Analysing the impact of the UK Government's welfare reforms in Wales – Stage 3 analysis

Part 2: Impacts in local authority areas

Llywodraeth Cymru
Welsh Government

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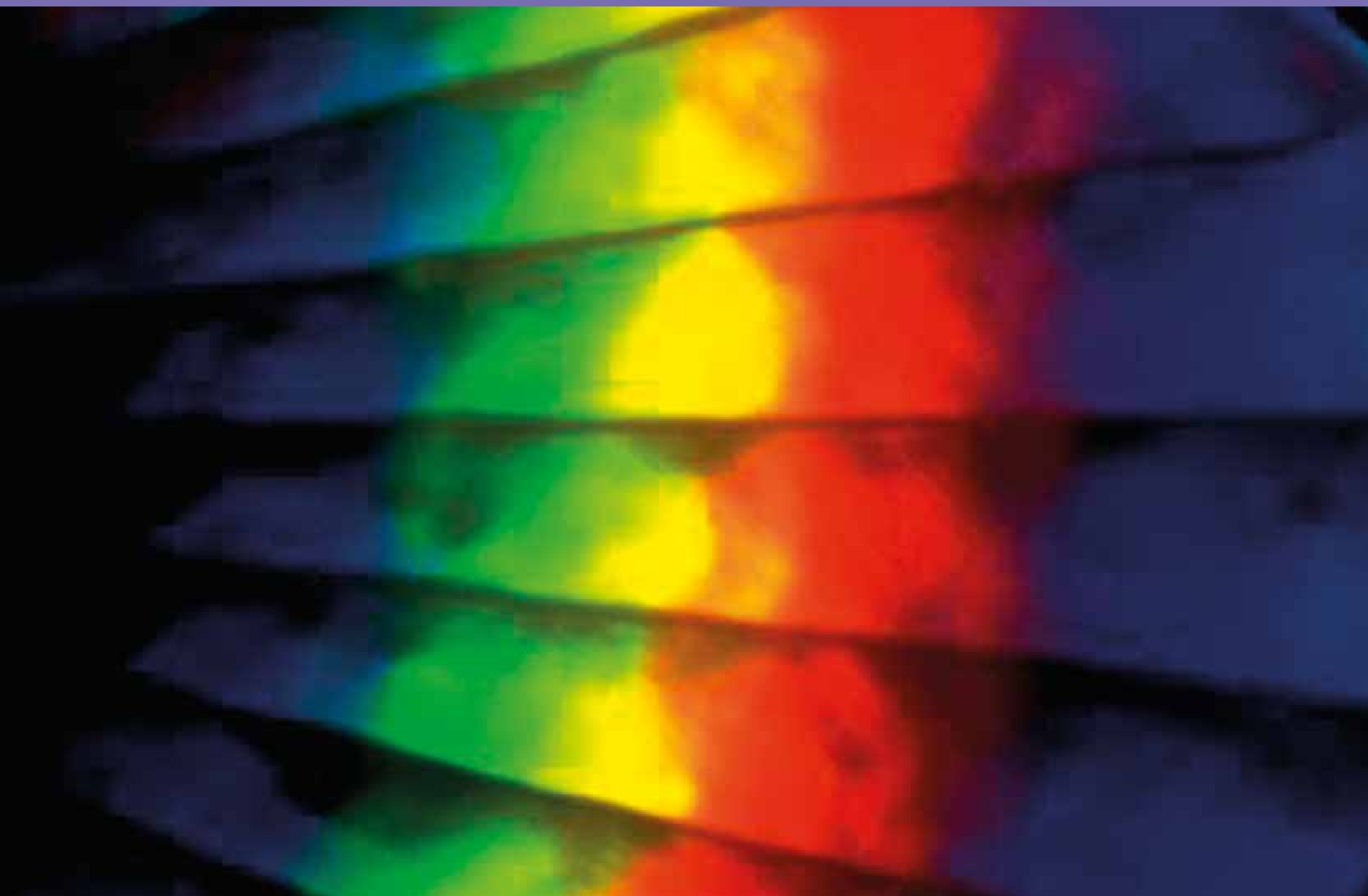
Summary of key findings



Analysing the impact of the UK Government's welfare reforms in Wales – Stage 3 analysis

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Audience This report has been produced primarily for the Welsh Government's Ministerial Task and Finish Group on Welfare Reform (the group includes the Minister for Communities and Tackling Poverty; the Minister for Local Government and Government Business; the Minister for Housing and Regeneration; the Deputy Minister for Tackling Poverty; and the Deputy Minister for Social Services) and relevant policy and analytical officials.

Overview This report includes a summary of the analysis that has been undertaken by the Welsh Government as part of Stage 3 of the programme of research to assess the impact of the UK Government's welfare reforms in Wales.

Action required None – for information only.

Further information Enquiries about this document should be directed to:
Operations Team
Department for Local Government and Communities
Welsh Government
Cathays Park
Cardiff
CF10 3NQ
Tel: 029 2082 6160
e-mail: welfarereform@wales.gsi.gov.uk

Additional copies This document can be accessed from the Welsh Government's website at www.wales.gov.uk/people-and-communities

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Contents

1. Introduction 1

2. Key findings 3

1. Introduction

The Welfare Reform Act 2012 introduces the greatest changes to welfare benefits in 60 years. The reforms announced by the UK Coalition Government since 2010 and up to, and included in, the Autumn Statement 2013 are estimated to save the UK Exchequer around £21 billion by 2014-15 (around 10% of the social security and tax credit budget).

In 2011, the Welsh Government's Ministerial Task and Finish Group on Welfare Reform commissioned a programme of research to analyse the impact of the UK Government's welfare reforms in Wales, with the aim of providing evidence to assist with policy decisions. Wales is being deeply affected by the UK Government's continuing welfare reforms. Whilst we cannot compensate for these changes, the findings from the Group's earlier research have already been used to help target the Welsh Government's efforts to mitigate (where possible) any negative implications of the reforms, and we will continue to prioritise resources to reduce poverty in Wales, thereby contributing to the commitments made in the Programme for Government and the Tackling Poverty Action Plan.

As part of the Stage 2 research, the direct effects of the welfare reforms were assessed at a Wales level in terms of the number of individuals/households affected and impacts on incomes. Where necessary, this latest research updates the Wales level estimates. For example, where HM Treasury (HMT) / Department for Work and Pensions (DWP) have revised policy costings and numbers affected.

This research also provides an assessment of the potential impacts of the UK Government's welfare reforms in local authority areas in Wales. Fourteen[1] benefit and tax credit changes have been scrutinised for their impact on the twenty-two local authority areas in Wales. Where possible, the following impacts have been quantified:

- number of individuals/households affected;
- average annual income loss per affected individual/household;
- total annual income loss per local authority area; and,
- average annual loss per working-age adult (i.e. total income loss in a local authority area divided by the working-age population).

[1] The reforms analysed include: Housing Benefit (HB) Local Housing Allowance (LHA) Reforms 2011-12, Housing Benefit: increase in the age threshold from 25 to 35 for the Shared Accommodation Rate (SAR), Housing Benefit: increase LHA rates by the Consumer Price Index (CPI) rather than the 30th percentile of local market rents, Housing Benefit: introduction of size criteria in the social rented sector, Household Benefit Cap, Council Tax Reduction Scheme (CTRS), replacement of Disability Living Allowance (DLA) with the Personal Independence Payment (PIP), time-limiting contributory Employment and Support Allowance (ESA), Child Benefit (CB) - freezing rates, CB – taper, Child Tax Credit (CTC) – removal of the second income threshold, Working Tax Credit (WTC)– increase in the hours requirement for couples with children, 1 per cent up-rating, and the switch to uprating benefits and tax credits by the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) or Rossi index.

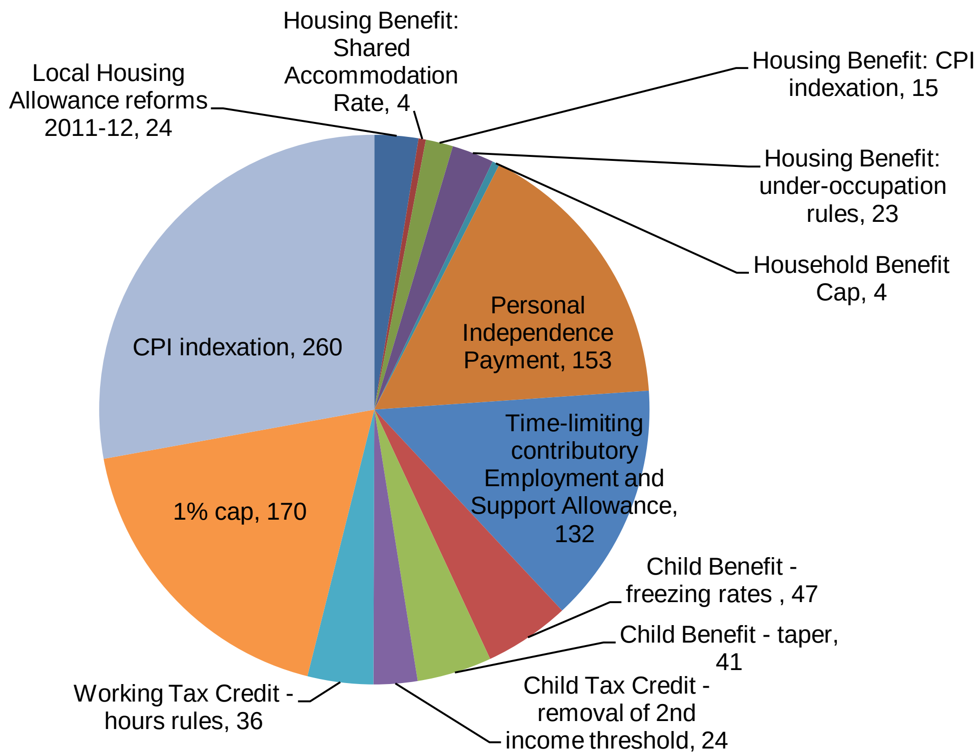
It is important to note that these estimates are based on static models and therefore do not take into account any behavioural effects such as claimants moving into employment or cheaper properties, or landlords reducing rent levels. Nor does the research take into account any additional income losses due to benefit sanctions. The key findings from this research are outlined overleaf.

2. Key findings

Impact of welfare reform in Wales as a whole

- The policy changes that have been assessed are estimated to reduce annual benefit and tax credit entitlements in Wales by around £900 million in 2015/16. To put this overall loss into context, benefit and tax credit expenditure and gross disposable household income are estimated to be around £6 billion and £45 billion respectively in 2015/16[2].

Impact of welfare reform in Wales, 2015/16, £m



Source: Welsh Government estimates. Note: Personal Independence Payment (PIP) only covers loss of entitlement and assumes full implementation by 2015/16 although this is not planned to happen until 2018/19. The financial loss as a result of the freezing of Child Benefit (CB) rates relates to 2013/14 (i.e. the last year of the freeze).

[2] Welsh Government estimates based on: Department for Work and Pensions (DWP) benefit expenditure estimates for Wales for 2011/12 and GB forecasts for 2012/13 onwards (includes Attendance Allowance, Bereavement benefits, Carer's Allowance, DLA, ESA, Incapacity Benefit, Housing Benefit, Income Support, Industrial Injuries Benefits, Jobseeker's Allowance, Maternity Allowance, Severe Disablement Allowance and Statutory Maternity Pay), HM Revenue and Customs (HMRC) tax credit and Child Benefit expenditure data for Wales for 2012/13 and GB forecasts for 2013/14 onwards, Office for National Statistics (ONS) household income data and Office for Budget Responsibility (OBR) inflation forecasts.

- Around half of this loss is due to the way benefits and tax credits are uprated[3]. Other large financial losses arise from a reduced caseload under PIP compared to Disability Living Allowance (DLA) and the time-limiting of contributory Employment and Support Allowance (ESA) to one year for those in the work-related activity group. By contrast, some of the Housing Benefit (HB) reforms and the Household Benefit Cap result in much smaller total income losses in Wales.

- Although losses will vary widely depending on individual circumstances, the average annual loss per working-age adult in Wales is estimated to be around £500 in 2015/16.

- For those whose income is affected by the welfare reforms, there may be subsequent changes in spending and wider knock-on effects for the economy. For example, less money in people's pockets means that they buy less goods and services, the firms producing those then employ fewer people, leaving those people with less money to spend, and so on. Fiscal multipliers measure the short-run impact of a change in spending on benefits and tax credits on the size of the economy. The Office for Budget Responsibility (OBR) multiplier for changes in welfare spending (around the size of the UK coalition government's cuts, i.e. 1 per cent of Gross Domestic Product) is 0.6. Some evidence suggests that multiplier effects may be larger during periods of economic weakness. However, if the welfare reforms are successful in increasing employment, in the long run, this may lead to increases in economic output.

Impact of welfare reform in Welsh local authority areas

- The findings clearly illustrate that the impact of welfare reform varies across local authority areas in terms of the number and proportion of individuals / households affected and average financial losses.

- As illustrated by the chart on page 6 and map on page 7, out of all local authority areas in Wales, Neath Port Talbot, Blaenau Gwent and Merthyr Tydfil are estimated to be the hardest hit by the welfare reforms analysed. Although losses will vary widely depending on individual circumstances, the average annual loss per working-age adult in these areas is estimated to be around £600 in 2015/16 compared to £500 for Wales as whole.

- Nearly a quarter of the population aged 16-64 in these areas claim working-age benefits, the highest proportion in Wales. These areas are particularly affected by the changes to the way benefits and tax credits are uprated, time-limiting of contributory ESA, the introduction of PIP and the size criteria in the social rented sector. Such impacts reflect the relatively high overall working-age benefit

[3] Includes: Switch to uprating most benefits and tax credits by CPI (rather than RPI or the Rossi Index), 1% cap on most working-age benefits and tax credits (excluding disability and carers benefits) and Child Benefit, increasing LHA rates by the 30th percentile of local market rents rather than the median (included in LHA reforms 2011-12), and increasing LHA rates by CPI rather than the 30th percentile of local market rents.

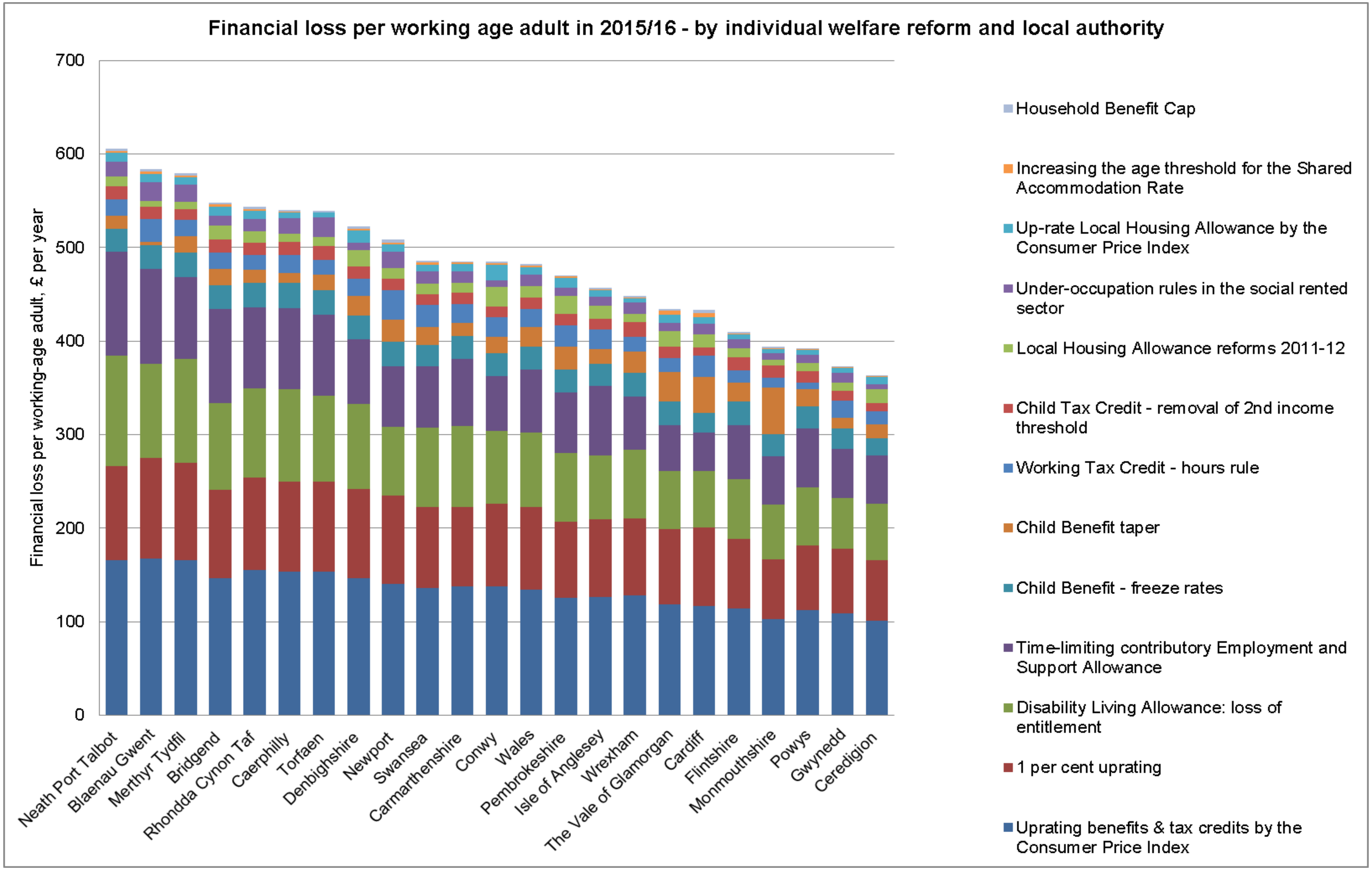
claimant rates, particularly for disability and sickness benefits (i.e. DLA and ESA), and the high proportion of rented housing stock that is in the social rented sector.

- At the bottom end of the scale, on average, Powys, Gwynedd and Ceredigion are much less affected by the welfare reforms analysed. This reflects their relatively low benefit claimant rates with just over a tenth of the population aged 16-64 in these areas claiming working-age benefits, the lowest proportion in Wales.

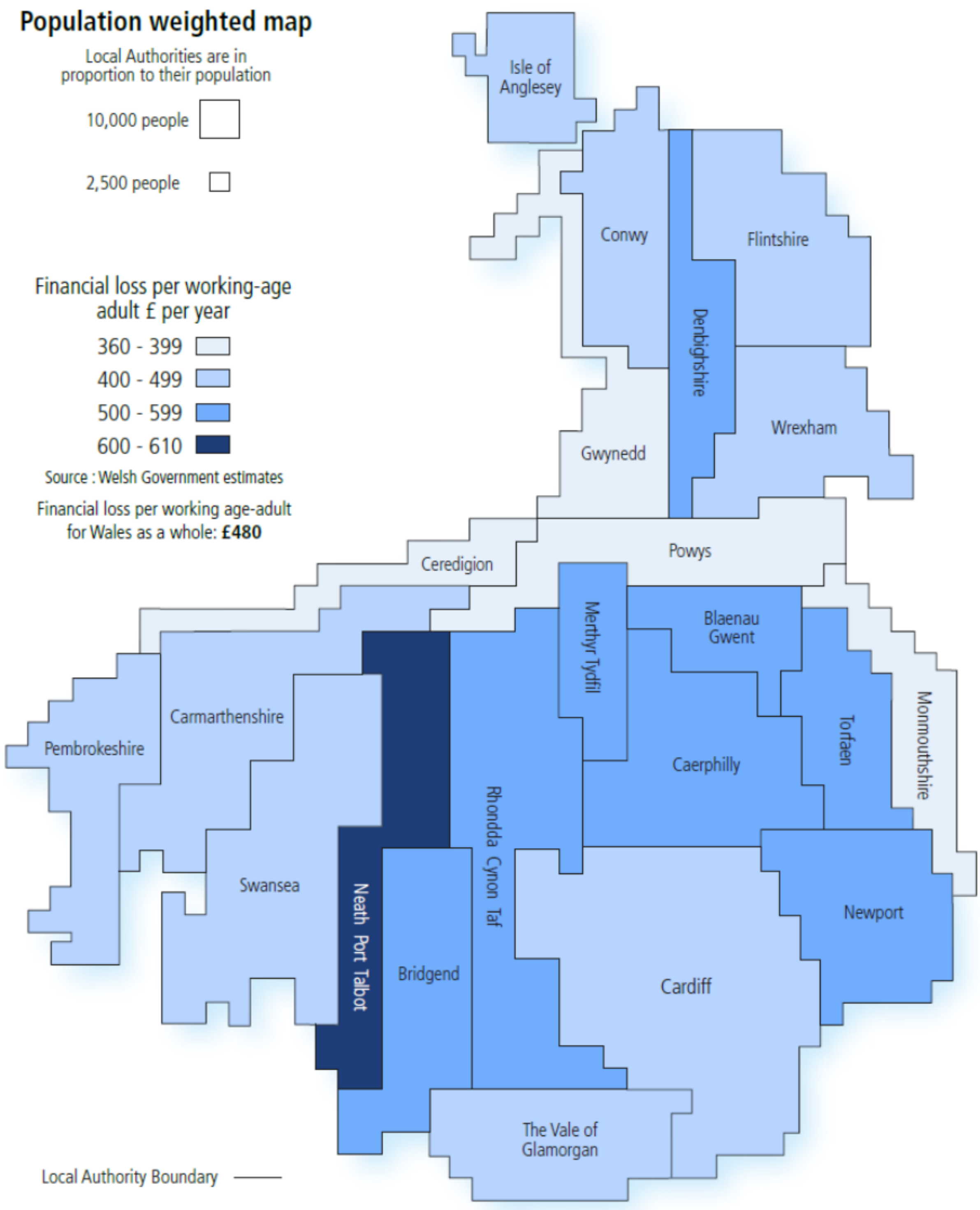
- Again, although losses will vary widely depending on individual circumstances, the average annual loss per working-age adult in these areas is estimated to be around £400 in 2015/16, around two-thirds of the loss experienced by the hardest hit areas.

- The above findings are based on average losses per working-age adult, which can sometimes mask differences in impacts within large local authority areas.

- Another way of looking at the impacts is to look at absolute income losses and the shares of the total Welsh loss borne by each local authority area. Cardiff (£103 million), Rhondda Cynon Taf (£81 million) and Swansea (£75 million) are estimated to incur the greatest total income losses (each equivalent to 8-11% of the Welsh total) in line with their working-age population shares. While Merthyr Tydfil (£22 million), the Isle of Anglesey (£19 million) and Ceredigion (£18 million), which are among Wales' smallest local authority areas based on population shares, see the lowest total income losses (each equivalent to 2-3% of the Welsh total).


Financial loss per working age adult in 2015/16 - by individual welfare reform and local authority
Financial loss per working-age adult, £ per year
0
100
200
300
400
500
600
700
Neath Port Talbot
Blaenau Gwent
Merthyr Tydfil
Bridgend
Rhondda Cynon Taf
Caerphilly
Torfaen
Denbighshire
Newport
Swansea
Carmarthenshire
Conwy
Wales
Pembrokeshire
Isle of Anglesey
Wrexham
The Vale of Glamorgan
Cardiff
Flintshire
Monmouthshire
Powys
Gwynedd
Ceredigion
Household Benefit Cap
Increasing the age threshold for the Shared Accommodation Rate
Up-rate Local Housing Allowance by the Consumer Price Index
Under-occupation rules in the social rented sector
Local Housing Allowance reforms 2011-12
Child Tax Credit - removal of 2nd income threshold
Working Tax Credit - hours rule
Child Benefit taper
Child Benefit - freeze rates
Time-limiting contributory Employment and Support Allowance
Disability Living Allowance: loss of entitlement
1 per cent uprating
Uprating benefits & tax credits by the Consumer Price Index

Aggregate annual impact of welfare reform (2015/16)



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