National and Local Impacts of Welfare Reform
A Literature Review

Produced by Corporate Research, Corporate Strategy and Communications Team, Borough of Poole. October 2013

Overview

This review outlines the primary aims of changes effected under welfare reform dating back to changes to Incapacity Benefit in 2008. It outlines some of the major impacts of individual reforms, both directly and within the context which reforms are taking place, including cuts to public sector spending and reductions to front line services; rise in living costs; national debt crisis and decreases in average salaries nationally.

Introduction

The UK's welfare system is currently facing major change. Changes are not new however; changes to Incapacity Benefit began back in 2008 under the previous Labour government, and changes since then, as with those planned to take place beyond 2013, are cumulative in nature. Welfare reform remains a deeply contentious issue, and impacts of the reforms now and in the future will vary widely from place to place in the UK.

This literature review forms one strand of a larger research study measuring the impacts of welfare reform on residents of Poole specifically. Research papers detailing the impact of changes in relation to Council Tax Support, the introduction of the Benefit Cap and the impacts of 'Under-Occupation' on residents in Poole are also currently available. The wider aims of the research study are to understand how welfare reforms will impact on the quality of life of citizens, families and communities in Poole, and to ensure that any unintended impacts of welfare reform in the Borough are mitigated effectively.

This paper begins with the Executive Summary and is followed by the full Literature Review. The final section of the Literature Review lists all the changes which have taken place under Welfare Reform, and their perceived impacts, dating back to changes initiated by the previous Labour government.

Executive Summary

Welfare reform began under the previous Labour government with the introduction of changes to Incapacity Benefit. The Welfare Reform Act of 2012 goes further and represents one of the biggest shake-ups of welfare in over 50 years, effecting a multitude of changes to how benefits are administered and the level of support received by benefit claimants, impacting on a wide variety of groups, and in various ways, and to more or less extent across the country.

The government has set out its aims clearly: legislative measures are designed to incentivise work and get more people into work, make it easier for people to move in and out of work, simplify the welfare system and make it easier to understand. They aim to reduce poverty among people on low incomes, cut back on fraud and error and ensure that benefit administration is more cost effective to run. More frequent review of Employment and Support Allowance (ESA) eligibility reflects an expectation for claimants who are able to work to move into work; reductions in non-dependant deductions may possibly incentivise tenants into starting work, doing more paid work, or finding higher-paid work. The extension of the shared accommodation rate to recipients of Housing Benefit under 35 living in private rented accommodation is expected to bring Housing Benefit costs under control, exert downward pressure on rental growth and change the behaviour of landlords renting to Housing Benefit claimants, as well as provide a fairer and more sustainable scheme, which will help address disincentives to work inherent in the current system. The withdrawal of Child Benefit from higher earners is claimed to represent fairness across the board in terms of reducing the fiscal deficit, and changes to eligibility criteria for Tax Credits and Working Tax Credits also aims to reduce Treasury costs and encourage more single parents into the workplace. The government also makes links between moving into work and improved well-being of families a well as improved income. Furthermore, the government claims, if a parent moves into work, potentially lifting the family out of poverty and providing a better lifestyle, this may result in an improvement in their child's welfare and improve their life chances.

There are, however, many cross-cutting issues surrounding the reforms, which are often complex and far-reaching. Commentators have expressed concerns around the impact in particular of the reforms on disabled benefit claimants. There is criticism of the strongly medical focus of the new PIP assessment, and some charities are concerned that some of the conditions required for receipt of ESA as well as the threat of claimants incurring fines when in breach of the terms of their benefits, could lead to a higher incidence of mental health problems across the UK. There are concerns around lack of clarity and confusion about the new system and its 'perceived cumbersome nature' (Department for Work and Pensions, 2012a). There are concerns around how the most vulnerable might access a system which is essentially 'digital by default'. There are questions as to whether the labour market will be able to absorb such a large influx of potential new workers over such a short period. 'There is an assumption that if more people look for work, more people will find work. Whether labour markets really do work in this way, especially at times of recession or low growth, or in places where the local economy is relatively weak, is a moot point and one that many economists would contest' (Fothergill, 2013). The additional labour supply arising from incapacity benefits reform is occurring not only in the wake of a national debt crisis, but also at a time when the increase in the state pension age and reform to benefits for lone parents will also add to labour supply.

Further to the issues already described, it will be important to take into account the wider context within which welfare reform sits. For example, there has been a downward pressure on salaries and pay. Although losses in overall employment have been relatively limited over recent years, real wages have fallen as a moderate increase in nominal wages has been outpaced by price inflation. There has been an adjustment in labour utilisation as hours worked has reduced, limiting job losses but increasing part-time and 'zero-hours' employment (André, 2013). Both Poole and the South West (37%) had a greater proportion of part-time jobs in 2012 than England (33%). This may suggest underemployment[i]. Over 10% of workers in the South West want to work more hours, the fourth highest rate in the country. This is an average taken between 2009 and 2012. This has increased from the 2006-2008 average by 3.2% points. With Poole having a similar percentage of part time workers as the South West it may be fair to assume that a similar situation exists in Poole.

Nationally, the private sector is projected to create more than enough jobs to offset declining government employment but not nearly enough to move decisively back towards fuller employment (Resolution Foundation, 2013). This does not take into account latest estimates from the Institute for Fiscal Studies which suggest deeper public sector job losses than forecast by the Office for Budget Responsibility. These would translate into public sector job losses of around 700,000 between 2012-13 and 2016-17 and would require 2.2 million new jobs from the private sector in order to close the jobs gap by late 2016.

There have also been dramatic rises in the costs of food and fuel, with prices set to increase further in 2013. Fuel poverty has also increased, potentially impacting on the health of the fuel poor. There are also widespread cuts in public sector spending: spending on local authorities between 2010 and 2015 will have reduced by 41.9 per cent. Over 60 per cent of relevant local government expenditure is for social care for children or adults. Yet increases in spend on care are occurring simultaneously with reductions in funding for services at the other end of the spectrum of need. Total spend on universal services for young people, including youth work, positive activities and information advice and guidance, fell from £509m to £419m between 2011 and 2012. This threatens provision of effective early intervention and prevention in social care services, which may lead to more entries into higher cost services.

Impacts of welfare reform need to be monitored closely in local authority areas as changes realise. Borough of Poole is carrying out qualitative research work with families in order to understand some of the impacts felt on residents within the area, findings from which will be made available as part of this suite of research. The research will inform policy and service planning within the Borough of Poole.

Contents

1. Perceived impacts of changes to welfare legislation

1.1 Impacts on disabled recipients of benefits

Some disabled adults and/or their families may face a loss of income from their Employment and Support Allowance (ESA). The 'harder test' assessment may mean that they are no longer deemed eligible or they may no longer qualify after the initial 12 months at which point the means test is applied. The removal of the Severe Disability Premium (SDP) will also mean a substantial loss of income for disabled people who do not have a named carer in receipt of Carers Allowance, and a joint report by Citizen's Advice and The Children's Society suggests that the burden of caring for disabled parents will fall on children and young people when the parent loses their Severe Disability Premium (Citizen's Advice 2012). New assessment arrangements as part of the new Personal Independence Payments will also lead to inability to meet additional costs of disabilities. There is criticism of the strongly medical focus of this assessment. Demos also express concerns that disabled people will face increased social isolation as local authorities also make cuts to front line services (Demos, 2010).

Both MIND and Scope have also raised concerns that some of the conditions required for receipt of ESA, as well as the threat of claimants incurring fines when in breach of the terms of their benefits, could lead to a higher incidence of mental health problems across the UK (Farmer, quoted in Malik, 2012). This is added to potential worries around paying for bills, rent and food.

The Campaign for a Fair Society argues that disabled people are bearing a far greater burden than the rest of the population in relation to cuts on services and under the impacts of changes to systems of entitlements. Currently, 8 per cent of the population have impairments that are so significant that they are currently entitled to Attendance Allowance or Disability Living Allowance. About 50 per cent of disabled people live in poverty, and yet they have also been subject to additional targeting due to the fact that many disability benefits have been singled out for reductions within the overall cuts (Duffy, 2013).

1.2 Lack of clarity and confusion

Whilst the reforms are designed to simplify administration and receipt of benefits, some commentators and critics have stressed that lack of clarity around the changes may induce stress and anxiety among recipients or eligible recipients. Gingerbread recommends that more be done to clarify flexible working laws, as wells as eligibility for continued childcare support under the new rules (Gingerbread, 2012). Policy in Practice recognises that rules can be confusing for claimants and advisors learning about Universal Credit for the first time because there is still a lot to learn about how the Universal Credit system will work (Policy in Practice, 2012). A recent Department for Work and Pensions (DWP) report on user-centred design of Universal Credit notes the ‘perceived cumbersome nature’ of the new online system, particularly for joint applicants and terms of ‘in work conditionality’ (DWP, 2012a).

The localisation of Council Tax also adds complexity back into the system. Whilst claimants may in theory benefits from the introduction of Universal Credit, cuts in Council Tax Support may cancel this out.

1.3 Digital exclusion

The Citizen’s Advice Bureau has raised concerns that the new system will cause difficulties for those with no ICT skills. The Universal Credit project is currently developing a Local Support Services Framework following ministerial requests that the DWP ensure that claimants with complex needs will not be prevented from accessing and using welfare services (DWP, 2013). Vulnerable groups for whom support will be available include claimants with mental health issues, claimants with learning disabilities, people with addiction problems and homeless people, amongst others. According to the Office of National Statistics, over 8 million adults do not have access to the internet, half of whom are in social housing.

1.4 Pressure on businesses

The Chartered Institute of Taxation has raised concerns about the pressure on business to report employee salaries every time they are paid in order for benefit figures to remain up-to-date. The new system will require ‘real time’ information about work status and income, and doubts have been cast over the ability of business and government to be agile and responsive to changes in circumstance and for the new system to be efficient and reflective of earnings and entitlement.

1.5 Labour market pressures, insufficient skills and job training

The Centre for Regional Economic and Social Research, in its analysis of Incapacity Benefit reform, expresses concerns that the changes to benefits will increase the size of the labour market because a significant proportion of current incapacity claimants will be deemed fit for work. The increase of state pension age and reforms to benefits for lone parents dovetail with this. At the same time, the increases in the labour supply will not necessarily be matched by labour demand in the market. ‘There seems little hope that normal labour market adjustments will be able to absorb such a large influx of potential new workers over such a short period. Moreover, the additional labour supply arising from incapacity benefits reform is occurring not only in the wake of a recession but also at a time when the increase in the state pension age and reform to benefits for lone parents will also add to labour supply’ (Fothergill, 2011).

Gingerbread have been critical of the lack of warning given to low-income, lone parents that they would no longer be entitled to Income Support as soon as their youngest child reached the age of five. This compounds issues which single parents often face such as being stuck in short-term, low-paying, low-skill work due to childcare commitments and barriers to accessing training and development. Single parents claiming Income Support are no longer eligible for fee remissions when accessing further education.

DWP user-testing research has also found that more active support was felt to be required to help job seekers back into work. ‘More active support’ could entail earlier support (such as when job seekers are at an earlier stage of unemployment when motivation was still high) or more tailored support, particularly for those who find it hardest to get into work due to long-term unemployment, school leaver and those with little experience.

The Centre for Social Justice also argues that those who are ‘furthest from the labour market’ will require support to get into work and encourage local authorities to direct any savings achieved towards this objective (Centre for Social Justice, 2010).

1.6 Potential impacts on health

Some of the potential impacts on mental health of welfare reforms have already been described within section 1.1. More generally, there is a wide range of studies which examine how material and social circumstances affect people’s physical and mental health, and mortality. Income inequalities and reduced income impact on health, although the relationship can be complex (Burgess et al., 2004). Poor physical health and mental health have been linked with income equality however in international studies. For example, a strong association was found in Eastern Europe between income inequality and suicide rates in the post-communist transition period (De Vogli & Gimeno, 2009). Suicide attempts and depression in South Korea rose as income-related inequalities widened over the ten years following economic crisis (Hong et al., 2011). The same study found that people with higher incomes were less likely to suffer depression or to attempt suicide over the preceding decade, during which income inequalities had doubled. There are links too between higher levels on income inequality and higher mortality levels (Elstad, 2011). This was shown in a large, register-based study of over 1.6 million people in Norway, which concluded that in addition to socioeconomic influences, a higher level of income inequality adds independently to higher mortality levels.

In relation to debt and indebtedness, analysis of work by the Department of Health, the NHS and the Mental Health Foundation found that approximately three in five clients of debt advice services reported having received treatment, medication or counselling as a result of debt-related health problems, and that the proportion (49 per cent) of survey participants with anxieties about money, finances or debt was twice that of participants with anxieties about unemployment, despite the links between the two (London Health Forum, 2010). Meltzer et al. (2010) found that being in debt was associated with depression independently of job insecurity. Suffolk

County Council (2008, as quoted in Lewisham Annual Public Health Report, 2012) found that 92 per cent of people with personal debt reported deterioration in their mental health, notably through stress and depression.

There are economic, social and moral arguments that work is the most effective way to improve the well-being of individuals, their families and their communities. The generally accepted theoretical framework about work and well-being is based on extensive background evidence, which demonstrates that employment is generally the most important means of obtaining adequate economic resources, which are essential for material well-being and full participation in today's society. Work also meets important psychosocial needs in societies where employment is the norm and is central to individual identity, social roles and social status (Waddell and Burton, 2006).

Conversely, there is a strong association between worklessness and poor health. There is strong evidence that unemployment is generally harmful to health, including higher mortality, poorer general health, long-standing illness, limiting longstanding illness, poorer mental health, psychological distress, minor psychological/psychiatric morbidity and higher medical consultation, medication consumption and hospital admission rates. There is also strong evidence that re-employment leads to improved self-esteem, improved general and mental health, and reduced psychological distress and minor psychiatric morbidity. The magnitude of this improvement is more or less comparable to the adverse effects of job loss.

There is a also a broad consensus across multiple disciplines, disability groups, employers, unions, insurers and all political parties, that when their health condition permits, sick and disabled people (particularly those with 'common health problems') should be encouraged and supported to remain in or to (re)-enter work as soon as possible because it is therapeutic, helps to promote recovery and rehabilitation, leads to better health outcomes and minimises the harmful physical, mental and social effects of long-term sickness absence. There is also evidence to show that remaining or re-entering work reduces the risk of long-term incapacity, promotes full participation in society, independence and human rights, reduces poverty and improves quality of life and well-being.

Importantly, claimants who move off benefits and (re)-enter work generally experience improvements in income, socio-economic status, mental and general health, and well-being. Those who move off benefits but do not enter work are more likely to report deterioration in health and well-being. However, these findings are about average or group effects and should apply to most people to a greater or lesser extent; a minority of people however may experience contrary health effects from work(lessness). Furthermore, beneficial health effects depend on the nature and quality of work (though there is insufficient evidence to define the physical and psychosocial characteristics of jobs and workplaces that are 'good' for health).

Finally, the social context must be taken into account, particularly social gradients in health and regional deprivation.

The links between fuel poverty and health are described below.

2. Impacts of welfare reform in relation to other contexts nationally and locally

2.1 Rise in living costs

According to the Consumer Price Index in May 2013, food prices in April 2013 had increased by 5 per cent since the same month of the previous year. Prices of fruit and vegetables in particular had contributed to this overall rise: fruit prices had increased by 12.2 per cent on the previous year, and vegetable prices by 9.9 per cent. This is partly explained by the impact of poor weather on crop production. There has been an overall rise in the cost of alcoholic beverages and tobacco (5.7 per cent), housing, water, electricity, gas and other fuels (4.2 per cent), health costs (2.5 per cent), communication (3.2 per cent), recreation and culture (1.4 per cent), education costs (which measures increases in costs of fees and subscriptions, and by far the biggest increase at 19.7 per cent). Restaurants and hotel costs have also increased by 1.1 per cent.

Food prices are also set to rise over the coming year due to farmers being unable to plant as many crops for 2013. But this also reflects longer-term non cyclical trends such as the burgeoning world population and an overall reduction in poverty (and therefore increased demand for food). High crude oil prices also impact on the cost of food production. Similarly with gas and electricity, the significant rise in these costs is also linked with high crude oil prices (electricity has seen a 7.6 per cent rise between April 2012 and April 2013, and gas a rise of 8.3 per cent in the same period). Distribution and transmission charges for gas also continue to grow. Water prices have not seen as significant a rise in price over the last year as electricity and gas prices (in April 2013, water supply costs had seen a rise of 3.1 per cent since the same time last year, although sewerage costs rose by 5.9 per cent in the same period). This is partly due to the fact that Ofwat, the water regulator, has told water companies that they must keep water prices broadly stable until 2015.

Food poverty is a significant issue in the UK. Church Action on Poverty and Oxfam estimate that over 500,000 people in the UK are now reliant on food aid (as of May 2013), which includes food bank use and receipt of food parcels, and that this number is set to rise. They note how this figure is higher than that supplied by the Trussell Trust (which stands at 350,000 as of the same date), as many are in receipt of food parcels from other organisations. It is suggested that the rise is in part due to unemployment, increasing levels of underemployment, low and falling income and rising food and fuel prices. Church Action on Poverty and Oxfam argue that the minimum wage needs to rise in line with inflation so families retain their ability to feed and clothe themselves adequately. They note how up to half of all people turning to food banks ‘are doing so as a direct result of having benefits payments delayed, reduced or withdrawn altogether’. Figures gathered by the Trussell Trust (see page 13) show that changes to the benefit system are the most common reasons for people using food banks; these include changes to crisis loan eligibility rules, delays in payments, Jobseeker’s Allowance sanctions and sickness benefit reassessments’ (Church Action on Poverty and Oxfam, 2013, pp.3).

Education costs have increased overall by 19.7 percent between April 2012 and April 2013. In 2012, the HEFCE teaching grant given to universities to pay for students’ teaching fees from on average £11,000 per student to just £460. At the same time, contributions from graduates increased from around £17,000 to £26,850 (a rise of 52 per cent) (Wyness, 2012).

According to the CPIH in May 2013 (CPIH is a new additional measure of consumer price inflation including a measure of owner occupiers’ housing costs, (OOH)), actual rentings for housing had increased by 2.6 per cent between April 2012 and April 2013. Owner-occupier housing costs had risen by 1 per cent in the same period. The biggest increases had been seen in London, where between February 2012 and February 2013, increases of 7.3 per cent were seen. On average in the rest of the UK between the same period, the average increase in private rental costs was much lower, at 0.8 per cent. Modest improvements in the UK’s housing supply will inevitably mean that rents are forced upwards (Brown, as quoted in Brown, 2013).

2.2 Impacts of rises in living costs

The Living Costs and Food Survey also produced by the Office for National Statistics shows that between 2009 and 2011, the average weekly expenditure of households in the UK on food, clothing, household goods and services, restaurants and hotels, has consistently decreased. Indeed, since 2006, there has been a decline in expenditure year on year on all items listed under the survey by households in the UK. Notably, the only expenditure to have increased overall since 2006 has been expenditure on housing (net), fuel and power. Defra figures in 2013 show that those on low incomes have cut down on fruit and vegetables (fruit prices have risen by 34 per cent since June 2007) and are also cutting back on the total calorie content of the food they buy. Those with incomes in the bottom tenth have cut the calorie content of their food purchases by 9per cent since 2007 (Defra figures quoted in Murray-West, 2012).

2.3 Fuel poverty

In 2001, in England, fuel poor households were defined by the UK government as those needing to spend more than 10% of their total household income before housing costs on all fuel used to heat their homes to an acceptable level (DETR, 2001). However, the measure of fuel poverty has since changed: In 2011, John Hills proposed an alternative indicator: the Low Income High Cost (LIHC) indicator, which, he argued, offers a more accurate measure of the problem of fuel poverty. In 2012, whilst recognising that fuel poverty was a distinct issue, Hills found some fundamental flaws with the existing indicator, and revisions were made to take account of household size (see Hills, 2012). Under the new Low Income High Cost definition a household is considered to be fuel poor where they have required fuel costs that are above average (the national median level) and, were they to spend that amount, they would be left with a residual income below the official poverty line.

According to data published by the Office of National Statistics and the Department of Energy and Climate Change, (2011), in England in 2009, 18.4 per cent of all households were fuel poor. This is more than three times higher than the level in 2003, when the level was the lowest since the indicator was formulated. Fuel poverty in 2009 was the highest since 1996. In 2008, the national figure was 15.6 per cent. However, under the revised LIHC indicator, and according to the Department for Energy and Climate Change (2013), in 2011, the number of fuel poor households in England was estimated at around 2.39 million, representing approximately 11 per cent of all English households. This is a fall of around 80 thousand (3%) when compared with 2010. The aggregate fuel poverty gap increased marginally in 2011 from £1.02 billion to £1.05 billion (approximately 2%), and the average gap (defined as the total gap divided by the number of households in fuel poverty) also rose by £24 to £438.

Policies aimed at protecting more vulnerable citizens from cold-related health risks are collectively known in the UK as the UK Fuel Poverty Strategy. The strategy sets out targets and timelines for eliminating fuel poverty, with an overall target to eradicate fuel poverty by 2018. The strategy includes two phases: The first to operate between 2001 and 2010 giving priority to the three groups deemed most vulnerable to the effects of fuel poverty. These are people over 60 years old, people living with disability or long-term illness, and families with children. In the second phase (2010–2018), non-vulnerable groups will be prioritised.

2.4 Impacts of fuel poverty

For many, health and well-being impacts are at the heart of concerns about fuel poverty. According to Liddell (2008), a large percentage of fuel-poor people live in homes that are persistently cold and damp. Living for long periods of time in such cold and damp conditions, rather than being fuel-poor per se, is thought to generate significant health risks. Broadly speaking, significantly more deaths occur during winter (e.g. Healy, 2003). Cold indoor temperatures are strongly implicated in this effect, in that risks are especially great for residents of poorly insulated homes (Wilkinson et al., 2007). Cold-related deaths occur mostly through changes in blood pressure and blood chemistry during cold weather, which in turn increase the risk of catastrophic cardio- or cerebro-vascular events such as strokes, myocardial infarctions or pulmonary embolisms (Crawford et al., 2003). The immune system is also suppressed, increasing the risk of infections (Howieson and Hogan, 2005).

The Marmot Review Team (2011) quotes circulatory diseases, respiratory problems and mental ill health as associated with cold housing. A study carried out by Shelter in 2006 suggested that children in bad housing conditions, including cold homes, are more likely to have mental health problems, such as anxiety and depression, to contract meningitis, have respiratory problems, experience long-term ill health and disability, experience slow physical growth and have delayed cognitive development (Harker and Shelter, 2006). The common cold and flu, as well as arthritis and rheumatisms are thought to be influenced or exacerbated by cold housing conditions also (Marmot Review Team, 2011). Children persistently living in accommodation with inadequate heating and poor conditions have been shown to be more than twice as likely to suffer from chest and breathing problems, such as asthma and bronchitis (Barnes et al., 2008).

A child who develops asthma this way is likely to have it for many years and possibly life, and this is particularly concerning given 2009 estimates that 1.1 million children in the UK are affected by asthma (Boardman, 2010). Brambleby and associates estimated the cost of asthma is at least £847 million per annum, just under 1 per cent of the national NHS budget in 2008 (Brambleby et al., 2008). Importantly, a large scale study which looked at residents aged over 65 in the London Borough of Newham, calculated 'excess winter morbidity' (EWM) based on emergency hospital episodes for all respiratory diagnosis codes, and ranked this against a Fuel Poverty Index (FPI) which included factors of energy efficient housing, low income, householder age and under-occupation. The FPI was shown to be a predictor of EWM, indicating supporting evidence of a relationship between energy-efficient housing and winter respiratory disease among older people (Rudge & Gilchrist, 2005).

The level of energy efficiency affects people with low incomes more severely because it affects life chances and how they spend disposable income on other basic items such as food and clothing (Power et al., 2009). Poor families will face the choice to "heat or eat": either less money can be spent on basics such as a sufficient, healthy diet (with obvious health impacts such as obesity or malnutrition), or less can be spent on heating their homes to a reasonable temperature.

Social isolation among older people is exacerbated by living in a cold home. Costly fuel bills prevent them from going out, they fear returning, already feeling cold, to a cold home, or they are reluctant to invite friends into a cold house (Department of Trade and Industry, 2001). Older people who are unable to keep their homes warm, who have a health condition exacerbated by the cold or have sustained injuries due to the cold, may need increased care or need to go into residential care, increasing the financial burden on the country (Department of Trade and Industry, 2001).

One of the most sustainable ways of tackling fuel poverty and limiting the impact of fuel price increases is to build energy efficient housing and retrofit the existing housing stock to an energy efficiency level that would make it extremely hard for people to fall into fuel poverty, as space heating accounts for the greatest share of energy use in homes – over 50% (Department for Communities and Local Government, 2007). This is known as ‘fuel poverty proofing’ and it has been estimated that raising all properties in England to SAP 81 (equivalent to Energy Performance certificate band B) would lift 83 per cent of households out of fuel poverty (Guertler & Preston, 2009).

2.5 Impacts of cuts to public sector spending and frontline services

According to a report for The Campaign for a Fair Society, Government spending on Local Authorities between 2010 and 2015 will have reduced by 41.9 per cent, whilst spending on benefits will have reduced by 18.6 per cent. They argue that real-term cuts by 2015 of £75.2 billion ‘fall hard on some services and on a fraction of the UK population’ (pp.10). Not everything is being cut however. Some expenditure is growing in cash and real terms: Foreign Aid (20.7 per cent) and Cabinet office, Treasury and associated quangos (241.9 per cent). The NHS and pensions are also protected and do not change, and together they represent over 30 per cent of all government expenditure. There are areas where there are important cuts, in real terms, but not in cash terms, such as defence, education and administration of tax and benefits. Cuts to English local government, benefits, universities and criminal justice are large and together make up approximately 70 per cent of all cuts. These areas however, represent only 33 per cent of all government expenditure. Together the cuts on English local government (whose main function is social care) and on benefits (whose main function is to reduce poverty), make up 50.8% of all cuts, despite the fact they represent only 26.8% of central government expenditure.

Social care spending is impacted severely by the reduction in expenditure on Local Authorities, as over 60 per cent of relevant local government expenditure is for social care for children or adults, and expenditure on Education, Police and Fire and Rescue services is ring fenced. By 2011, Adult Social Care expenditure was cut by £119 million and by a further £890 million by 2012. Children’s Social Care was cut by £1.852 billion between 2010 and 2012. Between 2007 and 2012, whilst expenditure on Education increased by 35.2%, spending on Housing declined by 40.3 per cent and other services by 19.6 per cent. Employee expenditure of local authorities has also been affected: Total employee expenditure decreased by 8.1 per cent between 2010-11 and 2011-12, with pay costs decreasing by 8.7 per cent and non-pay costs decreasing by 6.6 per cent.

Simultaneously there has been an enormous increase in numbers of children referred into care; gross spend on fostering services nationally increased from £1,284m in 2011 to £1,339m in 2012. Increases in spend on care are occurring simultaneously with reductions in funding for services at the other end of the spectrum of need: For example, funding for individual Sure Start children’s centres dropped in the same period from £799m to £782m, while income related to the centres also dropped from £344m to £69m. At the same time, total spend on universal services for young people, including youth work, positive activities and information advice and guidance, fell from £509m to £419m. Other measures by which cuts are experienced nationally are reduced levels of support for voluntary organisations, advocacy and services not covered by Fair Access to Care Services (e.g. support for women experiencing domestic violence); reductions in support, freezing of fees for service providers and the reduction of personal budgets; reduced expenditure on supported housing services funded through 'Supporting People'; increasing the threshold for eligibility, (e.g. by 2011, 78 per cent of councils had stopped supporting people with 'Low' or 'Moderate' needs), and increasing social care charges, effectively increasing what is a direct tax on those disabled people who have the most severe needs (Duffy, 2013).

Munro, in an 'Update on Progress' following her review of child protection in 2011, argues that it is universal or targeted services which significantly reduce the severity of abuse and neglect of children whilst reactive services only deal with 'a small percentage of the problems that children and young people experience' (Munro, 2012, pp.17). Her review recommended that Councils should have a legal duty to provide enough early intervention services and that local safeguarding boards should assess the effectiveness and value for money of early intervention services. Providing services whose effectiveness is proven is threatened however by funding cuts to all services. Whilst areas are making significant attempts to protect early and preventive children's services, they are unlikely to be able to maintain this in the coming financial year because of the level of cuts. If investment in effective early intervention and prevention decreases, pressure on higher-cost services increases.

2.6 Reduction in average earnings and the 'jobs gap'

In 2010-11, the average amount of total income fell by £1000 (HMRC, 2013), for the first time since 1992-3. The median income before tax in the UK also increased every year between 1992-3 and 2009-10, before falling in 2010-11 by 1 per cent from £19,600 to £19,500. Public sector pay rises were again below inflation in 2013-14 following a two year freeze in some cases; a situation which will remain until 2016. The below-inflation rise applies to the civil service and workforces with pay review bodies, but not the military.

Furthermore, the jobs gap as of mid-2012 (which lies between the number of jobs being created and the number that are needed to keep a steady proportion of the population employed) numbered over 800,000 (this includes adjustment for population growth which compares actual jobs growth to the number of jobs needed to hold the pre-recession employment rate constant) (Resolution Foundation, 2013, pp.4). The shift from full- to part-time work has been an important feature of recent UK labour market performance. While the number of people in employment has now passed its 2008 level, since 2008 full-time employment has fallen by 545,000, part-time employment has risen by 282,000 and part-time self-employment has risen by the same figure, 282,000. This marks an acceleration of longer running trends.

Growth in employment also continues to be strong; for the year to Oct-Dec 2012, employment rose by 580,000, the fastest year of employment growth since 1989. As with employment, however, a recovery in the level of working hours has not been enough to keep pace with population growth. It shows that both the decline and recovery in working hours has been steeper than the decline and recovery in employment, reflecting the fact that employers are more able to vary working hours than employment. There is today a gap of around 31 million working hours in the UK economy. Many people therefore continue to work fewer hours than they would like, putting downward pressure on household incomes.

How long will it take to close the jobs gap and return the UK to its pre-recession employment rate depends on the speed of job creation and the pace of population growth. Changes in the age profile of the population will also have an important effect. For the population aged over 16, the ONS currently projects population growth of around 340,000 a year from 2013 to 2020. This means that employment needs to rise by around 50,000 in each new set of quarterly data for the employment rate just to stand still (Resolution Foundation, 2013).

The private sector is projected to create more than enough jobs to offset declining government employment but not nearly enough to move decisively back towards fuller employment. This does not take into account latest estimates from the Institute of Fiscal Studies which suggest deeper public sector job losses than forecast by the Office for Budgetary Responsibility. These would translate into public sector job losses of around 700,000 between 2012-13 and 2016-17 and would require 2.2 million new jobs from the private sector in order to close the jobs gap by late 2016. With the UK population aged over 64 growing twice as fast as the population aged 16-64, part of the jobs gap is accounted for by an ageing society.

3. List of changes to individual benefits and their impact

3.1 Summary of the main changes to benefits (more detail given in the sections below)

Incapacity benefits (initial transfer for new claimants to Employment and Support Allowance in 2008, further changes complete by 2014)

Increases in Non-Dependent Deductions (First introduced in April 2011)

Changes to rules governing administration of Housing Benefit – Local Housing Allowance (Introduced first in April 2011)

1 per cent up-rating and the Retail Price Index to Consumer Price Index for benefits up-rating (first introduced in 2011/12)

Child Benefit (freeze initiated in 2011, high income child benefit charge in effect from January 2013)

Reduction in payment rates and eligibility for Tax Credits (from April 2012)

Change to eligibility for Income Support for lone parents (from April 2012)

New rules governing size of properties in relation to Housing Benefit – Under-Occupation (Introduced for the social housing sector in April 2013)

Household benefit cap (from April 2013)

Reduction in entitlement to Council Tax Benefit (from April 2013)

Replacement of Disability Living Allowance to Personal Independence Payment (changes introduced between 2013 and 2016)

Replacement of current system of means-tested benefits and tax credits with Universal Credit (from October 2013)

3.2 Purpose and aims of the changes

The series of legislative measures contained within the Welfare Reform Act are designed to (according to the Department for Social Development):

- Tackle inequality of opportunity and improve employment outcomes particularly for disadvantaged groups
- Help tackle barriers to work whilst increasing expectations so that people are fully able to take advantage of employment opportunities
- Encourage and enable as many people as possible to return to the labour market.
- Ensure that the welfare system provides people with the opportunities that they need to improve their skills, prepare for work and move off benefits and into employment where that is appropriate.
- Deliver a healthier and more prosperous society with improved support to families and children and a ready supply of skills and labour for employers
- Make people financially better off. This increase in income leads to an increase in satisfaction and improves overall social welfare.
- Benefit claimants will gain increased awareness of the obvious financial and health benefits of work through work related activity
- Actively encourage claimants to participate in all kinds of activity, including voluntary work, which will in turn have a positive impact on the voluntary sector.
- Have a positive impact on voluntary organisations who deliver services to people with health conditions, and the disabled

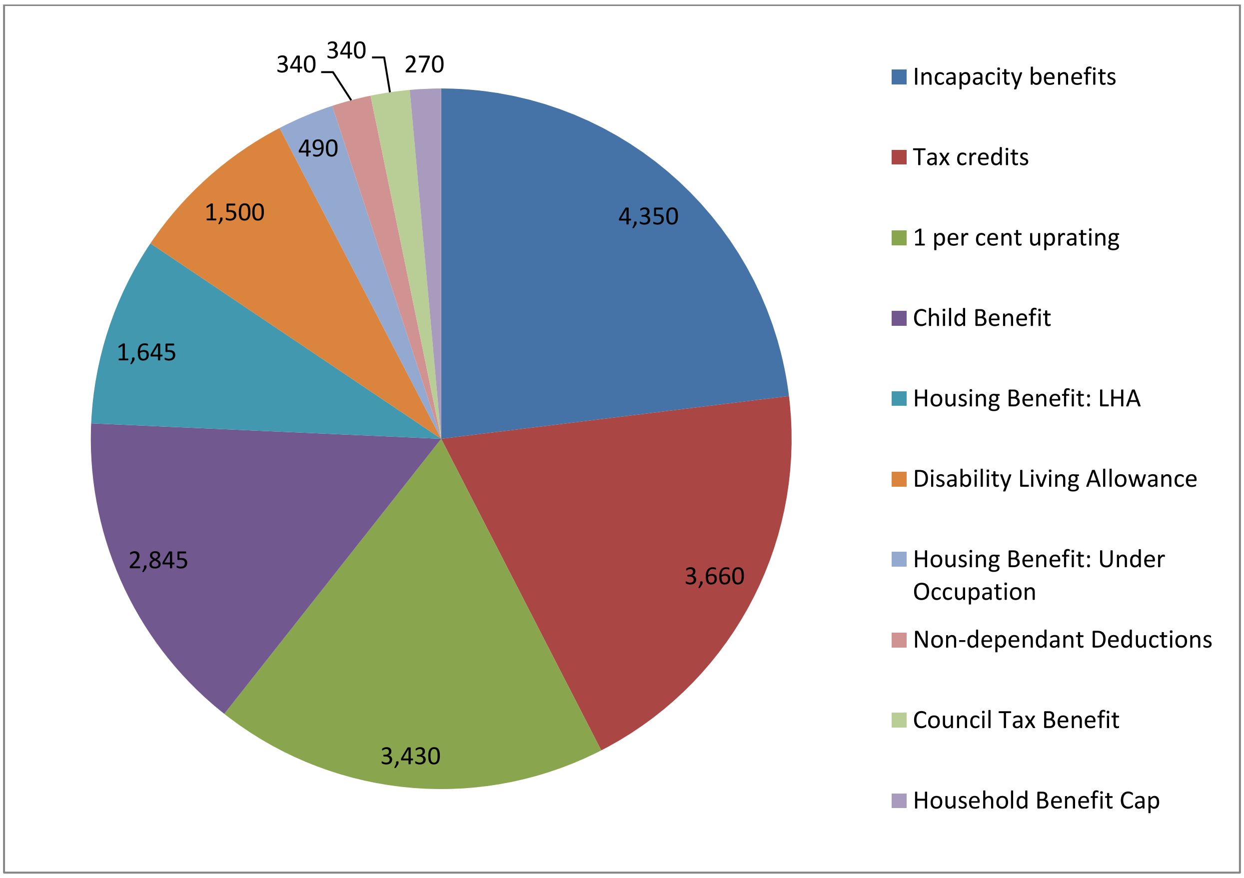
The Department for Work and Pensions has published impact assessments for all reforms which are available at https://www.gov.uk/government/organisations/department-for-work-pensions/series/welfare-reform-act-2012-equality-impact-assessments. The impact assessments provide an overview of the current policy, the rationale for intervention, the objectives of the policy and overview of anticipated impact.

This review scrutinises the intended impacts of changes through evaluation of analysis and commentary provided by university research teams, charitable organisations and foundations, think tanks, local authorities and housing associations, amongst others.

3.3 Overall National Financial Impact

In terms of overall financial reduction nationally, the £19b estimated reduction in spending represents around £470 a year for every adult of working age in the country. The biggest financial impact in fact comes from the reform of incapacity benefits. This represents a reduction in spending of more than £4.3bn a year (Beatty and Fothergill, 2013). Changes to tax credits and the 1 per cent up-rating of most working-age benefits, taking effect from April 2013, also account for substantial sums - £3.6bn and £3.4bn respectively (Beatty and Fothergill, 2013).

Figure 1: Estimated reduction in spending (£m per annum) on range of welfare benefits (Source: Sheffield Hallam estimates based on official data, 2013).



The overall reductions in Housing Benefit are estimated to be more than £1.6bn for those in the private rented sector (affected by LHA reforms), £490m for those in the social rented sector (affected by 'Under Occupation) and £340m by higher deductions for non-dependents (which mostly impact on Housing Benefit). Financial losses for households are large at often £1,000 a year. Child Benefit changes affect the largest number of households – some 7.6m. This is because the three-year freeze in Child benefit rates up to April 2014 (instead of up-rating with inflation) impacts on all recipients. Much fewer households, by contrast, are impacted by the household benefit cap – an estimated 56,000 – but the average financial loss for these households is relatively large. The changes to Council Tax Benefit hit large numbers of households – approaching 2.5m, though none in Scotland or Wales (where the devolved administrations have chosen not to pass on the reductions). The average financial loss per household – an estimated £140 a year – is more modest than the other benefit cuts, though still likely to be hard to find in many cases.

3.4 Financial Impact by Local Authority

See **Appendix 1** for the overall impact of welfare reform by local authority district (not considering the impact of DLA reforms, Incapacity Benefit changes or the 1 per cent up-rating). The three areas hit hardest in the UK are the older industrial areas of England, Scotland and Wales, a number of seaside towns including Blackpool, Torbay, Hastings, Great Yarmouth and Thanet (which includes Margate) and some London boroughs – not only those which have traditionally been identified as deprived (e.g. Hackney) but also boroughs such as Westminster and Brent.

A substantial part of southern England outside of London is much less severely affected by the reforms. This is a similar story in a number of rural areas in northern England, including most of North Yorkshire and parts of Cumbria, as well as the Aberdeen area in Scotland.

3.5 Financial and (anticipated) Social Impact of Individual Welfare Reforms

Incapacity Benefits[ii]

There are approximately 2.5 million working-age claimants of incapacity benefits in the UK according to the Department for Work and Pensions. Incapacity benefits [iii]included Severe Disablement Allowance (SDA) and Income Support (IS), which were replaced by Employment and Support Allowance (ESA) in 2008. ESA is more closely aligned with Jobseeker's Allowance.

A key feature of the reform to incapacity benefits includes the re-assessment of current Incapacity Benefit claimants using a 'Work Capability Assessment' to determine their ongoing entitlement. Following this assessment, claimants are either deemed fit for work (and may then claim Jobseeker's Allowance) or are deemed currently unable to work, and therefore entitled to claim the Employment Support Allowance (ESA).

A final key feature of reforms to incapacity benefits is the abolition of the Severe Disability Premium. This premium was previously payable to adults with care needs, who live alone and have no named carer.

The Department for Social Development (DSD) suggests that there is good evidence to show that work is generally good for physical and mental health and wellbeing, including for disabled people and people with health conditions, and may help to promote recovery. Being out of work often leads to poorer health as well as other negative outcomes. The DSD also claims that there will be a possible indirect effect of increasing movement back into work for those affected, along with other associated knock-on benefits such as higher economic output from additional employment and the subsequent gain in revenue from increased taxation. However, this effect is uncertain and has not been quantified. There may also be some positive health benefits as a result of customers going into work.

Since the mid 1980s, incapacity benefits have hidden the true scale of worklessness in Britain's weaker local economies, as men and women with health problems or disabilities have found that they have been able to access incapacity benefits instead of unemployment benefits (Beatty and Fothergill, 2013). Across Britain as a whole, incapacity claimants are by some margin the largest group out-of-work on benefits, and the cuts to incapacity benefits – these days Employment and Support Allowance – are especially large. Much of southern England escapes lightly from these major cuts.

Non-Dependent Deductions

'Non-dependent deductions' refers to increases in the deductions from Housing Benefit, Council Tax Benefit and other income-based benefits to reflect the contribution that non-dependent household members are expected to make towards the household's housing costs. In the June 2010 Budget, it was announced that non-dependant deductions (NDDs) would be increased over the following three years to match the level they would have been had they not been frozen since April 2001. Restoring the level is intended to mean a fairer deal for taxpayers and provide an expectation that adults make a reasonable contribution towards their housing costs.

In the third and final of these up-rating rounds to achieve this, both NDD rates and income bandwidths have been increased from April 2013, with the average being an increase of 19 per cent. The increase in these deductions, which mainly affect Housing Benefit entitlements, impacts principally on the places with high numbers out-of-work on benefits. In contrast to reductions in Housing Benefit payments due to under-occupation, non-dependant deductions reduces the amount of Housing Benefit received by those who make full use of their homes. In essence, the reductions mean that tenants receive less help in paying their rent, which will possibly lead to increased rent arrears, but also possibly incentivise tenants into starting work, doing more paid work, or finding higher-paid work. Other possible consequences include a higher incidence of adult children being asked to leave the family home, an increased demand for independent housing, reluctance for private landlords to accept benefit claimants and financial difficulties for social providers and a possible rise in homelessness.

In terms of loss to the economy nationally, the worst affected places include Britain's older industrial areas and a number of seaside towns where there is not only unemployment but also a high proportion claiming Housing Benefit. A number of less affluent London boroughs are also hit relatively hard. Large parts of southern and eastern England outside London are little affected however, as are a number of rural areas in the North of England and in Scotland.

Housing Benefit: Local Housing Allowance

Housing benefit is a means-tested benefit paid to individuals and families to help them cover the cost of renting their home. Some claimants live in social housing, others live in private rented accommodation. There has been a cumulative impact of changes to Housing Benefit administration since 2011. Rates of Housing Benefit are increased on an annual basis (known as 'up-rating') in line with inflation. In 2013 however, the Consumer Price Index (CPI) was adopted for annual up-rating as opposed to the Retail Price Index (RPI). CPI is commonly lower than RPI which means that increases in Housing Benefit going forward will be lower. Furthermore, from January 2012, the shared accommodation rate (£250 per week) was extended to people up to the age of 35 living in private rented accommodation. In other words, single people under the age of 35 are now likely to receive less Housing Benefit for private rented accommodation, and less likely to share accommodation.

The Housing Benefit bill was £16.94b in 2011-12, representing a 5.2% increase on 2010-11. The intention is to bring the cost of Housing Benefit under control, exert downward pressure on rental growth and change the behaviour of landlords renting to Housing Benefit claimants. The proposed change aims to help address disincentives to work inherent in the current system. In the longer term, the Department for Social Development believes that rents for housing benefit tenants may increase less steeply, especially in areas where Housing Benefit tenants comprise a large proportion of the private rented sector. Some administration costs may be reduced, as Local Housing Allowance rates will not have to be set every month.

Analysis of the national financial impact demonstrates that the changes will impact most on the areas where the private rented sector accounts for a high proportion of households and where rent levels are highest. The biggest impact falls on London, and in particular on boroughs such as Westminster and Kensington and Chelsea, where rents are exceptionally high. A number of seaside towns are also hit hard which have large numbers in private rented housing. Some of this comprises former guest houses that have been sub divided into small flats and draw in low income and out-of-work households from surrounding areas and further afield.

In Poole as of November 2012, 3,750 Housing Benefit claimants will be affected by LHA rates. In November 2012 there were 180 single Housing Benefit claimants with no children aged 25 to 34 years living in LHA private rented accommodation in Poole.

Early research into the impacts of the changes to LHA show that the main effects have been quite limited. This is not surprising given the transition protection afforded to claimants when changes were initiated. Impact of the changes need continued monitoring.

1 Per Cent Up-Rating

In its June 2010 Budget the Coalition Government announced that the Retail Prices Index (RPI) would no longer be used to determine the increase in benefits and state pensions. Instead the Consumer Prices Index (CPI) would be used to uprate benefits, and state pensions, including public service pensions. Subsequently, the Government announced that the CPI would be used to provide the statutory minimum revaluation and indexation for occupational pensions. The move to the CPI results in an Exchequer saving of £1.2 billion in 2011/12, and this increases each year to £5.8 billion by 2014/15.

While in a single year the change to the CPI makes only a small difference in the amount of additional benefit or pension that is paid to an individual, the effects cumulate over time. This is particularly important in the case of pensions, which can be paid for many years and, in the case of occupational schemes may also contain elements of revalorisation over years of working life too.

The Resolution Foundation (2013a) believes that ‘The incremental impact of changes to the uprating of benefits and tax credits will become visible over time in poverty statistics’ (pp.3). In terms of national financial losses incurred by the change in uprating, inevitably the impacts are felt most where these benefits are claimed by the largest number of people. This means that places with high numbers out-of-work on benefits or with large numbers claiming Housing Benefit or in-work benefits are the ones hit hardest. In practice therefore, the 1 per cent up-rating reinforces the local and regional impact of a range of other welfare reforms.

Britain’s older industrial areas, a number of seaside towns and some London boroughs face the greatest financial impacts. Once more, it is large parts of southern and eastern England outside London that escape with the smallest financial losses.

Child Benefit

In the June 2010 emergency Budget, it was announced that Child Benefit would be frozen for three years (2011/12, 2012/13 and 2013/14). A ‘high income child benefit charge’ also came into effect from 7 January 2013. The charge applies to taxpayers who have an adjusted net income over £50,000 in a tax year, where either themselves or their partner are in receipt of Child Benefit. If both partners have adjusted net income over £50,000, the partner with the higher income is liable for the charge (regardless of which partner is in receipt of Child Benefit). It will apply at a rate of one per cent of the full Child Benefit award for each £100 of income between £50,000 and £60,000. The charge on taxpayers with income above £60,000 will be equal to the amount of Child Benefit paid.

HMRC has said about 1.1 million families will be affected, 70% of who will lose all of their Child Benefit. The average loss will be roughly £1,300 a year – a considerable chunk of the annual £1,752 paid to a family with two children.

A number of problems and issues have been raised with the proposal, including:

- The fact that a dual earner couple, each earning just below the higher rate threshold, would retain their child benefit in full, whilst a single earner couple or lone parent earning just above the threshold would lose it. This could mean households with a dual income of £98,000 keep their benefit in full, whilst a single earner couple earning £50,000 loses some of theirs;
- The "cliff edge" problem whereby Child Benefit would be withdrawn completely at the higher tax rate threshold, with a potentially damaging impact on incentives;
- The scope for families to avoid the charge by “tax planning” or other means, including transferring the claim to someone outside the household;
- Administrative problems, including the need to link individuals’ tax records and Child Benefit records;
- The implications for independent taxation, including whether couples would be forced to disclose financial details and details of benefits received to each other;
- How to claw back Child Benefit – which paid on a weekly basis – through the tax system, where calculations are on an annual basis;
- How to deal with changes in circumstances over the tax year – e.g. where a partner moves in, or a couple split up;
- How to identify who is a higher rate taxpayer – e.g. where a person receives a bonus at the end of the tax year which pushes them above the higher rate threshold;
- How to determine whether two people are “living together” for the purposes of the charge – and when two people are to be regarded as no longer living together;

- How HMRC would ensure compliance with the new charge, and cost of doing so;
- The fact that the charge would be a “couple penalty” – e.g. it could be disincentive for a lone parent to move in with a higher rate taxpayer;
- The impact on women and children of the loss of an independent source of income, if they are encouraged by their partner to give up their claim for Child Benefit; and
- Implications for future entitlement to state pensions, given that people who are not in work and who are receiving Child Benefit for a child under 12 receive National Insurance credits.

In relation to overall national financial impact, the cuts to Child Benefit have a rather more even impact across Britain than most of the other welfare reforms – few places are more than a quarter above or below the national average. This is partly because the three year freeze in Child Benefit rates affects all claimants – and most places have substantial numbers of children – and partly because the withdrawal of Child Benefit from households with a higher earner affects some household in most places.

The biggest impacts are in the places where there are substantial numbers of children and a high proportion of higher earners. London’s commuter belt, including a number of outer London boroughs, is hit hardest. The cuts to Child Benefit are the only element of the welfare reforms that could be said to impact more on some of the most prosperous parts of Britain than on the poorest areas.

Tax Credits

Tax Credits are payable to anyone with at least one child or young person in receipt of a low income. Working Tax Credits (WTC) are also paid to those working but on a low income. Both can be claimed at the same time. A variety of changes have been made to eligibility for Tax Credits since April 2011, as summarised below:

- Tax Credit eligibility for families with a household income above £40,000 has been reduced from April 2011.
- The first withdrawal rate for Tax Credits increased from 39 per cent to 41 per cent from 6 April 2011.
- Tax Credits awards are normally based on the household income of the previous year. A customer only has to report a change of income during the year if it is more than £25,000 higher than the previous year. When finalising the previous year’s award, any income increase below £25,000 is ignored. This figure reduced on 6 April 2011 from £25,000 to £10,000; and 6 April 2013 from £10,000 to £5,000.
- The baby addition has been removed (6 April 2011).

- The ‘Child’ element in the Child Tax Credit increased in April 2011 by £150 (above CPI) and April 2012 by £60 above indexation.
- The Government will use the Consumer Price Index (CPI) to uprate all of those elements of Tax Credits due to be uprated by RPI from April 2011.
- A claimant who makes a Tax Credits claim can have this backdated by up to 93 days if they meet all the entitlement conditions. The backdating provisions have been shortened to one month with effect from 6 April 2012.
- From 6 April 2012, an income disregard of £2,500 for falls in income was introduced. This will mean that any reduction in income in a year of less than £2,500 has no impact on a Tax Credits award.

There have also been changes to the administration of Working Tax Credits.

Gingerbread (2011) claims that although the changes to Tax Credits and Working Tax Credits introduced in April 2011 impact on all recipients, single parents feel the effects more severely because they have a higher take up of the childcare element of this benefit. ‘As sole carers this may result in them having more stark decisions to make about how to balance work and home life’ (pp.2). Gingerbread claims that 36 per cent of all single parents receive an award of WTC, compared with 15 per cent of couples with children, meaning that single parents are twice as likely to be in the WTC group as couples with children. 64 per cent of the 488,000 families who currently receive the childcare element of WTC are single parents.

Furthermore, Gingerbread claims that:

- For a single parent working full time on the minimum wage, this loss of support could equate to up to 13% of their income (around £1,630 per year a year), if they have two children and are paying £300 per week or more for childcare;
- A single parent earning the national average wage (£25,948 per year) will lose 7% of their income (around £1,890 per year), if they have two children and are paying £300 per week or more for childcare;
- Losses for single parent families at the top end of the income scale – earning £57,000 per year – could be up to as much as £4,553 per year, with £1,500 of that being due to the change in the childcare element of WTC (the additional amounts are made up of the reduction in the generosity of WTC by freezing the 30 hour rate, the abolition of the baby element in WTC, the uprating from RPI to CPI and changes to the taper rate along with other changes).

Additionally, Gingerbread claims that, despite the government’s plans to encourage more single parents into the workplace, this package of Tax Credit reforms result in a reduction in the gains to work for all single parents, resulting in an average cash value loss of £492 a year for those using childcare.

The impact of reductions in eligibility and payment rates is felt most in the places where less well-off people live.

The list of local authorities most affected financially comprises a combination of urban and rural areas with relatively low wages and high unemployment. London's commuter belt and a number of more prosperous rural areas are affected less by the cuts to Tax Credits. At the regional scale, the North of England loses more than the South, but overall the differences across Britain are less pronounced than for some of the other welfare reforms.

Income Support for lone parents (IS)

Since May 2012, Income Support has only been available to lone parents whose youngest child is under 5. Previously the youngest child had to be under 7 years of age. Once the youngest child hits 5 years of age, claimants are moved onto Jobseeker's Allowance instead. There are exceptions: parents whose child has a certain disability level, those receiving Carer's Allowance and those with a foster child.

The Department for Social Development claims that there may be economic benefits arising from the possible increase in employment entries resulting from lone parents and others having a closer alignment to the labour market. There are likely to be other benefits to work including increased wellbeing of individuals who find work. In addition, if a parent moves into work, potentially lifting the family out of poverty and providing a better lifestyle, this may result in an improvement in their child's welfare. The DSD comments that it is considered reasonable to expect lone parents to take up work once their children are in full-time education. However, this expectation must be balanced with lone parents' caring responsibilities.

Commentators have noted that single parents received formal notification that their entitlement to IS was ending only eight weeks before the implementation date. Previously 12 months' notice was given that eligibility was ending in order to give parents time to prepare for the change and crucially, take up further education courses whilst still in receipt of IS (Gingerbread, 2012). Similarly to the changes introduced with other benefits, commentators have also suggested that moving onto JSA, and therefore into the labour market, means that parents 'face an uphill struggle to find a family-friendly job in a hostile labour market characterised by low economic growth and high unemployment' (Gingerbread, 2012, pp. 1). 124,000 single parents have initially been affected by this change.

Gingerbread commissioned data which it claims demonstrates that many single parents are already struggling to secure employment that fits around their caring responsibilities. For those who succeed in finding work, a substantial minority (20 per cent) will move out of employment again within 12 months (Sissons, 2012). The majority of single parents are highly motivated to work, wanting to provide financially for themselves and their children (Gloster, 2010). ‘But single parents need work that is going to pay them enough to lift themselves and their children out of poverty, which is rarely as simple as taking the first job that comes along’ (Gingerbread, 2012, pp. 1).

A high churn rate of single parents who enter work also suggests that securing sustainable employment is as much a challenge as securing flexible, family-friendly employment (Sissons, 2012). The data suggests that single parents with younger children trying to get a foothold in the labour market are not only more likely to enter low-waged work but are also more likely to experience job insecurity, seesawing between poorly paid employment and out-of-work benefits.

Since September 2011, single parents claiming IS have no longer been eligible for fee remissions when accessing further education. Single parents on IS now have to self-fund - as well as pay for any necessary childcare if they want to improve their chances of employment by undertaking training. Fee remissions are available for individuals in receipt of JSA, but claimants will be required to continue actively seeking work whilst training, and if offered a job be prepared to drop out of a training course or face a payment sanction.

The impact of the recession has also impacted on the ability of parents with caring responsibilities to find appropriate employment. Research by the Work Foundation (Sissons, 2011) reveals that over the last ten years there has been a gradual hollowing out of the labour market characterised by a substantial increase in highly skilled, high-wage professional and managerial occupations, growth in lower wage service occupations and a reduction in middle wage occupations. This has created additional barriers to being able to earn more. Furthermore, this situation is made worse by the lack of ‘quality’ part-time work (£20,000 full time equivalent) (Stewart et al., 2012). Research shows that less than three per cent of part-time vacancies were for roles with salaries starting at £20,000 FTE. This is in sharp contrast with the full-time job market where the majority of vacancies pay over £20,000 (Stewart et al., 2012).

In October 2011 the government announced an extension of childcare support for those working under 16 hours, to be implemented as part of Universal Credit from October 2013 onwards (DWP, 2011a). This help towards childcare costs will be of particular benefit to single parents of five and six year olds entering the labour market after a period of time looking after their child. Under the current system, single parents who work less than 16 hours a week are not eligible for childcare Tax Credits. Instead, they can apply for a time-limited discretionary payment via the flexible support fund. If they satisfy eligibility criteria, single parents currently may receive a subsidy for childcare costs for a maximum period of 52 weeks with a cap on payments of £87.50 per week for one child and £150 for two or more.

Housing Benefit: Under Occupation

From April 2013, there will be a reduction to Housing Benefit for working age claimants in social housing who are living in a property that can accommodate more people than they have in their home ('under-occupiers'). Social housing tenants who claim Housing Benefit and have a spare room will have their payments reduced. Deductions will also apply if the claimant shares the household with non-dependents (e.g. older children, parents and friends).

In terms of overall financial impact nationally, the new rules affecting under-occupation of social housing impact most in the places where a high proportion of the housing stock is rented from councils or housing associations. These areas include much of older industrial Britain and a number of London boroughs. Large parts of southern and eastern England are relatively lightly affected by this reform. They have relatively little social housing and relatively few people out-of-work on benefits.

A DWP risk assessment of under-occupation lists several key possible impacts of the change (Department for Work and Pensions, 2012b). These include one-off costs for Housing Benefit-administering Local Authorities due to the introduction of the size criteria, alongside ongoing additional costs associated with its administration. They also include cost to social landlords (local authorities, registered social landlords and registered providers of social housing); additional cost of rent collection to make up Housing Benefit shortfall; action taken against tenants in arrears and the cost of enabling tenants to be more mobile. Landlords will need to consider the cost-effectiveness of collection, or decide not to pursue certain rent shortfalls and arrears. There is also possible cost to individuals of moving to new accommodation. Key non-monetised benefits of the changes reported by the DWP include:

- Possible lower administrative costs for Local Authorities in relation to a reduced caseload for claimants who 'float off' Housing Benefit. Annual savings are estimated to be in the order of £5m.
- Benefit to social landlords who will be able to make better use of their available housing stock, better matching the size of accommodation to the needs of tenants in the social rented sector.
- Other tenants and potential tenants in the social rented sector who will benefit from the freeing-up of larger accommodation for currently overcrowded households or potential tenants on the waiting list for social housing.

In a study carried out by the Housing Futures Network in 2011, 452 households from across three housing associations who were deemed to be under-occupying their social sector housing at the time of the proposed changes were surveyed about their perceptions of the impacts of the changes. 54 per cent of those surveyed were single people living alone, and 23 per cent were living with a partner. One in four households contained at least one child over 16. Nearly three quarters of those surveyed included someone with a disability or major health concern, with 40 per cent in receipt of Incapacity Benefit or Employment and Support Allowance. 81 per cent of households did not have anyone in employment, and 16 per cent were in receipt of Jobseeker's Allowance. Over two thirds of households had a weekly income of less than £150 a week and 42 per cent reported struggling financially (Housing Futures Network, 2012).

Seventy-three percent have one or more 'spare' bedrooms (not used for someone in the household to sleep in regularly). The Housing Futures Network notes that the reason that some households do not have spare bedrooms but are still under-occupying is likely to be because some people (children or couples) who are expected to share a room are not doing so. Over half of households with children have no bedrooms 'spare', but would still be hit by the cut to housing benefit. Some households may have needs for extra space/bedrooms which aren't recognised by the bedroom requirements which would be used to assess Housing Benefit.

In anticipation of cuts, reported impacts by respondents were as follows:

- Seventy-one percent of those surveyed stand to lose up to £15 per week in housing benefit: 29% stand to lose more than this.
- Based on their current circumstances, 52% would find it 'very difficult' and 31% 'fairly difficult' to make up the shortfall in housing benefit to pay towards their rent.
- Over a third of households (35%) think they would be very or quite likely to run into arrears if the amount they received in housing benefit was cut.
- Twenty-five percent said they would be quite/very likely to downsize to a smaller property to escape the housing benefit cut, but 50% would be very unlikely to consider doing so. Most of those who would consider downsizing are people who already expressed a desire to move.
- Twenty-nine percent would be quite/very likely to seek to earn some or more money via work to cover the rent. Households already in employment or claiming Job Seeker's Allowance were more likely to consider this an option.
- Other courses of action included asking others for financial support to pay the rent.

As well as impacts on individuals, there are also impacts on the Social Housing Sector. Prior to the implementation of these changes, South Eastern Housing Associations claimed that in order to house all under-occupying residents correctly by 1st April 2013, they would need to re-build the equivalent of 7.5% of their total rented stock as one bedroom properties (CASE, 2012). This type of property is generally seen as an inefficient housing solution, and therefore neither achievable nor desirable. It is also the case that many residents who want to move to smaller properties will not have been able to prior to April 2013. Under-occupation also exerts pressure on local authorities to address the stock mismatch across different areas. Housing Associations are concerned that local authorities that do not perform this function could see large numbers of people going into arrears at the point of introduction. 'The sheer quantum of change, combined with the pressure to manage internal budgets, will make this difficult for most local authorities' (CASE, 2012, pp.3).

The introduction of direct payments is another concern for Housing Associations. A pilot by L &Q (*Tenant Direct*), between 2002 and 2004, found that arrears increased substantially as direct payments were introduced. Arrears not only impact adversely on tenants, they also inevitably mean increased administrative and borrowing costs for housing providers. This can impact on the housing sector's building capacity, which is ill afforded as housing associations attempt to boost housing supply and economic growth.

In Poole, 730 households will have a reduction in Housing Benefit because they are under occupying a socially rented property (as of data from January 2013). About 1 in 4 of these (178) meet the definition of 'vulnerable groups': those with a disability or recognised caring responsibilities. The average weekly financial impact for affected claimant households will be £15.77 per week, or £820.04 per annum.

Household Benefit Cap[iv]

An overall benefits cap has been applicable since April 2013. This is a maximum amount of money a single household can receive in benefits. Payments of Universal Credit will be capped at around £350 for single adults without dependent children and £500 per week for other types of families (ESRO, 2013). The main rationale for the cap is that no household should claim more on benefits than what the average household earns in work (CASE, 2012).

According to the Department for Social Development, the objective of the policy is to restrict the total amount of money a non-working household can receive in welfare payments to the equivalent level of the average earned income of working households, after tax and national insurance contributions have been deducted. By doing this the policy will:

- make the system fair and affordable as workless households will no longer receive more in benefits than the average working family receives in pay;
- deliver fiscal savings;
- improve working incentives for those on benefits; and
- deliver fairness to the taxpayer in work.

Where a household's benefits entitlement exceeds the cap, a corresponding deduction will be made from their Housing Benefit (or the Housing component of Universal Credit). Job Centre Plus and local authorities are expected to provide housing support to discuss options for those left unable to afford their rent. New claimants will be subject to the cap from October 2013. Certain claimants will be exempt from the cap.

In terms of overall financial loss nationally, the household Benefit Cap impacts overwhelmingly in London. All the worst affected 20 local authorities are London boroughs. London is hit hard because the benefit cap mostly comes into play for households that have, until now, been claiming large sums in Housing Benefit because of London's exceptionally high rent levels. Westminster, with the highest rent levels of all, faces the biggest impact. Nationally however, the numbers of households affected are modest. It barely impacts at all across large parts of Britain away from London. In Poole, 78 households will be affected by the Benefit Cap. Approximately 2 in 5 of these meet the definition of 'vulnerable groups'. The average weekly financial impact for affected claimant households in Poole will be £76.73 per week, or £3,989.96 per annum.

In Poole, the current number of households facing a benefit cap (June 2013) is 80.

As with the introduction of a reduction in Housing Benefit payments for those who are under-occupying, the Benefit Cap is also expected to impact significantly on the social housing sector. Under social rents, because rent levels are typically well below 80% of market rents, very few properties outside of London place pressure on the £500 per week cap. Even larger homes (four bedrooms) can generally be accommodated without threatening the £500 barrier.

The picture however changes vastly under Affordable Rent. As housing providers are expected to charge 80 per cent of market rent, larger families will struggle to remain under the cap. In practical terms, four bedroom properties do not work in the south east under the Benefit Cap. In some areas, depending on family composition, three bedroom properties do not work either.

A group of Housing Associations in the South East has decided on various mechanisms to ensure that their residents can still afford Affordable Rent once the cap is in place, one of which is to discontinue any development of properties if the £500 cap is likely to be breached in that property. 100 per cent of four bedroom properties will become unaffordable once the cap is put in place, and will therefore not be considered in future development plans. The group were also reviewing in 2012 whether to continue building three bedroom properties, given that they already threaten the cap and will exceed it if the cap did not rise with inflation. Furthermore, should the cap not increase in line with inflation each year, rent on smaller properties will also become unworkable. In his 2012 Autumn Statement, the chancellor announced that most working-age benefits and Tax Credits would be uprated by just 1 per cent - a below-inflation cap - for three years from 2013-14. The government argued that, with public sector pay rises capped at 1%, a similar limit should apply to working-age benefits such as Jobseeker's Allowance, Employment and Support

Allowance and Income Support as well as elements of Working Tax Credits and Child Tax Credit.

Council Tax Benefit[v]

Council Tax Benefit has been localised from April 2013, meaning that it will be set and administered by local authorities. Government funding for this benefit is being cut by 10 per cent, as is funding for administration costs. The elderly will be protected from any reductions in their Council Tax Benefit. Councils will decide locally how to distribute any other Council Tax Support. In Scotland and Wales, the devolved administrations have chosen not pass on the cut to local authorities and therefore there will be no impact of the cuts here.

Some local authorities in England have chosen not to pass on the reduction, in whole or in part and are absorbing the loss by cuts elsewhere in their budget. In the parts of Britain where the reductions have been passed on, and where there are large numbers of working-age claimants, the impact is greatest. In Poole, as of September 2012, 12,000 households were claiming Council Tax Benefit. Half of these households are pensioner households who are protected from reductions. Under Poole's Local Council Tax Support Scheme, a further 1,500 vulnerable claimant households (including those with a disability and recognised caring responsibilities will also be protected. 4,500 claimant households are therefore expected to be affected by the changes, and the average (median) weekly financial impact for affected claimant households will be £1.38 per week, or £72.72 per annum.

Disability Living Allowance (DLA)

Disability Living Allowance is not an income-related benefit. Historically the DLA was a non-means-tested benefit paid to some disabled people in recognition of the additional costs of living with a disability, for example, to help cover the costs of specialist care or mobility. Claims were categorised as high, medium or low entitlement for payment of carers and mobility needs.

The current programme of welfare reform foresees the replacement of the DLA with a Personal Independence Payment (PIP) for working age people. It remains non means-tested and non-taxable. The Department for Social Development claims that the new benefit will help to ensure that expenditure on Disability Living Allowance is sustainable in the long term and focused on those most in need of additional support. A more objective assessment will improve consistency in decisions and through regular reviews ensure that awards remain correct.

Between 2013 and 2016, the following changes will be introduced:

- A new, 'more objective' assessment will be used, based on the help the individual needs as opposed to type of disability. Awards are to be made at the ‘Standard’ rate or at an ‘Enhanced’ rate. The amount for each rate is yet to be decided.

- Reassessment will take place periodically and will depend on the likelihood of change in the claimant’s circumstances.
- An exception applies for people who are terminally ill and who are not expected to live for more than six months.

The government states that the new assessment for the Personal Independence Payment:

- was developed in consultation with medical and other experts alongside specialist disability groups
- looks at an individual’s physical and mental capabilities and concentrates on the functional effects of an individual’s condition rather than the condition itself
- looks at an individual’s ability to work, taking into account the modern workplace and developments in healthcare
- is based on evidence which shows that work can benefit individuals with health conditions and disabilities and may even help recovery

Furthermore, to make sure that the Work Capability Assessment is as fair and accurate as possible, the government has set up a process of ongoing review and improvement (Department for Work and Pensions, 2013b).

In terms of overall financial impact nationally, the impact of the replacement of Disability Living Allowance by Personal Independence Payments impacts most on the places where the number of claimants is greatest. The DLA claimant rate varies greatly across Britain, generally in line with the Incapacity Benefit claimant rate because most DLA claimants of working age are out-of-work on incapacity benefits.

Official data suggests that the big numbers are in Britain’s older industrial areas, where sickness and disability benefits have provided long-term support for men and women with problems in finding and retaining employment in difficult labour markets. The South Wales Valleys, along with a number of older industrial areas in the North and Scotland and a number of seaside towns, lose most from the DLA reforms. The financial loss in much of southern England, including most of London, is often only a quarter or a third that in the worst hit areas.

In Poole, as of August 2012, there were 3,750 DLA claimants. Impacts of reforms on disabled people are discussed on page 7 of this review.

Universal Credit

Universal Credit is arguably one of the most significant elements of the current programme of welfare reform. It is intended to replace the current system of means-tested benefits and Tax Credits for working-age adults, including:

- Income Support
- Income-based Jobseeker’s Allowance
- Income-related Employment and Support Allowance (ESA)
- Working Tax Credit
- Child Tax Credit
- Housing Benefit

The Department for Social Development claims that the current system of benefits provides targeted support to meet specific needs, but the net effect is a complex array of benefits. These benefits interact in complicated ways, creating perverse incentives and penalties, confusion and administrative cost, and this has the effect of preventing claimants from seeing work as the best route out of poverty. It also increases the risk of error and the opportunities for fraud.

Whilst existing benefits are currently paid separately and administered by a range of bodies, including the Department for Work and Pensions (DWP), Her Majesty’s Revenue and Customs (HMRC) and local authorities, Universal Credit will be made as a single payment administered by a single DWP department. It will be ‘digital by default’, meaning that the system will be online rather than paper-based, and accessed via a single portal. Local authorities are continuing to work on arrangements to support those with limited or no access to the internet or experience in using it, and currently a Local Support Services Framework is being set up to assist those with the most complex needs in accessing and using welfare services. As plans currently stand, Universal Credit will be paid on a monthly basis. This aims to replicate payment of a salary.

The original implementation date for new claimants of Universal Credit was October 2013, with existing recipients being transferred across over the following four years. Full national implementation has been delayed, however, until 2016.

Pension credit is not being rolled into Universal Credit as are the benefits listed above, but it *is* subject to changes due to the introduction of Universal Credit. People who reach pensionable age but who have a partner of working age will no longer be entitled to Pension Credit. The claim will instead have to be made as a Universal Credit claim by the younger partner. In addition, Pension Credit in the future will include a ‘housing element’, rather than Housing Benefit being paid separately.

Universal Credit does not replace ‘contribution-based’ ESA or JSA, but it does replace *income-based* ESA and JSA. Contributory benefits are paid to individuals who have paid a certain amount of National Insurance over a given period of time. Contributory JSA can be claimed for 6 months only. Universal Credit replaces income-based JSA and ESA which are paid to those who have not paid National Insurance and whose income and savings are below specified amounts.

There is one taper rate for earnings under Universal Credit set at 65 per cent. For every extra pound earned, only 65p in benefits will be withdrawn. This is intended to simplify processes and incentivise work more strongly. Currently the incentive to earn more through work or work longer hours is weak for many welfare recipients.

Universal Credit also has a higher ‘earnings disregard’ than the current system. This is the amount of money that a claimant can earn *before* benefits are withdrawn. Claimants in the current system will also be offered transition protection so that in theory they will not lose money, even if their entitlements are lower under the new system, as long as their circumstances remain the same. Claimants will be required to sign a ‘claimant commitment’ which will serve as a contract between the claimant and the authorities. There will be tougher sanctions than exist currently for non-compliance, such as, for example, a reduction in benefits or withdrawal of benefits for up to three years. This conditionality however will not apply to all claimants.

Back in 2011, John Seddon, in a featured article for www.universalcredit.co.uk , expressed grave concerns about the viability of a large scale computer system. He notes how the Chairman of the Commons Public Accounts Committee has called the plan ‘a train crash waiting to happen’, with concerns centering on Information Technology. Seddon argues that whilst the drive is to reduce costs overall, as web-based transactions are assumed to be cheaper, paradoxically the new system will drive costs up. This is because this confuses transaction costs with the true costs of service as the total number of transactions it takes for citizens to get a service. The failure of the web-based service to resolve people’s problems will generate massive amounts of what he calls ‘failure demand’, demand caused by a failure to do something or do something right for the customer.

Seddon argues that locally designed and managed systems for delivering services can save between 20 and 40 per cent of operational costs and ‘illustrate how people’s lives are complex and their needs are better served by people, not computers; only people are able to absorb the variety of claimant needs’.

Many charities also have concerns over Universal Credit. Joseph Rowntree supports the principles behind Universal Credit, but comments that the introduction of Universal Credit is taking place at a time of low employment and an unstable labour market, and that there are major design issues, especially with IT systems. The foundation believes that there are risks around the move to online interactions, banking, monthly payments and payments to a single individual in the household which need testing in the pathfinder and revising where necessary as Universal Credit is rolled out.

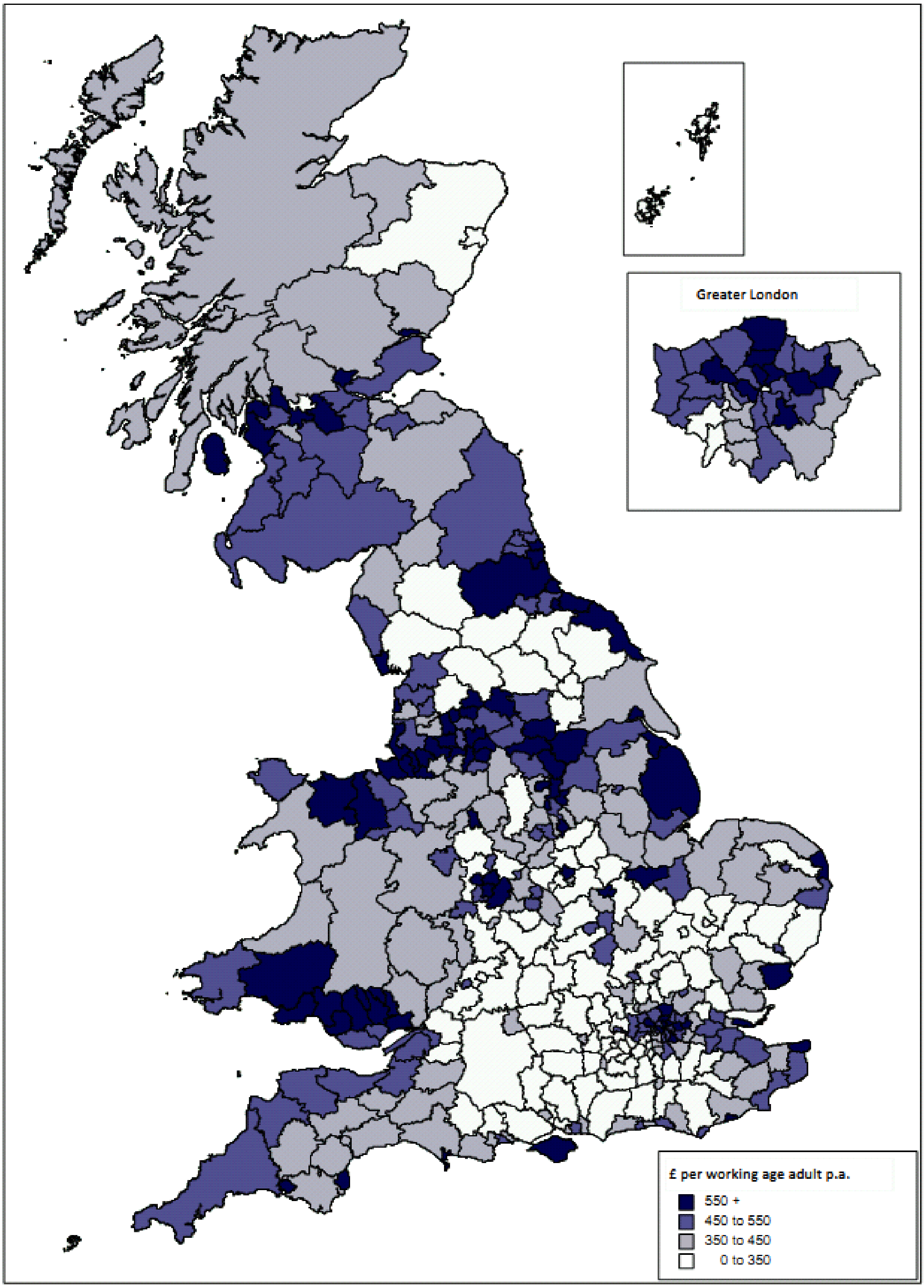
The Joseph Rowntree Foundation also comments that there will be winners and losers under the system of Universal Credit, with the most significant winners being part-time workers who work too few hours to be able to claim the current Tax Credits (including support for childcare), but who will be eligible under UC. They note however, that in order to reach minimum incomes standards (MIS, as defined by the

Joseph Rowntree Foundation, families usually have to work more than this, and for full-time workers the switch to UC makes relatively little or no difference. In fact, the recent cuts to entitlements which will carry over to UC will make a big difference to income adequacy.

The Child Poverty Action Group (CPAG) also have concerns about the impact on poverty of Universal Credit. The Chief Executive has been quoted saying that Universal Credit is blind to conditions outside of the benefits system, including a lack of suitable jobs, the high costs of housing and expensive childcare, amongst others. Financial gains, if any, are more than wiped out by broader government cuts.

In December 2013, the government was forced to write off £40.1m after IT software for the scheme failed. Universal Credit has suffered from delays as a result, and will not be entirely rolled out as planned by 2017. Initially, 2 million households were forecast to receive a lower entitlement to benefits as a result of the universal credit scheme. However, in a revised impact assessment in December 2012, the Department of Work and Pensions said that 2.8 million households will receive a lower entitlement to benefits. The much greater impact was regarded as being due to factors such as the deteriorating economic environment, but officials have conceded that universal credit is less generous than first envisaged (Wintour, 2013).

Appendix 1: Overall financial loss arising from welfare reform by 2014/15 by local authority



[(1)]Except DLA by 2017/18, incapacity benefits and 1% uprating by 2015/16
Source: Sheffield Hallam estimates based on official data

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Endnotes

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[i] See **Economic Bulletin 2013**. Corporate Research, Corporate Strategy and Communications Team, Borough of Poole. November 2013.

[ii] See **Evidence Paper: Welfare Reform. Incapacity Benefit and Employment Support Allowance.** Corporate Research, Corporate Strategy and Communications Team, Borough of Poole. December 2013

[iii] See **Housing Theme Paper**, Corporate Research, Corporate Strategy and Communications Team, Borough of Poole. June 2013

[iv] See **Evidence Paper: Welfare Reform. Local impact of under occupation of social housing and the benefit cap.** Produced by Corporate Research, Corporate Strategy and Communications Team, Borough of Poole. March 2013

[v] See **Evidence Paper: Welfare Reforms. Local Council Tax Support - Impacts and Mitigations** Produced by Corporate Research, Corporate Strategy and Communications Team, Borough of Poole. October 2012

Further Details

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