180</b>	<b>29</b>
<b>Great Britain</b>	<b>960,000</b>	<b>1,500</b>	<b>240</b>	<b>38</b>

Source: Hitting the Poorest Places Hardest, Beatty and Fothergill 2013; DWP (2012) Personal Independence Payments: Reassessments and Impacts

The spatial distribution of the impact of DLA reform by LSOA is shown in Figure 8.1 below. The darker shaded areas denote the biggest losses in pounds per annum: the darkest areas amounting to a loss of £50k or more. As might be expected the map mirrors the equivalent map on IB reform above as it also reflects the distribution of disability and ill health across Hampshire. Again there are concentrations of affected claimants in Gosport, Havant, Portsmouth and Southampton as well as smaller pockets in and around Andover, Basingstoke, Farnborough and Winchester.

Figure 8.1: Impact of DLA reforms in Hampshire, by LSOA





## Summary

- 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 have a significant impact in Hampshire **affecting 21,000 individuals and amount to a loss to the local economy of £33m per annum**
- the impact of DLA changes in the context of wider welfare reform is similar to that of LHA - both accounting for 8 per cent of the total impact
- 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 previous discussion of the **cumulative impact** of the range of 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.<sup>72</sup> 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.

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<sup>72</sup> See Beatty, C., Brewer, M., Browne, J., Cole, I., Crisp, R., Emmerson, C., Joyce, R., Kemp, P. A., Pereira, I. and Powell, R. (2013) *Monitoring the Impact of Changes to the Local Housing Allowance System of Housing Benefit: Interim Report* (Research Report No. 838). London: DWP

# HMRC reforms and up-rating of benefits

## Introduction

There are three further major reforms which have been introduced which are discussed in this chapter. The **first** concerns multiple changes to the **Tax Credits** (TC) system which is administered by HMRC rather than DWP. The changes, which affect large numbers of families on low and middle incomes, were announced in the 2010 Emergency Budget and Spending Review. These changes affect many families in work as well as those on out-of-work benefits. The **second** major reform concerns the level at which working age benefits are up-rated by and was announced in the 2012 Autumn Statement. This required separate legislation which was passed through parliament as the **Welfare Benefits Up-rating Act** in March 2013. It restricted increases in most working age benefits to one per cent for three years from April 2013. The **third** reforms to be discussed in this chapter are the changes to **Child Benefit** (CB) which are also administered by HMRC. The changes include freezing the rate at which CB is paid for all claimants from 2011/12 for three years and withdrawal of CB from January 2012.

## Overview of Tax Credit reforms

Child Tax Credit (CTC) and Working Tax Credit (WTC) were introduced via the tax system in 2003 for households on low incomes with the aim of tackling child poverty and making work pay. The CTC is available for families who are on low incomes, with children under the age of 20 who are still in full-time tertiary education or training and is available to those in work or out-of-work. The WTC supports people in work (including the self-employed) by topping up low to modest incomes. In December 2012 there were 4.51 million families claiming TCs and 2011/12 projected expenditure on TCs in Great Britain was estimated at £31.7 billion before the reforms were introduced.

In the 2010 Emergency Budget there were ten separate measures announced which affect both the WTC and CTC rules and regulations.<sup>73</sup> Further announcements of changes to the system were made in the subsequent 2010 Spending Review and 2011 Autumn Statement. The changes affect the thresholds, withdrawal rates, supplements, income disregards, backdating provisions, reductions in the payable costs through the childcare element from 80 to 70 per cent, indexation and up-rating from 2011/12 onwards. The changes mean that from April 2012, to receive TCs most families with one child would need to

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<sup>73</sup> For the full regulations see: HMRC (2013) *Child Tax Credit and Working Family Tax Credit: An Introduction*.

have an income of below £25,700, below £32,300 for a family with two children, or £38,800 for those with three children. These upper thresholds were substantially lower than in 2010/11 where some families would still receive some CTC on incomes up to £58,000.

It was also announced that a significant increase in the number of hours a couple would need to work to be able to claim WTC: from 16 to 24 hours between them, with at least one person working 16 hours a week. This was introduced from 2012/13. In 2012, 212,000 families, equivalent to 12 per cent of all couples with children in Great Britain claiming WTC, worked between 16 and 24 hours a week and would be affected by this measure<sup>74</sup>. The threshold was not increased for lone parent families. In the longer term, in-work support will be available through Universal Credit, and unlike WTC, there will be no minimum hours threshold in order to incentivise people to take work.

There were over 4.5m households receiving WTC or CTC in 2012 and all are affected by one or more of the measures introduced. The impact of the changes amount to **£3,660m** (net) per year from 2014/15 and represent the second largest financial impact nationally of any of the reforms introduced.

### **Impact of Tax Credit reforms in Hampshire**

Table 9.1 shows the impact of the reforms to Tax Credits in Hampshire. The table is ranked from the most affected local authority district, in terms of the financial loss per working age adult, down to the lowest. Unlike the reform to Child Benefit (see below) the impacts of Tax Credit changes are more keenly felt in the relatively more deprived districts of Hampshire, given that Tax Credits are generally more likely to be received by households on low to modest incomes. That is, the effects are more pronounced within districts where more people qualify for Tax Credits.

**Over 100,000 Hampshire households are affected:** 1,380 per 10,000. This figure is exactly the same as that for the South East as a whole but significantly less than the national average of 1,750 households per 100,000. As a result of this lower incidence the financial loss in Hampshire is **£72 per working age adult per year**, some way lower than the national figure of £92 per year. The estimated total loss to the Hampshire economy is **£82m** with Portsmouth and Southampton accounting for £28m (or 34 per cent) of that total.

All Hampshire districts fall below the national average in terms of the financial loss per working age adult, although four only slightly: Gosport, Havant, Portsmouth and Southampton. Other districts fare much better. The estimated financial loss per working age adult in Hart and Winchester for instance is less than £50 per annum. The equivalent in the remaining districts is between £55 and £76 per year.

If a similar proportion in Hampshire as nationally of families with children claiming WTCs were affected by the change in the requirement to work at least 24 hours between them (12 per cent), then approximately would be **4,800 families** in Hampshire would be affected by this measure alone.

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<sup>74</sup> House of Commons Library (2012) *Changes to the Working Tax Credit hours rules for couples with children from April 2012*. <http://www.parliament.uk/briefing-papers/SN06267>

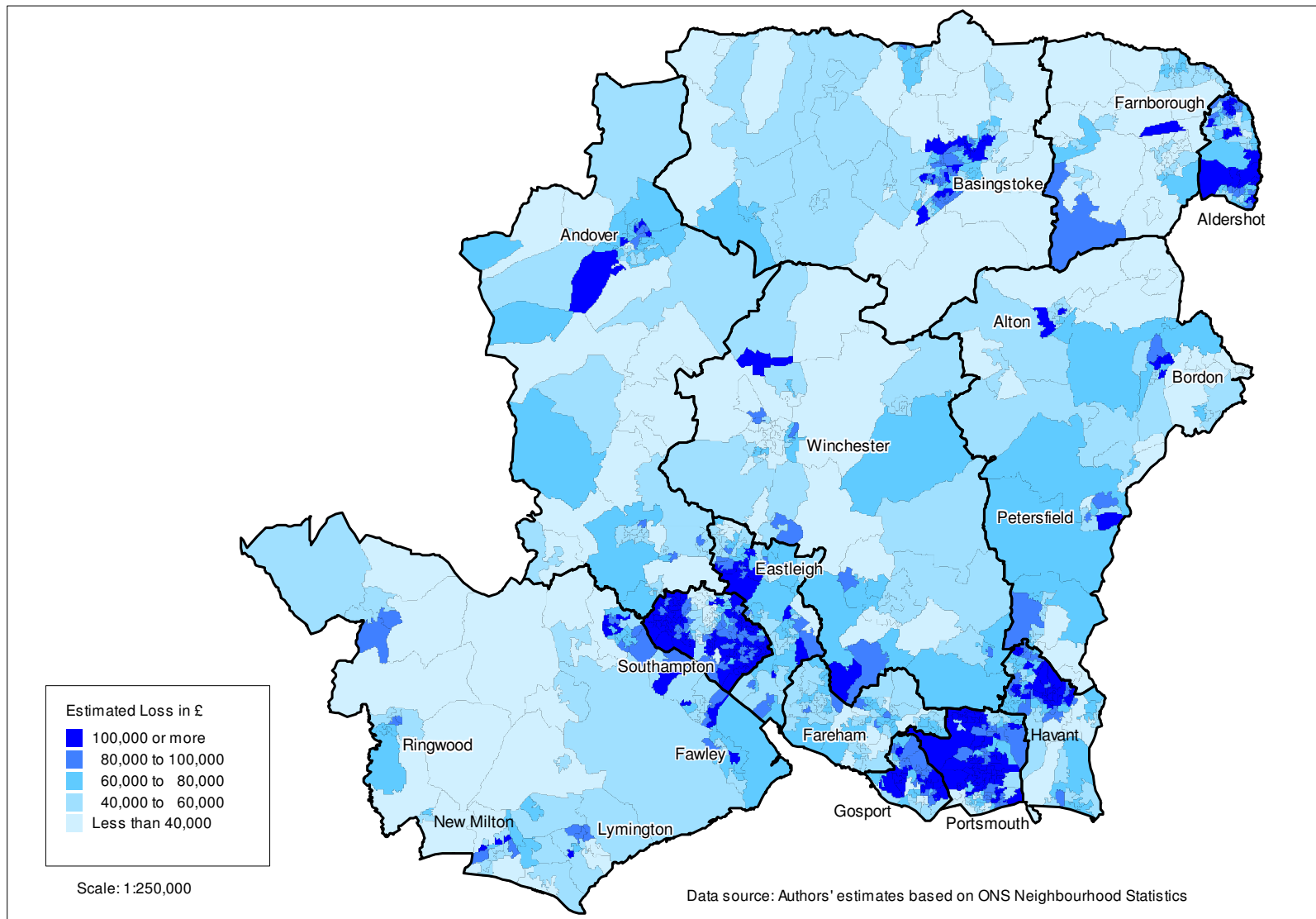
**Table 9.1: Impact of reforms to Tax Credits in Hampshire**

	Tax Credits			Financial loss per working age adult £ per year
	No. of households adversely affected	Estimated loss £m per year	No. of households adversely affected per 10,000	
Portsmouth	15,600	13	1,830	91
Havant	8,200	7	1,600	91
Southampton	18,200	15	1,850	90
Gosport	5,800	5	1,640	90
Rushmoor	5,900	5	1,620	76
New Forest	8,900	7	1,160	70
Eastleigh	6,700	5	1,280	67
Basingstoke and Deane	8,600	7	1,240	64
Fareham	5,100	4	1,090	60
Test Valley	5,300	4	1,110	59
East Hampshire	4,900	4	1,040	55
Winchester	4,400	4	940	49
Hart	3,000	2	840	42
<b>Hampshire</b>	<b>100,600</b>	<b>82</b>	<b>1,380</b>	<b>72</b>
<b>South East</b>	<b>490,700</b>	<b>398</b>	<b>1,380</b>	<b>72</b>
<b>Great Britain</b>	<b>4,507,000</b>	<b>3,660</b>	<b>1,750</b>	<b>92</b>

Source: Hitting the Poorest Places Hardest, Beatty and Fothergill 2013

The spatial variation of the impact of Tax Credit reform in Hampshire is illustrated in Figure 9.1 below which shows the total estimated financial loss to the local area by LSOA. The recurring pattern of concentrated effects within Gosport, Havant, Portsmouth and Southampton is apparent. However, there are also discernible impacts in Andover, Basingstoke, Eastleigh, Rushmoor and parts of East Hampshire. Tax Credits have obviously played a key role in supplementing income for many families and households across Hampshire and the effects of their reform will impact on all of those recipients.

Figure 9.1: Impact of Tax Credits reforms in Hampshire, by LSOA



## Overview of Child Benefit reforms

Child Benefit was introduced in 1979 as a non-taxable, universal benefit for families with children. Total expenditure on CB in 2010/11 was £12 billion and in 2012 approximately 7.9 million families in Great Britain were in receipt of CB which is worth £20.30 a week for the eldest eligible child and £13.20 a week for each subsequent child. In the 2010 Emergency Budget it was announced that the CB would be frozen for three years from 2011/12. The financial loss arising from this freeze is **£975m per year** by 2014/15. In addition, a major change to the benefit was announced by the Chancellor at the Conservative Party Conference in October 2012: that CB would be removed for families with a higher rate tax payer.<sup>75</sup> The measure was controversial on a number of levels: it abandoned the idea of universality for this family benefit; there were major issues about operationalising and policing the system; a dual earner couple both earning under the higher rate tax threshold could keep their CB whilst a single earner or lone parent household just above the threshold would lose all of theirs; and a "cliff edge" was created where falling £1 the wrong side of the threshold resulted in the loss of all CB, which in turn creates disincentives to take work paid above the higher tax rate threshold.

In the 2012 Budget the Government announced that the original plans were to be revised in the form of a "**high income Child Benefit charge**" which was introduced from 7<sup>th</sup> January 2013. The threshold for losing any CB was raised from the higher tax rate threshold (approximately £43,000) to those where at least one person in a household receiving CB earns £50,000 or above. The charge will be one per cent for every £100 of income in excess of £50,000. In practice this means a household with an earner receiving £50,000 can keep all their CB, a household with an earner on £55,000 has to pay back half their CB and a household with an earner on £60,000 or more will lose all their CB. The charge is collected through Self Assessment and PAYE with an estimated additional 500,000 individuals having to complete Self Assessment as a consequence of the measure. It is estimated by HM Treasury that the financial loss arising from this reform will amount to **£1,870 million per year by 2014/15**.

The HMRC Impact Assessment<sup>76</sup> for the removal of CB from households with a higher income earner estimates that:

- 1.2 million families will be affected by the reforms; 16 per cent of all claimants
- 790,000 (67 per cent) of these will be couples who lose the full amount of CB
- 30,000 (3 per cent) of these will be lone parents who lose the full amount of CB
- 330,000 (28 per cent) of these will be couples who lose a portion of CB
- 20,000 (2 per cent) of these will be lone parents who lose a portion of CB.

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<sup>75</sup> House of Commons Library (2012) *Child Benefit for higher income families*. Standard Note SN06299.

<http://www.parliament.uk/briefing-papers/SN06299>

<sup>76</sup> HMRC (2012) *Child Benefit: Income Tax Charge for Those on Higher Incomes*.

<http://www.hmrc.gov.uk/budget2012/tiin-0620.pdf>

## Impact of Child Benefit reforms in Hampshire

Table 9.2 below shows the local impact of the CB reforms in Hampshire. The total financial loss to families in Britain from the two measures is £2,845 million a year by 2014/15 of which **£82 million** is within Hampshire. All **212,700 CB recipients** in Hampshire are affected to a limited extent by the freezing of CB rates. A proportion of claimants also experience a much greater loss through the withdrawal of CB from households with a higher income earner. Given the affluence in parts of Hampshire this means that a higher than average number of households are likely to be affected by this change. Hampshire accounts for 2.8 per cent of all CB recipients in Britain but 2.9 per cent of the national financial loss due to this reform.<sup>77</sup> Using the latter figure as a guide to the number of households affected by this element of the reform then:

- 35,000 or one in twenty of all households in Hampshire are likely to be affected
- 23,500 (67 per cent) of these will be couples who lose the full amount of CB
- 1,100 (3 per cent) of these will be lone parents who lose the full amount of CB
- 9,800 (28 per cent) of these will be couples who lose a portion of CB
- 700 (2 per cent) of these will be lone parents who lose a portion of CB.

Table 9.2 presents the impact of CB reform by district. Unlike most other reforms, changes to CB have greater financial consequences in the more affluent areas. As CB was a universal benefit, the introduction of thresholds means that losses are greater for households with higher incomes (as detailed above). For Hampshire this means that those districts which have faced marginal impacts with regard to other welfare reforms emerge as the hardest hit authorities in relation to CB changes. Indeed, along with Tax Credit reform CB is the welfare reform measure that has the greatest impact in Hampshire, representing a loss of over £82m to the Hampshire economy and accounting for a fifth of the total financial impact of welfare reform. This compares with a figure of 15 per cent for Great Britain.

Although the greatest numbers of households affected are found in Portsmouth and Southampton, closely followed by Basingstoke, Hart is by far the biggest loser in terms of the financial loss per working age adult. This figure stands at just under £100 in Hart compared to £73 for Hampshire as a whole and £72 for Great Britain. Seven other Hampshire districts also lose out by more than the national average on this measure. The biggest absolute losses per local authority area fall on Basingstoke and Deane, Portsmouth and Southampton due to the larger number of affected households in those districts.

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<sup>77</sup> See *Hitting the Poorest Places Hardest* for full methodology which takes account of local area data on above average median earnings when allocating the financial loss of this reform.

**Table 9.2: Impact of reforms to Child Benefit in Hampshire**

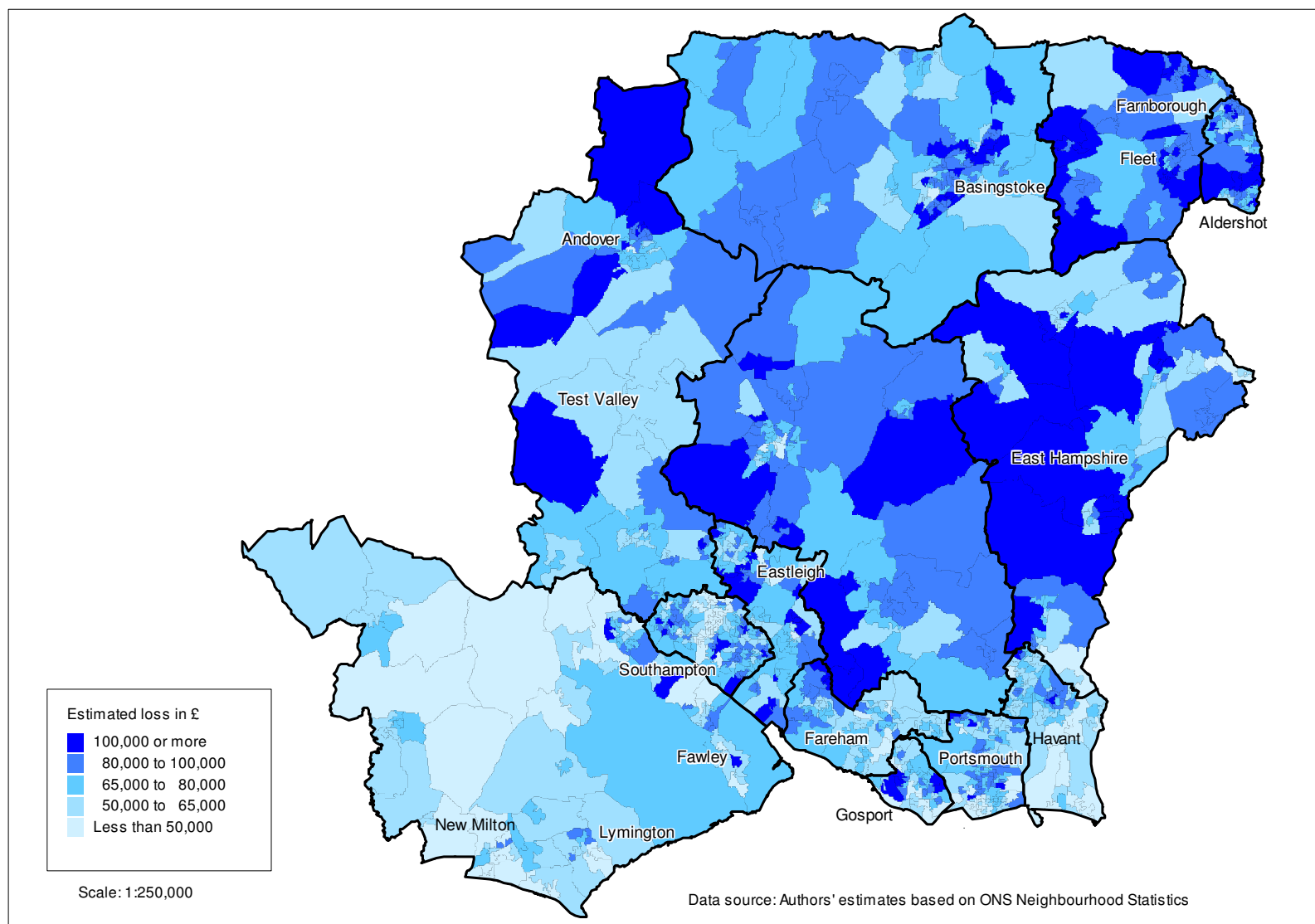
	Child Benefit			
	No. of households adversely affected	Estimated loss £m per year	No. of households adversely affected per 10,000	Financial loss per working age adult £ per year
Hart	11,800	6	3,320	98
Basingstoke and Deane	22,100	9	3,190	84
Rushmoor	12,800	5	3,530	80
East Hampshire	14,100	6	2,990	79
Winchester	13,400	6	2,870	78
Test Valley	14,400	6	3,020	76
Eastleigh	15,700	6	3,010	75
Fareham	13,100	5	2,810	73
Gosport	10,300	4	2,920	70
Havant	14,200	5	2,760	69
New Forest	19,200	7	2,490	67
Portsmouth	24,400	9	2,850	62
Southampton	27,200	10	2,770	59
<b>Hampshire</b>	<b>212,700</b>	<b>82</b>	<b>2,920</b>	<b>73</b>
<b>South East</b>	<b>1,061,900</b>	<b>422</b>	<b>2,990</b>	<b>77</b>
<b>Great Britain</b>	<b>7,600,100</b>	<b>2,845</b>	<b>2,960</b>	<b>72</b>

Source: Hitting the Poorest Places Hardest, Beatty and Fothergill 2013

Figure 9.2 below clearly shows the inverse relationship between this particular welfare reform measure and the relative social disadvantage found in a particular district. It presents the impact of CB reform by the total financial loss by LSOA. In contrast to the majority of the preceding maps illustrating the spatial distribution of welfare reform impacts, the more wealthy areas of Hampshire dominate Figure 9.2. Generally, the darker shaded areas in the map below are the lighter shaded areas on the maps shown above. Gosport, Havant, Portsmouth and Southampton fare reasonably well on this measure but LSOAs within Hart, East Hampshire and Winchester incur substantial losses.



Figure 9.2: Impact of Child Benefit reforms in Hampshire, by LSOA



## The one per cent up-rating of working age welfare benefits

In the 2010 Emergency Budget the government announced that the method for up-rating public sector pensions, benefits and tax credits would change from 2011/12 to the Consumer Price Index (CPI). Previously pensions and non-means tested benefits had been uprated in line with the Retail Price Index (RPI) and means tested benefits had been uprated in line with the 'Rossi' index (which is the RPI minus certain housing costs). At the same time it was announced that a "triple guarantee" would ensure basic state pension would be increased in line with earnings, prices (in line with the CPI) or 2.5 per cent; whichever benchmark was highest. The move to using CPI as the main indexation tool for benefits reduced expenditure for the government as CPI tends to be lower than RPI. In 2012 average earnings had increased by 1.6 per cent, CPI by 2.2 per cent, RPI by 2.6 per cent and the Rossi index by 2.8 per cent<sup>78</sup>. It is not possible from the Treasury figures in the Budget to estimate the proportion of the overall savings resulting from the move to CPI (which includes public sector pensions) that are due to the welfare benefits bill alone.

In the 2012 Autumn Statement the Chancellor announced that because of the continuing difficult prevailing economic circumstances rather than up-rating the majority of working age benefits and tax credits in line with CPI, up-rating would be limited to a one per cent increase for three years from 2013/14 to 2015/16. At that time CPI was 2.2 per cent and forecast to rise to 2.6 per cent the following year. Child Benefit had already been frozen and LHA set at the CPI for 2013/14 and so the one per cent up-rating would not apply to these benefits until 2014/15. There were also certain exceptions in relation to some disability benefits and the one per cent up-rating would not apply premia for disability, carers, the support group within ESA, or disability elements for tax credits. The government passed primary legislation in the form of the Welfare Benefits Up-rating Act 2013 in March 2013 in order to implement the changes from 2014/15.<sup>79</sup>

The one per cent up-rating of working age benefits will result in a financial loss to claimants nationally of **£3,340million a year by 2015/16**. The government Impact Assessment<sup>80</sup> estimates that approximately **9.6million or 30 per cent of all households** in Britain will be affected on average by £3 a week. The change will have a bigger effect on those in the lower deciles of equivalised income where the loss will be between £4 or £5 a week. 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. It is estimated that of those affected for working age households:

- 47 per cent will be couple households with children
- 21 per cent will be lone parents
- 7 per cent will be couple households without children
- 23 per cent will be single person households.

Table 9.3 below shows the impact of the one per cent up-rating measure in Hampshire by district and benchmarked against the regional and national figures. The table is ranked from

<sup>78</sup> House of Commons Library (2012) *2013 Benefit Up-rating*. Standard note SN/SG 6512.

<http://www.parliament.uk/briefing-papers/SN06512>

<sup>79</sup> The Social Security Benefits Up-rating Order 2013 enacted the change in up-rating for 2013/14.

<sup>80</sup> DWP (2013) *Welfare Benefits Up-rating Bill: Impact Assessment*.

most to least affected and shows a reversion to type with the more urban districts in the county faring worse off and Hart and Winchester back to the bottom.

**Table 9.3: Impact of one per cent up-rating in Hampshire**

	1 per cent up-rating	
	Estimated loss £m per year	Financial loss per working age adult £ per year
Portsmouth	12	89
Southampton	14	85
Havant	6	84
Gosport	4	80
Rushmoor	4	69
New Forest	6	61
Eastleigh	5	56
Basingstoke and Deane	6	53
Fareham	3	49
Test Valley	4	49
East Hampshire	3	45
Winchester	3	42
Hart	2	35
<b>Hampshire</b>	<b>73</b>	<b>65</b>
<b>South East</b>	<b>370</b>	<b>67</b>
<b>Great Britain</b>	<b>3,430</b>	<b>86</b>

Source: Hitting the Poorest Places Hardest, Beatty and Fothergill 2013

The one per cent up-rating has a big impact in Hampshire. It equates to a **loss to the local economy of £73m per year, or £65 per working age adult**. This is some way below the national average of £86 per adult but broadly in line with the regional average. The four districts of Gosport, Havant, Portsmouth and Southampton account for half of that total £73m loss. If a similar proportion of all households in Hampshire as nationally (30 per cent) were affected by this reform then approximately **220,000 households in Hampshire could be affected** of which:

- 103,000 (47 per cent) will be couple households with children
- 46,000 (21 per cent) will be lone parents
- 15,000 (7 per cent) will be couple households without children
- 50,600 (23 per cent) will be single person households.

## Summary

### Tax Credit reforms

- a raft of changes to Child Tax Credit and Working Families Tax Credit - 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

- 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.

# 10

## The overall impact of welfare reforms in Hampshire

The impacts of welfare reform are very substantial: an estimated **£19bn a year** will be taken out of the national economy once all the reforms have been fully implemented; or an average of **£470 a year per adult of working age across the whole of Britain**. For some of the individuals affected by the changes the loss of income is much, much greater. What is also clear, however, is that the financial losses arising from the reforms will hit some individuals, households and places much harder than others.

The financial loss in Hampshire, as in much of south and east England outside London, is comparatively light compared to Britain's older industrial areas, a number of seaside towns and some London boroughs which are hit hardest. However, this report has shown that there is significant variation within Hampshire with certain local authorities and local areas within those districts hit much harder than others. The scale of the overall combined impact of the ten reforms considered in this report is shown in Table 10.1. It is estimated that there will be a loss of **£404 million a year** in Hampshire when the reforms are fully implemented, which is a substantial loss of income to residents in the county. This estimate is based on government national impact assessments, Treasury estimates of savings made and the distribution of claimants across Hampshire.

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. All districts in Hampshire are below the national average. Portsmouth has the greatest loss, relative to the size of the working age population, equivalent to £450 per working age adult per year with Southampton, Havant and Gosport not far behind with between £430 and £440. Hart has the second lowest loss per working age adult of any district in Great Britain (after the City of London). Winchester and East Hampshire are also in the bottom 20 districts nationally in terms of the impacts of the reforms relative to the working age population. 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 only just over three times the size of Hart.

**Table 10.1: Overall impact of welfare reforms in Hampshire<sup>81</sup>**

	Total Impact	
	Estimated loss £m per year	Financial loss per working age adult £ per year
Portsmouth	64	450
Southampton	73	440
Havant	33	440
Gosport	23	430
Rushmoor	23	360
New Forest	35	340
Eastleigh	25	320
Basingstoke and Deane	34	310
Test Valley	21	290
Fareham	20	290
East Hampshire	20	280
Winchester	19	270
Hart	14	240
<b>Hampshire</b>	<b>404</b>	<b>360</b>
<b>South East</b>	<b>2,060</b>	<b>370</b>
<b>GB</b>	<b>18,790</b>	<b>470</b>

Source: Authors' estimates

Figure 10.1 maps the total financial loss for the impact of the overall reforms across all LSOAs in Hampshire. Where possible the financial loss has been distributed to the local level on the basis of the underlying distribution of claimants affected by each of the reforms. For a sub-group of reforms, claimant data for the specific group affected does not exist at LSOA level and the financial losses for these reforms have therefore been distributed either by LSOA data on Housing Benefit claimants<sup>82</sup> or those receiving working age out-of-work benefits<sup>83</sup>. Pockets of areas worst hit by the reforms can be seen in most districts with numerous LSOAs losing more than £600,000 a year in Southampton, Portsmouth, Havant, Gosport and Rushmoor.

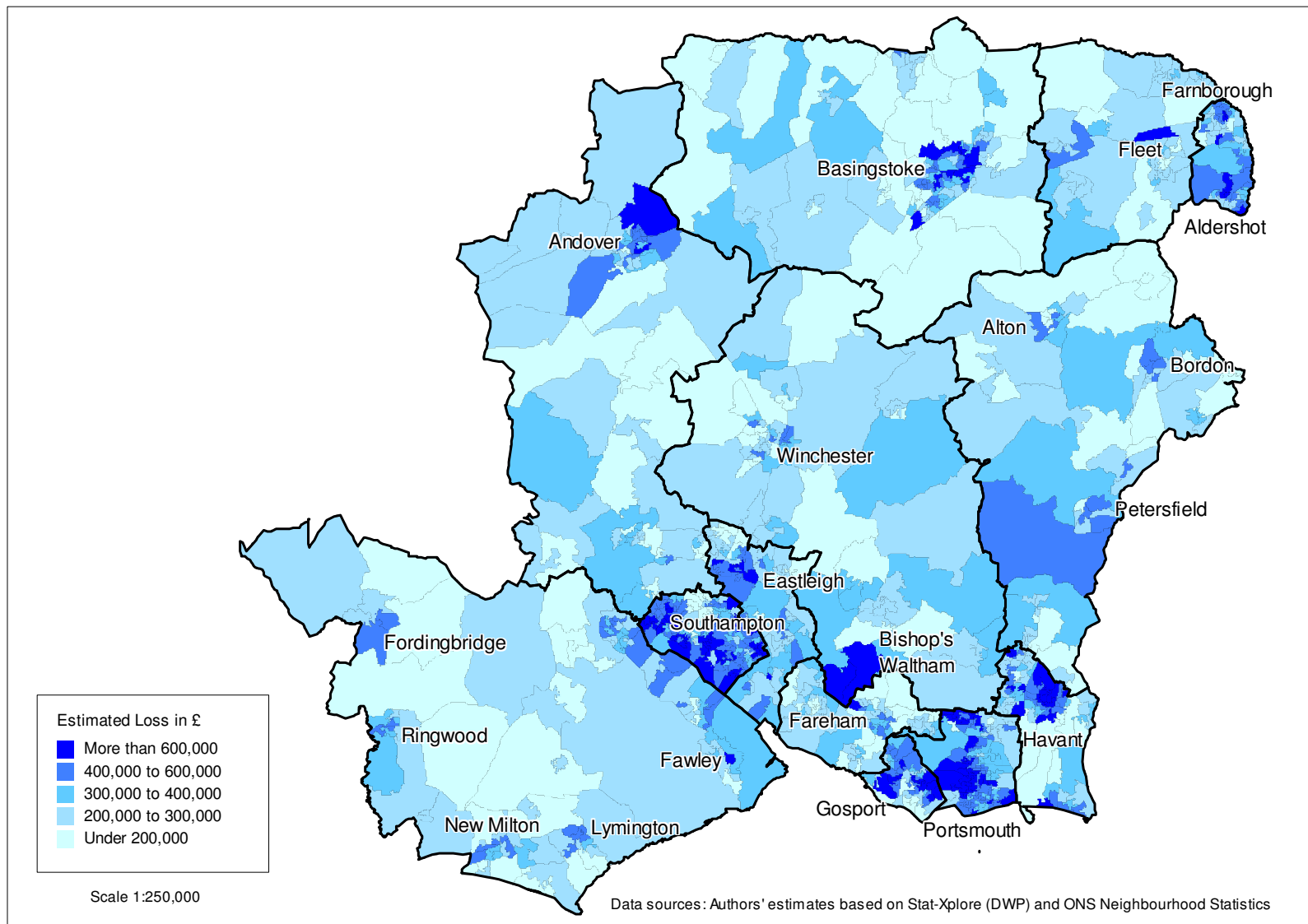
All 1,091 LSOAs in Hampshire lose at least £50,000 a year due to the reforms and 9 LSOAs (1 per cent) lose more than £1 million per year; four of these are in Southampton, three in Portsmouth and two in Gosport. Table 10.2 shows the distribution of losses across LSOAs within each district. One in ten LSOAs in Portsmouth and Southampton will lose more than £800,000 a year and approximately half of all LSOAs in Hampshire lose between £200,000 and £400,000 a year. Even in wealthier districts such as Hart four out of five LSOAs will experience substantial losses of between £200,000 and £400,000 a year;

<sup>81</sup> These figures differ slightly from those published in the *'Hitting the Poorest Places Hardest'* report as they have been updated to take account of more recent data and government documentation available.

<sup>82</sup> Non-dependent deductions, Council Tax Benefit

<sup>83</sup> Household Benefit Cap, 1 per cent up-rating

**Figure 10.1: The overall impact of welfare reform in Hampshire, by LSOA**



although in Hart the impact will be concentrated more amongst the wealthier residents due to the removal of Child Benefit from households with a higher income earner. There is however, in general, a strong association between the level of local deprivation and the scale of the impact. This is not surprising given that it is to be expected that welfare reforms will hit hardest in the places where welfare claimants are concentrated, which in turn tends to be the most deprived areas. Comparing the total monetary loss with IMD scores for all LSOAs in Hampshire produces a strong positive correlation coefficient of 0.83. Taking the effects of Child Benefit out of the equation strengthens the relationship with an increase in the correlation coefficient to 0.87.

**Table 10.2: Distribution of financial loss across LSOAs in Hampshire**

	Percentage of LSOAs with financial loss, £thousands						Total
	800+	600-800	400-600	200-400	100-200	50-100	
Southampton	11	17	38	26	8	1	100
Portsmouth	10	20	37	31	2	0	100
Gosport	8	13	33	33	13	0	100
Havant	5	17	23	45	10	0	100
Hart	2	0	2	83	13	0	100
Rushmoor	2	10	32	51	5	0	100
Test Valley	2	10	32	51	5	0	100
Basingstoke	1	7	19	47	26	0	100
East Hampshire	0	0	18	50	32	0	100
Eastleigh	0	6	19	62	12	0	100
Fareham	0	1	7	66	26	0	100
New Forest	0	1	24	56	18	1	100
Winchester	0	3	9	64	25	0	100
<b>Hampshire</b>	<b>4</b>	<b>9</b>	<b>23</b>	<b>49</b>	<b>15</b>	<b>0</b>	<b>100</b>

Source: Authors' estimates

Table 10.3 confirms that the losses in Hart are more likely to be as a consequence of the changes to the previously universal Child Benefit, which affects wealthier areas due to the removal of Child Benefit from households with a higher income, than as a consequence of other benefit reforms. In Hart, 41 per cent of the overall financial loss is due to the changes to Child Benefit compared to only 14 per cent in Portsmouth, 13 per cent in Southampton and 15 per cent nationally. Four benefit reforms account for just over three quarters of the estimated financial losses in Hampshire: Child Benefit, Tax Credits, incapacity benefits and the 1 per cent up-rating of benefits. Comparatively less of the financial losses, three per cent in all, are due to the more controversial and highly publicised reforms of the bedroom tax and the household benefit cap.



**Table 10.3: Percentage of overall impact for each welfare reform measure, districts in Hampshire**

	Bedroom tax	Household benefit cap	Council Tax Benefit	Non-dependant deductions	Child Benefit	Tax Credits	Local Housing Allowance Reforms	Disability Living Allowance	Incapacity benefits	1% up-rating	Total Impact
Portsmouth	2	1	3	2	14	20	11	7	20	19	100
Southampton	2	1	2	2	13	20	10	8	22	19	100
Havant	2	1	1	1	16	20	7	9	23	19	100
Gosport	2	1	4	2	16	21	9	8	19	18	100
Rushmoor	2	1	1	2	22	21	10	7	16	19	100
New Forest	1	1	1	2	20	21	7	9	20	18	100
Eastleigh	2	1	0	2	24	21	7	9	18	18	100
Basingstoke and Deane	2	1	0	2	27	21	5	8	17	17	100
Test Valley	2	0	0	2	26	20	6	9	18	17	100
Fareham	1	0	3	1	25	21	6	8	17	17	100
East Hampshire	2	1	0	2	29	20	5	8	18	16	100
Winchester	2	1	0	2	29	18	5	8	18	16	100
Hart	1	0	0	1	41	18	5	7	13	14	100
<b>Hampshire</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>20</b>	<b>20</b>	<b>8</b>	<b>8</b>	<b>19</b>	<b>18</b>	<b>100</b>
<b>South East</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>21</b>	<b>19</b>	<b>10</b>	<b>8</b>	<b>19</b>	<b>18</b>	<b>100</b>
<b>GB</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>15</b>	<b>19</b>	<b>9</b>	<b>8</b>	<b>23</b>	<b>18</b>	<b>100</b>

This research has pieced together information on the impacts of welfare reform from a variety of official sources to arrive at an estimate of the overall impact on households and claimants in Hampshire. The tables in the Appendix provide a full breakdown of the financial impacts of each of the reforms both in absolute financial loss and loss per working age adults for all Hampshire districts. Though Hampshire is a relatively affluent area of the UK in general terms the research highlights far reaching consequences for families and households. This quantitative assessment has inevitably focused on the local authority district and LSOA levels in estimating the impact across the 13 districts within Hampshire and has therefore centred on the **financial** consequences of welfare reform. This report provides an evidence base on the scale and impact of welfare reform. Understanding the very real impacts on individuals and families at the local level of the **social costs** of the reforms, which are likely to be wide ranging and severe, would be enhanced by also undertaking qualitative research on the impacts. This would highlight the difficult decisions families were undertaking to make ends meet and how they adjust to the reforms.

As the vast majority of benefits are means-tested claimants, by their very nature, are the most disadvantaged groups in society and are the least able to gain and maintain a foothold in the competitive labour market. Households reliant on government support to make ends meet tend to spend the vast majority of their income and save little, if at all. The **cumulative impact** of the reforms discussed here will therefore 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. Although we can estimate the overall financial loss as a consequence of the reforms to residents in Hampshire as a whole, very little is known about the cumulative impact of the reforms at a **household level**. Many households will be subject to not just one, but several, of the measures once the reforms have been fully implemented. The reduction in household income to some may therefore be much greater than the average financial loss to those affected by any one single element of the reforms.

For those 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 job's market. If there is a ready supply of younger, fitter, or more qualified labour then many will remain at the back of the queue for jobs. These households will have limited options as to how to adjust to falling incomes alongside the rising cost of living. They are likely to be faced with difficult decisions as to how to manage their budget in the face of their new circumstances and for those who are unable to secure employment and lack other mechanisms of support, then increased poverty and hardship seems inevitable. The impacts will also not occur all at once. The measures have been introduced gradually since 2011 and will not be fully implemented for many until 2014/15 but in the case of means testing of ESA and the one per cent up-rating of benefits will not be complete until 2015/16 and for DLA 2017/18. For those individuals or families who are not successful in gaining a foothold in the labour market, some may at first be able to reduce their expenditure to counteract reductions in their benefit entitlement, but as further benefit changes impact upon them this may be less of an option. Over time, it may be less feasible for some to keep up with their mortgage or rent payments, stay in their current home, or sufficiently heat their home.

It is important to remember that it is not just the households directly affected by the benefit changes that will be impacted upon. The loss of benefit income, which is often large, will have knock-on consequences for local spending and thus for local employment. A key effect of welfare reform will therefore be to widen the gaps in prosperity between the best and worst local areas within Hampshire.

## Summary

- the cumulative impact of welfare reform in Hampshire will result in an estimated loss of income of just over **£400 million a year** once the reforms have been fully implemented
- the financial loss is 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
- three benefit reforms affecting low income families account for over half of the estimated financial losses in Hampshire: Tax Credits, incapacity benefits and the one per cent up-rating of benefits
- the financial loss in nine LSOAs is more than £1 million per year
- over a quarter of all LSOAs in Portsmouth and Southampton will lose more than £600,000 a year
- the greatest impact is more likely to be in the most deprived local areas within Hampshire
- many of the reforms affect residents in work as well as out of work
- 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
- welfare reform is likely to widen the gaps in prosperity between the best and worst local areas within Hampshire.

# Appendix:

**Table A.1: Overall impact of welfare reform, districts in Hampshire, £million per annum**

	Bedroom tax	Household benefit cap	Council Tax Benefit	Non-dependant deductions	Child Benefit	Tax Credits	Local Housing Allowance Reforms	Disability Living Allowance	Incapacity benefits	1% up-rating	Total Impact
Portsmouth	1.1	0.6	2.2	1.4	8.7	12.7	7.2	4.6	12.7	12.4	64
Southampton	1.5	0.7	1.4	1.5	9.8	14.8	7.5	6.1	16.1	14.0	73
Havant	0.6	0.3	0.5	0.5	5.1	6.7	2.2	3.0	7.6	6.2	33
Gosport	0.4	0.2	0.8	0.4	3.7	4.7	2.1	1.8	4.4	4.2	23
Rushmoor	0.4	0.1	0.3	0.4	5.0	4.8	2.3	1.7	3.8	4.3	23
New Forest	0.5	0.2	0.4	0.6	7.0	7.2	2.6	3.1	7.1	6.3	35
Eastleigh	0.4	0.1	0.0	0.4	6.1	5.4	1.8	2.2	4.6	4.5	25
Basingstoke and Deane	0.7	0.3	0.0	0.6	9.2	7.0	1.7	2.6	5.8	5.9	34
Test Valley	0.4	0.1	0.0	0.4	5.6	4.3	1.2	1.9	3.8	3.6	21
Fareham	0.2	0.1	0.5	0.3	5.0	4.1	1.2	1.6	3.4	3.4	20
East Hampshire	0.3	0.1	0.0	0.3	5.7	4.0	1.0	1.6	3.6	3.3	20
Winchester	0.4	0.1	0.0	0.4	5.7	3.6	1.0	1.7	3.6	3.1	19
Hart	0.2	0.1	0.0	0.2	5.7	2.4	0.6	0.9	1.8	2.0	14
<b>Hampshire</b>	<b>7</b>	<b>3</b>	<b>6</b>	<b>7</b>	<b>82</b>	<b>82</b>	<b>32</b>	<b>33</b>	<b>78</b>	<b>73</b>	<b>404</b>
<b>South East</b>	<b>31</b>	<b>18</b>	<b>30</b>	<b>36</b>	<b>422</b>	<b>398</b>	<b>203</b>	<b>158</b>	<b>389</b>	<b>370</b>	<b>2,060</b>
<b>GB</b>	<b>490</b>	<b>185</b>	<b>340</b>	<b>340</b>	<b>2,845</b>	<b>3,660</b>	<b>1,645</b>	<b>1,500</b>	<b>4,350</b>	<b>3,430</b>	<b>18,790</b>

**Table A.2: Overall impact of welfare reform, districts in Hampshire, £ per working age adult per annum**

	Bedroom tax	Household benefit cap	Council Tax Benefit	Non-dependant deductions	Child Benefit	Tax Credits	Local Housing Allowance Reforms	Disability Living Allowance	Incapacity benefits	1% up-rating	Total Impact
Portsmouth	8	5	16	10	62	91	52	33	91	89	450
Southampton	9	4	8	9	59	90	46	37	98	85	440
Havant	9	4	6	7	69	91	30	40	103	84	440
Gosport	7	4	15	8	70	90	40	35	84	80	430
Rushmoor	6	2	4	6	80	76	36	26	59	69	360
New Forest	5	2	4	6	67	70	25	30	69	61	340
Eastleigh	5	2	-	5	75	67	22	27	57	56	320
Basingstoke and Deane	6	2	-	5	84	64	16	24	53	53	310
Test Valley	6	1	-	5	76	59	17	26	51	49	290
Fareham	3	1	8	4	73	60	17	23	48	49	290
East Hampshire	4	1	-	4	79	55	14	23	50	45	280
Winchester	5	1	-	5	78	49	14	23	48	42	270
Hart	3	1	-	3	98	42	11	16	31	35	240
<b>Hampshire</b>	<b>6</b>	<b>3</b>	<b>5</b>	<b>6</b>	<b>73</b>	<b>72</b>	<b>29</b>	<b>29</b>	<b>69</b>	<b>65</b>	<b>360</b>
<b>South East</b>	<b>6</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>77</b>	<b>72</b>	<b>37</b>	<b>29</b>	<b>71</b>	<b>67</b>	<b>370</b>
<b>GB</b>	<b>12</b>	<b>5</b>	<b>9</b>	<b>9</b>	<b>72</b>	<b>92</b>	<b>41</b>	<b>38</b>	<b>109</b>	<b>86</b>	<b>470</b>

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*The impact of welfare reform in Hampshire*

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