Regeneration Scrutiny and Performance Panel

17th January 2012 **Agenda Item No. 5**

The Effects of the Governments Benefit Changes on Walsall Borough

Ward(s) All

Portfolios: Cllr A Andrew – Deputy Leader and Regeneration

Executive Summary:

In early 2012 Ekosgen produced the attached report for the Council, which sets out for the first time, the known implications (at the time of drafting) on both our population and our economy of the Governments proposed benefit changes.

The following are the conclusions from the first report;

Conclusions

By 2014, the new measures are expected to lead to:

- 5,100 fewer IB / ESA claimants in Walsall
- 3,000 claimants being entirely removed from the benefit system entirely
- 1,500 more people claiming JSA
- 4,500 more residents engaged with compulsory labour market programmes, through participation in the Work Related Activity Group.

Around three-quarters of over 13,000 IB / ESA claimants in Walsall currently receive benefit payments[1]. Assuming that the changes do not affect this group disproportionately, around 2,200 of these beneficiaries will be removed from the benefits system entirely and 1,100 will move onto JSA (receiving a reduced weekly payment).

By 2013/14 the changes will have an impact on both households income and the local economy, including:

- £13m in benefit payments will have been lost to the Walsall economy.
- Over £11m of this will be due to people being removed from the benefits system altogether.
- £1.8m will be due to the lower levels of benefits received by claimants moved from IB / ESA to JSA.
- The total impact on the local economy will be over £23.2m.

[1] The remainder do not receive payment and instead receive National Insurance Credits (largely as a result of having made insufficient National Contributions in previous years)

The introduction of Universal Credit over a longer timeframe will have a further impact, with a significant reduction in many household disposable incomes, notably those with children.

Again, this will take expenditure out of the local economy.

In summary:

- Disposable household income will fall by over £120m.
- Families, and particularly lone parents, are going to be hit harder than pensioner households and working age households without children.
- Large families (e.g. ethnic minorities) will be hit harder
- The total impact on the local economy will be over £213m.

In addition to the financial impact, it is likely that the scale of planned changes will lead to an increased demand for Council services and support, including an increase in those in distress.

These benefit changes will now be further added to following the Governments Autumn statement on the 5th December 2012. We have commissioned Ekosgen to refresh their report to include the impacts of these benefits changes, which we expect during January 2013.

Once available and considered by officers, we will report these details to the appropriate; Members, Committees and Scrutiny Panels.

Reason for scrutiny:

To inform the panel of the anticipated benefits changes and the expected impact on both our community members and the economy as a whole.

Recommendations:

That Scrutiny Panel members;

1. **Note the contents of the previous draft report, Attachment A.**

Background papers:

Local Economic Assessment (available on request)
Ekosgen Sector Study (available on request)

Resource and legal considerations:

None

Citizen impact:

Significant as set out within the attached report

Environmental impact:

None

Performance management:

None

Equality Implications:

Not yet known.

Consultation:

Walsall Council Strategic Regeneration commissioned the initial study, with the revised paper now commissioned jointly with the Councils Benefits Service area.

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Attachment A - Implications of the Government's Proposed Benefit Changes paper, produced in early 2012.

Implications of the Government's Proposed Benefit Changes

Introduction

This paper looks at the potential impact on the Walsall economy of the Government's proposed changes to welfare benefits. It considers both the austerity measures already implemented and the longer-term plans for the introduction of the Universal Credit. The paper is based on the Government's current plans for the welfare system and does not take into account changes which may result from recent parliamentary processes.

The benefit changes considered are:

- Changes to the Local Housing Allowance and Council Tax Benefit (drawing on information provided by Lynn Hall)
- Changes to Employment Support Allowance / Incapacity Benefit (drawing on research conducted by Sheffield Hallam University)
- Changes leading to the introduction of the Universal Credit (drawing on analysis undertaken by the Institute for Fiscal Studies.

The analysis looks at the direct financial impact of the changes and then considers the likely economic effects using a standard multiplier to estimate the impact on the Walsall economy[1]. It is important to note that the impact that the changes to the benefit regime may have on behaviour are not factored in here. For example, a proportion of those no longer eligible to receive Employment and Support Allowance may move into work. No attempt has been made to estimate the potential earnings of these people and the analysis may therefore overstate the negative impact of the benefit changes.

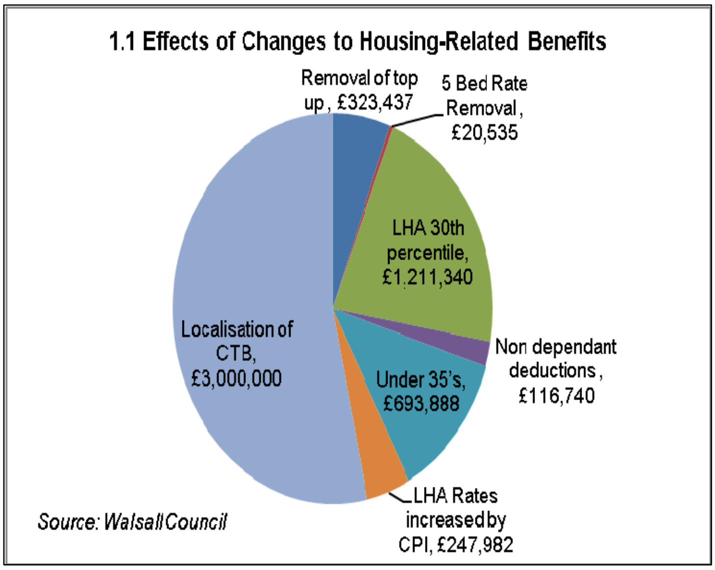
Effects of Changes to Local Housing Allowance and Council Tax Benefit

A number of changes have already been made to the operation of Local Housing Allowance and Council Tax Benefit and further changes are planned, as shown in the table below.

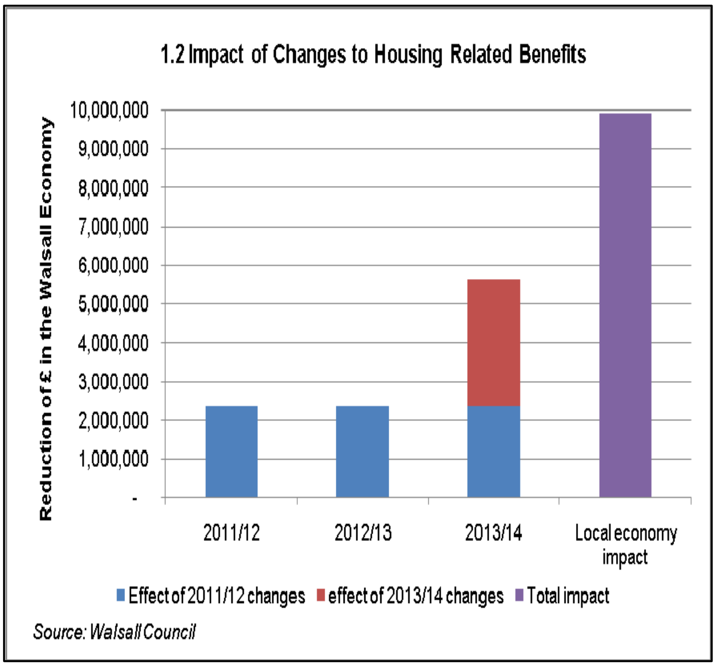
Changes made in 2011/12	Local Housing Allowance for tenants in the private rented sector - New claims based on lower LHA rates. Existing claims have some transitional protection. Increases in deductions for non-dependants - Will reduce the HB + CTB entitlement. Increases will be made over period 2011-2013 Cap on total amount of LHA payable – removal of rate of 5-bedroomed properties; removal of excess payment of up to £15 per week for those who had reduced rent costs LHS set at the 30th percentile of rents in local housing area (reduced from median) – applies for new claimants from April 2011 and reviewed annually Additional funding for Discretionary Housing Payments made available Shared Accommodation Rate in LHA to be extended to all single claimants under 35 years instead of 25 years.
Changes planned for 2013/14	Housing Benefit limited for working age social housing tenants so it only covers the size of property they are judged to need CPI & LHA: the 30% percentile LHA rates will be up-rated in line with the Consumer Price Index rather than the Retail Price Index (real net deductions of 1%) Localisation of support for Council Tax, incorporating 10% uniform cut across all Councils, with councils given discretion to pass on cuts to customers or cut other services to achieve savings

[1] Wherever possible, Walsall-specific data has been used. Where no Walsall-level information is available, an estimate has been made using national or regional level data.

The relative effect of each of these changes is shown in chart 1.1, and the timescale over which impacts will be felt in the Walsall economy in chart 1.2. The summary findings are:



- The greatest effect will result from the localisation of Council Tax Benefit and accompanying 10% cut, which will result in a loss of £3m.
- Reducing the rate at which local housing support is provided from the median rent level in the area to the 30th percentile will have the second largest impact, £1.2m.
- The extension of the Shared Accommodation Rate to those aged 35 and under will cost around £700,000.



- Up to 13,000 claimants will be affected by the changes to LHA with over 19,000 affected by the change to Council Tax.
- The impact of the changes will be felt particularly in 2013 when the changes to Council Tax are introduced.
- The direct financial impact of the changes is estimated to be £5.6m, leading to a local economy impact of £9.9m by 2013.

There are a number of potential implications for the Council, including:

- Likely reduction in the level of council tax collected
- Possible implications for the level of homelessness
- Likely increase in number of young people without a permanent residence.

Effects of Changes to Incapacity Benefit / Employment and Support Allowance

Incapacity Benefit and its replacement Employment and Support Allowance have been undergoing significant change since 2008.

Changes already implemented	**A tougher medical test:** All new Claimants are required to participate in a Work Capability Assessment three (rather than six) months into the claim. This focuses on examining the activities a claimant is capable of undertaking and uses a point-based system to determine if the claimant qualifies for Employment and Support Allowance.
Changes on-going	**Re-testing existing claimants:** All pre-2008 IB and SDA claimants are recalled for a new medical test. They are then either routed onto ESA, or if they fail to qualify, onto other benefits such as JSA. If at this point, they fail to qualify for other benefits, they will be routed out of the benefits system altogether. It is planned that **all existing claimants will have been re-tested by March 2014**. **Requirement to engage in work related activity:** ESA claimants will be divided into two groups: (i) a support group or (ii) a work related activity group. The former are deemed to have sufficiently serious health problems or disabilities to received unconditional support, while the expectation is that the latter will receive ESA as a temporary benefit before returning to work (this includes means testing after 12 months – see below). Claimants placed in the work related activity group are required to attend work-focused interviews, to receive advice on guidance on finding suitable work, training or physical or mental rehabilitation and to draw up an action plan which claimants are expected to adhere. Failure to engage in these interviews may result in benefit sanctions.
Changes to be introduced in 2012/13	**Time limiting entitlement to non-means tested benefit:** From April 2012, there will be a 12 month limited on the duration of non-means tested ESA for those in the *Work Related Activity Group.* This will have implications for those with other sources of household income (include partner's income) or with savings and many will find that they qualify for a reduced amount or on a NI credits only basis which involves no financial payment. Claimants failing to qualify for means-tested ESA will also fail to qualify for other means-tested benefits, with the vast majority being routed out of the benefits system.

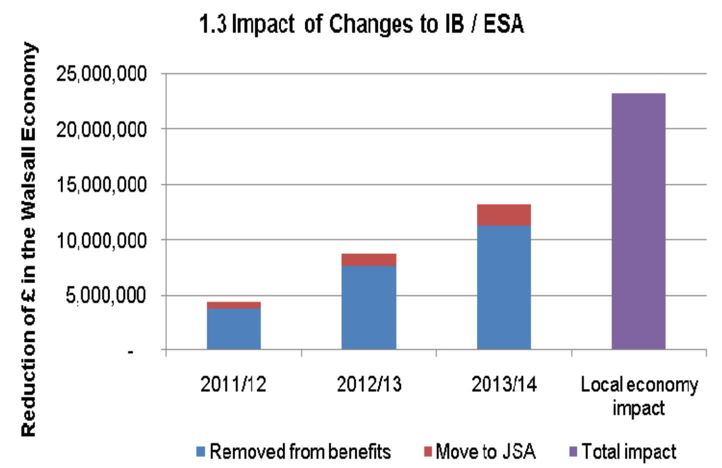
There are currently over 13,000 IB / ESA claimants in Walsall. By 2014, the new measures are expected to lead to:

- 5,100 fewer IB / ESA claimants in Walsall
- 3,000 claimants being entirely removed from the benefit system entirely
- 1,500 more people claiming JSA
- 4,500 more residents engaged with compulsory labour market programmes, through participation in the Work Related Activity Group.

Around three-quarters of IB / ESA claimants in Walsall currently receive benefit payments[2]. Assuming that the changes do not affect this group disproportionately, around 2,200 of these beneficiaries will be removed from the benefits system entirely and 1,100 will move onto JSA (receiving a reduced weekly payment). The financial effect of these changes is shown in chart 1.3 below.

[2] The remainder do not receive payment and instead receive National Insurance Credits (largely as a result of having made insufficient National Contributions in previous years)

Assuming the flow of claimants off IB / ESA and onto JSA or off benefits altogether remains stable over the next three years, the loss of income to the Walsall economy will be as follows:



Source: ekosgen based on Incapacity Benefit Reform – The Local, Regional and National Impact (C.Beatty and S.Forthergill, Sheffield Hallam University) and the DWP Statistical Tabulations Table

- By 2013/14, £13m in benefit payments will have been lost to the Walsall economy.
- Over £11m of this will be due to people being removed from the benefits system altogether.
- £1.8m will be due to the lower levels of benefits received by claimants moved from IB / ESA to JSA.
- The total impact on the local economy will be over £23.2m.

There are a number of potential implications for the Council, including:

- Increase in the number of people requiring support to enter employment, drawing on council-supported services such as MAOSS
- Increased competition within the labour market pushing those currently on the margins of employment towards increasingly insecure employment / unemployment churn
- Increased caseload for organisations working with JSA claimants e.g. work programme contractors

Effects of Other Changes to the Tax and Benefit System

A large number of other changes are planned within the tax and benefit system over the coming years, with the introduction of the Universal Credit (from October 2013) the most significant.

In advance of this, a number of other changes are being made to the tax and benefit system which will have a significant impact on the lives of people in Walsall. These changes have been analysed by the Institute for Fiscal Studies and include:

Changes made in 2011/12	The income tax personal allowance increased by £1,000 in cash terms for the 2011–12 tax year Increases in all National Insurance rates and increases in the thresholds at which employees' and employers' National Insurance start to be paid An increase in the standard rate of VAT to 20% Cuts to tax credits; in particular a three-year freeze in the basic and 30-hour elements of the Working Tax Credit, an increase in the rate at which tax credits are withdrawn as income rises, the abolition of the baby element of the Child Tax Credit and the withdrawal of the family element of the Child Tax Credit from £40,000 rather than £50,000. These are partly offset by an increase in the child element of the Child Tax Credit A three-year freeze in Child Benefit rates The use of the Consumer Prices Index (CPI) to index benefit amounts each year rather than the Retail Price Index (RPI).
Changes planned for 2012/13	A further increase in the income tax personal allowance above normal indexation Reductions in contracted-out rebates in National Insurance A further lowering of the point at which the family element of the Child Tax Credit starts to be withdrawn An increase in the number of hours couples with children need to work to be eligible for the Working Tax Credit from 16 to 24 Changes to the way in which tax credit awards are recalculated when a family's income changes during the year which make the system less generous to such families The withdrawal of child benefit from families containing a higher-rate taxpayer from January 2013.
Changes planned for 2013/14 and 2014/15	A medical reassessment of Disability Living Allowance claimants that is forecast to reduce the caseload by 20%. Existing claimants of benefits and tax credits will start to be transferred to Universal Credit from April 2014.

Universal Credit

The Universal Credit is:

- A single payment bringing together different types of income-related support (including Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseekers Allowance and income-based Employment Support Allowance)
- Payable to those both in and out of work and therefore intended to smooth transition into work
- To be introduced for new working age claimants from October 2013 and full transfer of all claimants completed by 2018

Analysis by the IFS suggests that the move to the Universal Credit will offset some of the worst impacts of the changes for low income families, but full transfer will not be complete until 2018, so there will be a significant transitional period in which families are badly affected by the changes.

The table below sets out the estimated impact on the disposable income of households[3] in the transition period and the extent to which there will be a significant impact on the Walsall economy.

Impact on Key Household Groups

Affected Household Group	Number in Walsall	% in income	Financial Impact	Local Economy Effect
Families with children	22,500	-6%	-£36.36m	-£64.36m
Lone Parents	9,000	-12%	-£18.48m	-£32.70m
Working age without children	41,300	-3.7%	-£53.00m	-£93.81m
Pensioners	30,000	-2%	-£12.96m	-£22.94m

Source – ekosgen based on data contained in the IFS report

The overall impact on disposable household income will be considerable and the 6% reduction in household income of families with children will affect tens of thousands of young people. The scale of the reduction will have a demonstrable impact on the local economy, further adding to the challenge of sustaining local employment.

The IFS in its more detailed analysis has identified the extent to which particular groups will be more severely affected than others. These include:

- Families are going to be hit harder than pensioner households and working age households without children.
- Non-working lone parents will see income fall by 12% on average – a fall of £2,000 per year (IFS) – this will affect 9,000 households in Walsall– a loss of £18.5m per annum.
- Non-working couples with children also likely to see income fall by 12%.
- Large families (e.g. ethnic minorities) will be hit harder

There are a number of potential implications for the Council, including:

- Increase in number of people requiring emergency / hardship support
- Increase in the number of children in poverty (particularly in larger / BME families)

Previous work carried out by the Council highlighted the number of vulnerable households in many communities. As with lone parents, many of these will suffer a higher than average reduction in income.

[3] Before Housing Costs – Based on data included in DWP Households below Average Earnings Analysis 2009/10. Data is not available on average gross income by household typology.

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