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BEATTY, Christina <<http://orcid.org/0000-0003-0943-9979>> and  
FOTHERGILL, Stephen <<http://orcid.org/0000-0002-4201-0640>>

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# WELFARE REFORM IN THE UK 2010-16: EXPECTATIONS, OUTCOMES AND LOCAL IMPACTS

*Christina Beatty and Steve Fothergill*

*Centre for Regional Economic and Social Research, Sheffield Hallam University,  
City Campus, Howard Street, Sheffield S1 1WB*

*Telephone: 0114 225 2928*

*Email: [C.Beatty@shu.ac.uk](mailto:C.Beatty@shu.ac.uk); [natsec@ccc-alliance.org.uk](mailto:natsec@ccc-alliance.org.uk)*

*Christina Beatty - Orchid ID: [orcid.org/0000-0003-0943-9979](https://orcid.org/0000-0003-0943-9979)*

*Steve Fothergill - Orchid ID: [orcid.org/0000-0002-4201-0640](https://orcid.org/0000-0002-4201-0640)*

## **Abstract**

Welfare reform has been central to UK government policy since 2010. This paper compares initial expectations with key outcomes by 2016. The paper shows that although the financial savings to the Treasury have been large they have been rather less than the government first anticipated, mainly because the reduction in spending on incapacity-related benefits has proved far smaller than expected. The financial losses have also been spread highly uneven across the country and the evidence from a pilot study in Scotland suggests that the reforms have had little impact on levels of worklessness. The paper concludes that whilst forecasting the financial savings from welfare reform is an inherently uncertain activity, the UK's reforms should be understood first and foremost as about reducing public spending in the poorest places.

## **Key words**

Welfare reform

UK

Outturns

Local impact

Worklessness

## Introduction

Welfare reform has become a defining feature of contemporary UK government policy. The 1997-2010 Labour government initiated a number of important changes but the pace of reform quickened dramatically following the election of its Conservative-led coalition successor, when reducing spending on welfare benefits became central to the government's economic strategy. The wholly Conservative government elected in May 2015 (and re-elected in June 2017 but without an overall majority) has maintained the momentum with a further round of welfare reforms.

This paper examines the welfare reforms implemented in the UK between 2010 and 2015, tracing their impact through to 2016. It looks specifically at whether the expectations placed on the reforms have been matched by the outcomes. The focus is on three impacts. First, the paper looks at the extent to which the financial savings anticipated by the Treasury have in practice been delivered. Second, the paper looks at the distribution of the financial losses between local areas across the country. Third, the paper examines the impact of the welfare reforms on key labour market variables.

The paper draws on quantitative data assembled in a number of studies by the authors. Many of the figures in the report are estimates but in every case they are deeply rooted in official statistics – for example in the Treasury's own estimates of the financial savings, the government's *Impact Assessments*, and benefit claimant data.

Welfare reform is a contentious issue. Throughout the period since 2010 the dominant motivation of government has been to reduce the UK's budget deficit but an ideological agenda that is based on the need to reduce welfare dependency and incentivise paid employment has also been central to the aims of the reforms. This has contributed to

political, policy and contemporary debates which have sought to stigmatise those in receipt of benefits, blame individuals for their predicament and ignore the structural factors at play. In documenting the impacts the paper does not attempt to comment on the merits of the overall strategy or of each of the reforms. Nor is it possible in a short paper to examine all the impacts of the reforms, including for example the financial losses to different income groups and household types. The paper does however make no apology for considering the impact on different places because this is a dimension that is too often overlooked and a key tool in monitoring labour market impacts.

## **The welfare reforms**

The ten major welfare reforms implemented in the UK between 2010 and 2015 and covered by this paper are:

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

Changes to the rules governing assistance with the cost of housing for low-income households in the private rented sector

### ***Housing Benefit – Under-occupation in the social rented sector***

New rules governing the size of properties for which payments are made to working age claimants (widely known and referred to in this paper as the 'bedroom tax')

### ***Non-dependant deductions***

Increases in the deductions from income-based benefits to reflect the contribution that non-dependant household members are expected to make towards the household's housing costs

### ***Benefit Cap***

A new ceiling on total payments per household, applying to the sum of a wide range of benefits for out-of-work claimants of working age

### ***Council Tax Support***

Reductions in the entitlement of working age claimants arising from a 10 per cent reduction in total payments to local authorities

### ***Personal Independence Payment***

Phased replacement of Disability Living Allowance by Personal Independence

Payments for working age claimants, including more stringent and frequent medical tests

### ***Employment and Support Allowance***

Replacement of Incapacity Benefit and related benefits by Employment and Support Allowance, with more stringent medical tests, greater conditionality and time-limiting of non-means tested entitlement for claimants in the Work-Related Activity Group

### ***Child Benefit***

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

### ***Tax Credits***

Reductions in payment rates and eligibility for Child Tax Credit and Working Tax Credit paid to lower and middle income households, including increase in working hours requirement for Working Tax Credit

### **1 per cent up-rating**

Limit in annual up-rating of value, for three years for most working-age benefits and for two years for Child Benefit and the LHA element of Housing Benefit

A fuller description of each of the reforms, including the timing of implementation, is included in the appendix. The majority of these reforms were initiated by the Conservative-led coalition government but the introduction of Employment and Support Allowance (ESA) was a Labour measure that pre-dated 2010 and only took full effect later, whereas the time-limiting of non-means tested ESA entitlement was a coalition innovation. The full impact of both the introduction and time-limiting of ESA is included here to provide a comprehensive view of the impact of the reforms implemented from 2010 onwards. By March 2016 nearly all these reforms had come into full effect. The important exception is the changeover from Disability Living Allowance (DLA) to Personal Independence Payment (PIP), which the government does not expect to be completed until at least 2018.

An astute observer will note the omission of *Universal Credit*, which is scheduled to replace just about all means-tested working age benefits and is administratively the most ambitious welfare reform of all. However, the introduction of Universal Credit differs from the other reforms listed here. Universal Credit is best understood as a repackaging of existing benefits that for the first time introduces a consistent withdrawal rate, with the rules governing eligibility carried over from the existing benefits it replaces (Department for Work and Pensions, 2010). In the original plan, Universal Credit modified the exact value of the entitlement of most individuals and households but was intended to reduce overall spending only by making it financially worthwhile to move into work. In practice, revisions to the 'Work Allowances' within Universal Credit, announced in July 2015 to take effect for new claimants from April 2016, mean that for many individuals and households Universal Credit will now be paid at a lower rate than the benefits it replaces. More importantly in the present context,

the introduction of Universal Credit has proved slow. By March 2016 there were only 230,000 Universal Credit claims, nearly all unemployed single people.

The list of welfare reforms also omits *benefit sanctions*. What needs to be remembered here is that the power to impose benefit sanctions is not new. What happened after 2010 is that sanctions were more widely applied, especially to those claiming Jobseeker's Allowance, though the numbers and the rate do now appear to have peaked (Webster, 2016). The National Audit Office (2016) estimated that during 2015 the application of sanctions reduced welfare spending by £97m. A further omission from the list is *Income Support for lone parents*. The qualifying age of the youngest child was reduced in 2011 from under 7 to under 5, but the effect is to transfer the lone parent onto Jobseeker's Allowance at the same payment rate.

The list also excludes the *changeover from RPI to CPI for benefits uprating*, which was introduced in 2011 but is part of a much wider accounting reform, including for example all public sector pensions. In contrast to the Treasury, we have therefore refrained from adding the impact of this particular changeover to the list of savings to the Exchequer (and losses to claimants) arising specifically from welfare reform. Additionally, the RPI to CPI changeover was superseded for most working age benefits by the 1 per cent uprating cap introduced in 2013.<sup>1</sup>

### **The existing evidence base**

Much of the previous research on the UK's welfare reforms has focussed on the impact on particular groups or the impact of individual measures. Distributional analyses have found

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<sup>1</sup> The Office for Budget Responsibility (2016) puts the reduction in welfare spending attributable to the changeover at £5.2bn a year, including the impact on state pensions.

that those in the lowest income decile have been affected most, even when positive changes in tax allowances and the minimum wage are taken into consideration (Finch and Whittaker, 2016; Hood and Johnson, 2016). Analyses by gender highlight the disproportionate impact on women (MacLeavy, 2011; Scottish Government, 2013). Families with dependent children are also hit hard (Browne and Elming, 2015). Unsurprisingly, research confirms that in most cases the reforms do increase the financial incentive to work (Hirsch and Beckhelling, 2011; Adams and Browne, 2013). The UK government's Social Security Advisory Committee (2014) reviewed the evidence on the cumulative impact of the reforms but not in a systematic, quantitative way

Turning to the impact of individual measures, there has been extensive research into the impact of the reforms to Housing Benefit. This includes the impact on landlords and tenants in the social rented sector (Williams et al, 2013; Power et al, 2014) and in the private rented sector (Beatty et al, 2014a), notably in London and amongst young single people (Beatty et al, 2014b). Specific attention has also been paid to the impacts of the 'bedroom tax' (Clarke et. al, 2015) and the Benefit Cap (Department for Work and Pensions, 2014).

The anticipated impact of the welfare reforms on local areas across the country was initially documented by Beatty and Fothergill (2013) and subsequently by Wilson et al (2013). Both studies pointed towards larger financial losses in poorer areas and in the parts of London hit hard by the Housing Benefit reforms. Figures for Wales (Welsh Government, 2014) confirmed the impact on poorer areas. Studies in Scotland (Beatty and Fothergill, 2014a) and in Sheffield (Beatty and Fothergill, 2015) drove down the estimated impacts to neighbourhood level.

In contrast, the potential divergence between expectations and outturns has so far received little attention. The UK government itself has steered clear of looking back at how its welfare reforms are matching up to expectations. It publishes forecast savings when policy changes



are first announced and from time to time it publishes revised forecasts, but setting one against the other is not normal practice.

The figures published by Beatty and Fothergill (2016), which are the starting point for the present paper, were the first to compare expectations and outcomes across the package as a whole. The Institute for Fiscal Studies (Emmerson et al, 2017) subsequently argued that by 2015-16 welfare spending in the UK was lower than it would have been otherwise but shared Beatty and Fothergill's assessment that the savings have been less than expected. The Office for Budget Responsibility (OBR) – the official watchdog on Treasury spending and forecasts – also subsequently published estimates of the reductions in welfare spending through to 2015-16 that differ in detail but not in the broader conclusions (Office for Budget Responsibility 2016).

### **The financial loss to claimants**

Table 1 shows the annual financial loss to claimants, by March 2016, arising from each element of the welfare reforms listed earlier. Details of the data sources and methods are included in the appendix and set out in greater detail in Beatty and Fothergill (2016).

The first column shows the financial losses to claimants originally anticipated. These are taken from Beatty and Fothergill (2013, 2014b) and are mostly the Treasury's own figures, published when the reforms were first announced. The Treasury's initial forecasts were generally for financial savings through to 2014-15. The initial forecasts have therefore been adjusted where further increases in the number of affected claimants were anticipated by 2016 (for example from the ESA reforms) and where it became clear that there would be a divergence between the savings to the Treasury and the loss to claimants (for example in Council Tax Support). The initial forecasts have also been adjusted to reflect exemptions or

modifications (for example to the withdrawal of Child Benefit from higher earners) announced prior to implementation.

The second column shows the annual losses to claimants estimated to have arisen by March 2016. In several cases these are the Treasury's most recent published estimates, taken from subsequent *Budgets* and *Autumn Statements*. These Treasury figures are all revised forecasts rather than outturn savings and necessarily, therefore, still subject to a margin of error. In a number of other cases the losses have been estimated using outturn data, for example on the number of ESA claimants, on the numbers affected by the Benefit Cap and the 'bedroom tax' and (in the context of up-rating) on the outturn rate of inflation.

#### *Overall losses*

There are important differences between what was originally anticipated and what by March 2016 had proved to be the outturn. At just under £14.5bn a year, the loss to welfare claimants is very large but down on the original forecast. Overall, the loss to claimants by March 2016 is estimated to have been £4.3bn a year less than forecast.

The subsequent estimates by the Office for Budget Responsibility (2016) confirm the magnitude of the outturn loss to claimants. It is difficult to draw precise comparisons with the figures in Table 1 because there are differences in methods and scope. However, the OBR estimates that the reduction in spending on working-age welfare and on child benefits sums to £18.1bn a year by 2015-16. Deducting the impact of the changeover to CPI for uprating (an estimated £4.2bn a year excluding the impact on the second state pension) and adding back in the £370m a year reduction attributable to Council Tax Support (which the OBR excludes as a local scheme) brings to OBR outturn figure to £14.3bn a year, quite close to the total in Table 1. The omission of the changeover to CPI for uprating also accounts for

most of the divergence from the £16.7bn estimate published by the Institute for Fiscal Studies (Emmerson et. al, 2017)

Two of the reforms have delivered bigger savings to the Treasury than the loss to claimants. In Scotland and Wales, the reduction in Council Tax Support has not been passed on to claimants and in some English local authorities as well the reduction has not been passed on in full or in part. This has reduced the loss to claimants by £120m a year<sup>2</sup>. In Scotland, the impact of the 'bedroom tax' has been fully averted as well using Discretionary Housing Payments – a saving to claimants of around £50m a year<sup>3</sup>. In both cases, the reduction in welfare spending by the Treasury has resulted in reductions in other budgets within the devolved administrations and/or local authorities.

What is also apparent from table 1 is that the biggest financial losses to claimants have not been those that have attracted the greatest publicity or controversy. Arguably, the 'bedroom tax' and the Benefit Cap are the two post-2010 welfare reforms that have generated greatest attention, partly because they were entirely new and partly because they have resulted in substantial losses for specific households. But in the overall jigsaw of welfare reform they account for relatively modest sums - £360m and £100m a year respectively. The big reductions have arisen from changes to Tax Credits (£4,210m a year), Child Benefit (£3,030m) and the 1 per cent uprating (£2,700m), all of which have affected very large numbers of individuals and households.

### *Employment and Support Allowance*

The reduction in spending on incapacity-related benefits – these days Employment and Support Allowance – accounts for by far the largest shortfall between expectations and

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<sup>2</sup> Difference between the Treasury's estimate of savings in 2014-15 and the financial loss to households in 2015-16 from data assembled from local authorities by the New Policy Institute.

<sup>3</sup> Based on DWP estimates of the number of households originally expected to be affected in Scotland and the average financial loss

outturn. The original estimated loss to incapacity claimants of £4,350m a year was the largest single reduction in welfare spending and comprised two elements – an estimated £2,600m a year reduction in spending due to the extension of means testing and a further £1,750m a year arising from the measures initiated by the pre-2010 Labour government. The Treasury never published forecasts of the financial losses arising from the pre-2010 Labour measures so these were estimated on the basis of the numbers expected to be affected. In practice, the outturn financial loss to claimants arising from the reforms to incapacity-related benefits is estimated to be £650m a year, far below what was originally expected. The Office for Budget Responsibility (2016) confirms this assessment. They estimated that the changeover to ESA reduced spending by £400m a year by 2015-16 and the introduction of means-testing by just £200m a year – a very similar combined total.

Four factors appear to explain why the savings to the Treasury arising from the reform of incapacity-related benefits have fallen so far short of expectations. First, the new medical test (the Work Capability Assessment) has reduced incapacity numbers by far less than was anticipated, in part because following sustained criticism the test itself has undergone successive revisions. By March 2016 the headline number of incapacity claimants was only down on the 2010 level by around 100,000 (at 2.5 million).

Second, following the medical test a much smaller proportion of ESA claimants have been placed in the 'Work-Related Activity Group' than was originally expected. Instead, a higher proportion have been placed in the 'Support Group', intended for those with higher levels of ill health or disability, which attracts a higher payment rate. Again, this may be attributable in part to revisions to the Work Capability Assessment.

Third, because the numbers in the Work-Related Activity Group are much smaller than the government first anticipated, the savings to the Treasury arising from the time-limiting of

non-means tested entitlement, which applies only to this group, have been much less than expected.

Fourth and finally, the government may simply have got its original figures wrong. Between the *Spending Review* in October 2010 and the *Budget* in March 2012, the Treasury revised down the anticipated savings arising from the extension of means-testing by around £1bn a year. This may be because the original calculations failed to take account of off-setting increases in spending on other means-tested benefits, such as Housing Benefit, that would follow as a consequence of reductions in ESA entitlement.

#### *Other divergences*

Four other divergences between expectations and outturns are worth highlighting. First, the financial loss to claimants arising from the introduction of the Benefit Cap proved less than expected – £100m a year by March 2016 compared to an initial Treasury forecast of £270m a year. This is mainly because fewer than expected households were affected by the cap – an average of just 28,000 between November 2013 and April 2014<sup>4</sup>. There may be evidence here of behavioural change: faced with a reduction in benefits, some households may have moved into work or reported a change in circumstances. If this has not led to other offsetting welfare claims, for example by displacing someone else onto benefits, the Treasury may in practice have made greater savings than the financial loss to claimants.

Second, the 1 per cent uprating of benefits did not lead to quite the savings the Treasury expected. This is because the annual rate of inflation fell by more than expected so that, in the absence of the 1 per cent limit, benefits would not have been uprated by a great deal

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<sup>4</sup> Source: DWP

more. Indeed, by the final year in which the 1 per cent uprating applied the inflation rate was actually below 1 per cent.

Third, the reduction in Tax Credits delivered greater savings than expected – £550m a year more by March 2016. The initial forecast and the outturn are both the Treasury's own figures. What the increase would suggest is that higher employment, the slow growth of earnings and the spread of low pay, all of which characterised the UK's recovery from recession, increased the number of households affected by reductions in Tax Credits.

Fourth, the introduction of Personal Independence Payments has so far failed to deliver the scale of savings to the Treasury that the government initially expected. Indeed, figures subsequently published by the Office for Budget Responsibility (2016) indicate that this element of the welfare reform package is actually much further off track than the figures presented here suggest. The OBR notes that, by 2015-16, 75 per cent of the working-age caseload remained on PIP's predecessor, Disability Living Allowance, and the savings to the Treasury among those moved to PIP were only around 5 per cent compared to an initially anticipated 20 per cent. As a result, the OBR estimated that in 2015-16 the reduction in spending associated with the introduction of PIP was as little as £100m a year and that only a fraction of the originally expected savings to the Treasury will be realised as the new benefit is gradually rolled out in the second half of the decade.

### **The financial loss to local areas**

Though from time to time the UK government has published local and regional data on individual elements of its welfare reform package, it has never produced estimates of the overall local impact. It is to be expected, however, that the financial losses will vary from place to place, not least because benefit claimants are so unevenly spread across the

country. Official statistics do however allow the local impact to be estimated. These include the *Impact Assessments* the government publishes for most elements of the reforms and the claimant numbers and expenditures, by local authority, published by the Department for Work and Pensions (DWP) and Her Majesty's Revenue and Customs (HMRC).

Figure 1 shows the estimated financial loss, by local authority across Britain, in March 2016. In order to compare the impact on different places this map shows the annual financial loss *per adult of working age*. This is the best measure of the intensity of the 'hit' in each area and is different to the loss facing each affected individual or household because it also reflects the number of claimants and non-claimants in each area. The focus on adults of working age (16-64) is appropriate because the welfare reforms impact almost exclusively on this group and, by contrast, benefit claimants of pensionable age are largely unaffected. The methods underpinning the local estimates are set out in the appendix and maps on impact of each of the individual reforms can be found in Beatty and Fothergill (2016).

The overall impact by March 2016 presents a seemingly complex picture but there are clear patterns. Three types of area have been hit hardest:

- *The older industrial areas of England, Scotland and Wales.* These include substantial parts of North West and North East England, Yorkshire, the South Wales Valleys and the Glasgow area in Scotland. Older industrial areas tend to have high numbers on out-of-work benefits and on low wages, which triggers Tax Credits and Housing Benefit as income top-ups.
- *A number of less prosperous seaside towns.* These too often have high numbers on out-of-work benefits and on low wages, and a large private-rented housing market which Housing Benefit reforms have hit hard.

- *Some London boroughs.* Some of these are also relatively deprived, but exceptionally high housing costs have inflated the losses arising from Housing Benefit reforms in the private-rented sector.

At the other end of the spectrum, a substantial part of southern England outside London has been much less acutely affected by the reforms. A number of rural areas in northern England, including most of North Yorkshire and parts of Cumbria, plus the Aberdeen area in Scotland, also escaped relatively lightly.

Table 2 lists the local authorities with the largest and smallest financial losses, per adult of working age, up to March 2016. At the top of the list comes Blackpool, the famous seaside resort in North West England, where the average loss per working age adult is estimated to be £720 a year. Blackpool tops the list for a number of reasons. It has a high proportion of adults of working age out-of-work on benefits, including one of the highest incapacity claimant rates in the country. It also has a high proportion of households living in the private-rented sector, who have been badly exposed to the reductions in the Local Housing Allowance element of Housing Benefit, and low wages in the local economy have inflated the numbers hit by reductions in Tax Credits. Westminster, at number two on the list, has been hard hit because extremely high rents mean that, more than anywhere else in Britain, the Housing Benefit reforms and the Benefit Cap have led to exceptionally large financial losses for some households.

Nevertheless, in all the worst affected local authorities the financial losses by March 2016 are less than first anticipated (Beatty and Fothergill, 2013, 2014b), often by £150-200 per adult of working age. This is principally because the reduction in ESA numbers and spending has been far less than expected. The reforms to incapacity-related benefits were always going to cause the largest financial losses in the places where incapacity claimants are concentrated. These are principally Britain's older industrial areas, where a diversion



from unemployment to disability benefits has for many years hidden the true scale of worklessness (Beatty and Fothergill, 2005). In the South Wales Valleys, in particular, the 'failure' of the incapacity-related benefits reforms eased the financial losses by around £200 per working age adult.

The worst affected districts have nevertheless still experienced losses that are typically two-and-a-half to three times higher, per adult of working age, than the least affected districts. The 'failure' of the incapacity reforms has mattered less in the latter because the claimant rate there has always been relatively low. Of the ten districts least affected by the welfare reforms up to March 2016, seven are in the prosperous south and east of England outside London and the remaining three are in the parts of Scotland that benefit strongly from the oil industry.

### **Impact on the labour market**

Welfare reform can be expected to influence labour market behaviour by changing financial incentives. For an unemployed person, a reduction in the value of out-of-work benefits increases the incentive to work. For a person in work who receives benefits or tax credits, a reduction increases the incentive to take on extra hours or to find higher paid work in order to maintain their income. The UK government has been quite explicit that its welfare reforms are intended to encourage claimants to move off benefits and into work (HM Treasury, 2010).

But not all welfare reforms work in this way. A reduction in Working Tax Credits, for example, can actually make taking a job financially less attractive. The scale of the financial incentive also varies a great deal. The loss of entitlement to non-means tested incapacity benefit (ESA) can be worth £5,000 a year whereas the three-year freeze in the value of Child

Benefit had a far smaller impact, around £100 a year. More significantly, the idea that welfare reform will trigger additional employment is rooted in a particular view of how an economy works. It assumes that extra labour supply will lead to additional labour demand – that firms will expand to take on the extra workers. At times and in places where an economy is operating at or close to full employment this argument has some validity. At times of recession, or in places where there is a substantial surplus of labour – a fair description of many of Britain's weaker local economies – the notion that extra labour supply will be smoothly absorbed by additional labour demand is more problematic.

Whether in practice welfare reform leads to lower numbers on benefit and higher numbers in work is therefore essentially an empirical question. The complication is that welfare reform is only one of several things happening simultaneously. In the UK, economic growth accelerated from mid-2012 onwards after a period of stagnation in the wake of the 2008/9 recession, at much the same time as several of the welfare reforms took effect. Compared with 2012, employment is now higher and unemployment lower. However, it would be wrong to assume that these improvements can be attributed in whole or in part to welfare reform. Benefit changes may (or may not) have played a role but other factors such as a revival of consumer spending and borrowing, particularly around the housing market, have also contributed to the upturn.

The big variations from place to place in the scale of the financial losses, in Figure 1 earlier, do however offer a way forward. Because the UK's welfare reforms impact so much more in some places than others, if there is a positive impact on the labour market it should be much greater in these places. In each individual town or district, local factors will of course help shape local benefit numbers – the closure of a major employer for example, or improvements in transport links to a neighbouring centre of employment. However, by pooling data from a number of places it should be possible to begin to detect the impact of welfare reform. If welfare reform is an important factor, we should expect to observe bigger

reductions in benefit numbers, and bigger increases in employment, in the places where the financial losses arising from welfare reform are greatest.

In a pilot study in Scotland, commissioned by the Scottish Parliament, we explored these relationships (Beatty et al, 2015). In Scotland, as in the rest of Britain, there are big differences between local authorities in the financial loss per adult of working age. At the extremes, by March 2016 the estimated annual loss in Glasgow (£410 per adult of working age) is double the loss in Aberdeen (£210) or Shetland (£200). If the welfare reforms are having an important impact on labour market outcomes it should be possible to observe a greater impact in Glasgow and other hard-hit places than in Aberdeen, Shetland and other places escaping relatively lightly. The analysis presented below up-dates the Scottish pilot study, taking on board the new figures on the outturn financial losses by local authority through to March 2016 and bringing the labour market data forward in time as well.

It is appropriate to begin by looking at the relationship between welfare reform and the out-of-work benefit claimant rate. Changes in the out-of-work benefit claimant rate will reflect revisions to the rules governing entitlement, which since 2010 have applied to incapacity-related claims in particular, though with a rather smaller impact on the headline total than was originally anticipated, as we noted earlier. The out-of-work benefit claimant rate should also reflect moves into work prompted by the new financial incentives created by the welfare reforms. It will also, of course, reflect wider trends in the national and local economy.

Figure 2 shows the relationship between the average financial loss per adult of working age arising from welfare reform (on the horizontal axis) and the percentage point change in the out-of-work benefit claimant (on the vertical axis) by local authority in Scotland between February 2011 and May 2016. This period begins just before the first of the UK government's reforms came into effect and finishes with the latest available benefit data.

'Out-of-work benefits' is a standard DWP category comprising all those on Jobseeker's Allowance, IB/ESA and Income Support as a lone parent.

It is immediately obvious from this first chart that there is a relationship between the impact of welfare reform and the fall in the out-of-work claimant rate: the bigger the financial loss arising from welfare reform, the bigger the fall in the claimant rate. Very broadly, in the Scottish local authorities where welfare reform has hit hardest the fall in the claimant rate has been 3-4 percentage points, compared to around 1-2 percentage points where welfare reform has impacted less.

Figure 3 disaggregates the change in the out-of-work claimant rate into its two largest components – the change in the Jobseeker's Allowance (JSA) claimant rate<sup>5</sup> and the change in the Incapacity Benefit/Employment and Support Allowance (ESA) claimant rate. This highlights an important difference: the relationship between the change in the benefit claimant rate and the impact of welfare reform applies to JSA but not to ESA. Indeed ESA claimant rates have hardly fallen at all in Scotland (or indeed elsewhere in the UK). The reductions in the ESA claimant rate have been no larger in the local authorities where welfare reforms have hit hardest.

That all the fall has been in JSA rather than ESA numbers is in some respects surprising. The welfare reforms have not in themselves reduced entitlement to JSA, though the tougher stance by Jobcentre Plus on sanctions may have had this effect and many JSA claimants will have experienced a reduction in Housing Benefit and/or tax credits. The Work Capability Assessment, in contrast, was intended to make access to ESA more difficult for new claimants and to disqualify some former claimants, and the wider application of means-testing to make ESA less generous. The financial losses attributable to ESA are also substantial – an estimated £85m a year in Scotland by March 2016.

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<sup>5</sup> Including Universal Credit claimants looking for work

The potential impacts on economic activity rates and employment rates are harder to monitor because unlike the benefits data, which is an administrative count, the local authority data beyond 2011 comes from a sample survey and is subject to an important margin of error. The data on the number of jobs in each authority, from the Business Register and Employment Survey (BRES) is more reliable though still affected by errors and discontinuities. Figure 4 shows the absence of a relationship between the change in the number of employee jobs in each Scottish local authority (from BRES) and the financial losses arising from welfare reform.

Labour market trends in Scotland, at least, therefore provide only limited evidence that welfare reform is an important causal factor. The important exception concerns the trend in JSA claimant numbers, which in turn underpins the trend in overall out-of-work claimant numbers. The reduction in JSA numbers is higher in the places where the financial loss from welfare reform is larger. This could be interpreted as evidence that, for JSA claimants at least, welfare reform is working.

The problem with this interpretation is that when unemployment falls during an economic upturn it generally does so more in some places than others, irrespective of welfare reform. In particular, it is always likely that in an upturn the reduction will be greater in the places with initially high unemployment than in more prosperous, low unemployment areas. This is partly because a reduction of, say, four percentage points is possible where the unemployment rate starts at eight per cent but not where the rate starts at just three or four per cent. The point here is that economic upturns are normally associated with convergence in unemployment rates and the high unemployment areas are the ones most affected by welfare reform. The more rapid fall in JSA numbers that can be observed in the areas hit hardest by welfare reform may in practice have little to do with welfare reform.

Two upturns are never exactly the same so finding the perfect match for the recent post-recession period is impossible. Figure 5 therefore compares the reduction in the JSA claimant rate between February 2011 and May 2016 (taken from figure 3 earlier) with two other periods when there was a similar percentage point fall in claimant count unemployment in Scotland:

- *February 1998 to November 2004.* This is a rather longer period but one in which claimant unemployment fell from broadly similar levels and by similar amounts, though unemployment was already well down on peak levels in the early 1990s<sup>6</sup>.
- *August 1993 to August 1996.* This is a more comparable period in the economic cycle, covering the immediate recovery from recession, but one in which claimant unemployment was falling from a far higher starting point. Unemployment Benefit had also not yet been replaced by Jobseeker's Allowance, with its significantly more restrictive entitlement for claimants of more than six months.

To maintain comparability, the horizontal axis on all three diagrams – the financial loss arising from the welfare reforms by March 2016 – is held constant. Left to right, each Scottish local authority is therefore at the same place on the scale in each diagram. The point here is not to suggest that these welfare reforms had any impact on earlier events but simply to examine whether the pattern of change by local authority that can be observed in the 2011-16 period is similar to that in previous upturns.

As will be immediately apparent, there is very strong similarity between the geography of the reduction in unemployment in all three periods. The places in Scotland that have experienced the biggest percentage point reduction in JSA unemployment during the recent

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<sup>6</sup> Three outliers have been excluded from the figures shown for 1998-2004. These are Eilean Siar, Highland and Inverclyde.

upturn, which were also the places hit hardest by welfare reform, are the same places that experienced the biggest reduction in claimant unemployment during previous upturns. This is a key observation. What it suggests is that the reductions in JSA unemployment cannot be attributed to welfare reform. Rather, the big reductions in areas of high unemployment are a normal feature of economic upturns.

## **Conclusions**

In the context of the UK's welfare reform, what emerges is a divergence between expectations and outcomes. The shortfall in financial savings to the Treasury, to March 2016, is arguably the least concerning of these. Even though welfare rules and regulations are under the direct control of government, the actual level of spending is always going to depend in part on factors such as economic growth and inflation which cannot be accurately predicted. There is also unavoidable uncertainty about how welfare reforms will work out in practice, especially where there is the possibility of behavioural change. Forecasting the financial savings from welfare reform is an inherently uncertain activity and we should not be surprised that government sometimes get things wrong. Even so, the margin by which the reforms to incapacity-related benefits failed to deliver the expected savings is remarkable.

The uneven impact of welfare reform across the country is more concerning. The suspicion here is that because the same benefit rules apply everywhere the UK government never gave much thought to how the reforms would play out in different places. If this was indeed the thinking it proved to be a serious blind-spot because in practice the financial loss in some places has been far greater than in others. Indeed, the evidence indicates that by and large it is the poorest places that have been hit hardest. There is a certain inevitability in this because if welfare benefits are reduced the losses will nearly always tend to be concentrated in the places where claimant rates are highest.

That the poorest places are nearly always hit hardest by welfare reform is an uncomfortable reality that needs to be logged by government. Welfare reform, an essentially 'national' policy, has distinctly uneven regional and local impacts and tends to work directly against other policy objectives such as the convergence in prosperity and well-being across the country. Indeed, because in the poorest places the financial losses from welfare reform are so large they are often likely to exceed the spending on policies to strengthen local and regional economies. If more out-of-work claimants in disadvantaged areas are to be encouraged to look for work, for example, there is a good case for boosting regeneration efforts to generate more jobs in these places.

The impact on the labour market points to the biggest gap between expectations and outcomes. We need to be clear that the evidence here comes from an exploratory study covering Scotland and that the impact of welfare reform on the labour market is something that deserves much more research. However, if the tentative conclusions from Scotland can be generalised to the rest of Britain there is little evidence that the welfare reforms have delivered lower numbers on benefit and higher numbers in employment. If this is indeed the case and positive labour market outcomes have not in practice been delivered, it indicates that the UK's welfare reforms need to be understood first and foremost as being about reducing public spending.

## **APPENDIX: Details of reforms, data sources and methods**

### **HOUSING BENEFIT: LOCAL HOUSING ALLOWANCE**

- Rents set at 30<sup>th</sup> percentile of local rents, rather than 50<sup>th</sup> percentile, from 2011-12
- Caps on maximum rents by property size, with 4-bed limit, from 2011-12
- Abolition of £15 excess for tenants below maximum rent, from 2011-12



- Age limit for shared accommodation rate raised from 25 to 35, from January 2012
- Switch to CPI indexation, from 2013-14

### **Financial losses**

Initial forecast: *Budget 2010, Spending Review 2010 and DWP Housing Benefit: changes to the Local Housing Allowance arrangements*

Estimated outturn: *Budget 2011, Budget 2012, Spending Review 2010 and DWP Housing Benefit: changes to the Local Housing Allowance arrangements*

### **Allocation to local authorities**

Based on DWP data on number of households affected, average loss, and numbers claiming Housing Benefit in the private rented sector

## **HOUSING BENEFIT: 'BEDROOM TAX'**

- Limit payments to working-age households in social rented sector to reflect new rules on property size, from 2013-14

### **Financial losses**

Initial forecast: *Budget 2010*

Estimated outturn: Based on number of households affected and average loss in June 2013

### **Allocation to local authorities**

Based on DWP data on number of households affected and average loss in each authority in June 2013

## **NON-DEPENDANT DEDUCTIONS**

- Up-rating deductions between April 2011 and April 2014 in line with rents and increases in Council Tax since 2001, and subsequent link to prices

### **Financial losses**

Initial forecast: *Budget 2010*

Estimated outturn: *Budget 2011*

### **Allocation to local authorities**

Based on DWP data on number of Housing Benefit and Council Tax Benefit claimants in each local authority

### **BENEFIT CAP**

- Total payments to out-of-work working-age households capped, from 2013-14

### **Financial losses**

Initial forecast: *Spending Review 2010*

Estimated outturn: Based on number of households affected and average loss

### **Allocation to local authorities**

Based on DWP data on average number of affected households between November 2013 and April 2014 and average loss per household in each authority in April 2014

### **COUNCIL TAX SUPPORT**

- 10 per cent reduction in Treasury grant compared to previous scheme, from 2013-14.
- Reduction in entitlement only permitted for working-age households

### **Financial losses**

Initial forecast: Based on number of households affected and average weekly loss in 2013

Estimated outturn: Based on number of households affected and average weekly loss in 2016

### **Allocation to local authorities**

Number affected and average weekly loss from statistics for 2013-14 and 2015-16 published by the New Policy Institute, based on information from each local authority.

## **PERSONAL INDEPENDENCE PAYMENTS**

- DLA for working-age claimants replaced by PIP, from 2013-14
- More stringent medical test and regular re-testing
- Reduction in number of payment categories

### **Financial losses**

Initial forecast: *Budget 2010*, adjusted for inflation and revised implementation timetable

Estimated outturn: *Budget 2013*

### **Allocation to local authorities**

Based on DWP data on number of working age DLA claimants in each local authority

## **EMPLOYMENT AND SUPPORT ALLOWANCE**

- Introduction for new claimants, from October 2008
- Applied to existing incapacity claimants, from autumn 2010 onwards
- Time-limiting of non-means tested entitlement in Work-Related Activity Group, from 2012-13
- New conditionality

### **Financial losses**

Initial forecast: *Spending Review 2010* revised to take account of inflation and additional numbers expected to be affected by time-limiting by 2015-16, plus additional £1,750m a year from remaining measures

Estimated outturn: Based on outturn data on numbers affected

### **Allocation to local authorities**

Number affected by time-limiting based on the difference between the proportion of claimants in the Work-Related Activity Group receiving contributory benefits in the four quarters to February 2012 and in the four quarters to May 2015; allocated in proportion to DWP data on the Work-Related Activity Group in each local authority. Reduction in ESA caseload based on difference between the average IB/SDA caseload in the four quarters to August 2008 and the average combined ESA and residual IB/SDA caseload in the four quarters to May 2015; allocated in proportion to DWP data on the IB/ESA caseload in each authority in August 2008. Loss per claimant based on DWP estimate of average loss arising from time-limiting.

### **CHILD BENEFIT**

- Freeze benefit rates for three years, from 2011-12
- Withdrawal from households including higher earner, from January 2013

### **Financial losses**

Initial forecast: *Budget 2010, Spending Review 2010, Budget 2011, Budget 2012*

Estimated outturn: *Budget 2012*

### **Allocation to local authorities**

Based on HMRC data on number in receipt in each local authority, with adjustment by an index of median earnings in each local authority relative to the UK average

### **TAX CREDITS**

- Adjustments to thresholds, withdrawal rates, supplements, income disregards and backdating provisions, from 2011-12 onwards
- Changes in indexation and up-rating, from 2011-12 onwards
- Reductions in childcare element of Working Tax Credit, from 2011-12
- Increase in working hours requirement for Working Tax Credit, from 2012-13

### **Financial losses**

Initial forecast: *Budget 2010, Spending Review 2010, Autumn Statement 2011*

Estimated outturn: *Budget 2011, Budget 2012, Budget 2014*

### **Allocation to local authorities**

Based on HMRC data on number in receipt in each local authority

### **1 PER CENT UP-RATING**

- 1 per cent up-rating (instead of CPI) for three years from 2013-14 for main working-age benefits, and two years from 2014-15 for Child Benefit and Local Housing Allowance

### **Financial losses**

Initial forecast: *Autumn Statement 2012*

Estimated outturn: Revised to reflect difference between forecast inflation in *Autumn Statement 2012* and outturn inflation

### **Allocation to local authorities**

Based on DWP and HMRC expenditure data by local authority

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Table 1: Estimated annual financial loss arising from welfare reform by March 2016

	Initial forecast	Estimated outturn
	£m p.a.	£m p.a.
Tax Credits	3,660	4,210
Child Benefit	2,845	3,030
1 per cent uprating	3,430	2,700
Housing Benefit: LHA	1,645	1,670
Personal Independence Payments	1,450	1,190
Employment and Support Allowance	4,350	650
Council Tax Support	340	370
Housing Benefit: 'bedroom tax'	490	360
Non-dependant deductions	340	210
Benefit Cap	270	100
<b>Total</b>	<b>18,820</b>	<b>14,490</b>

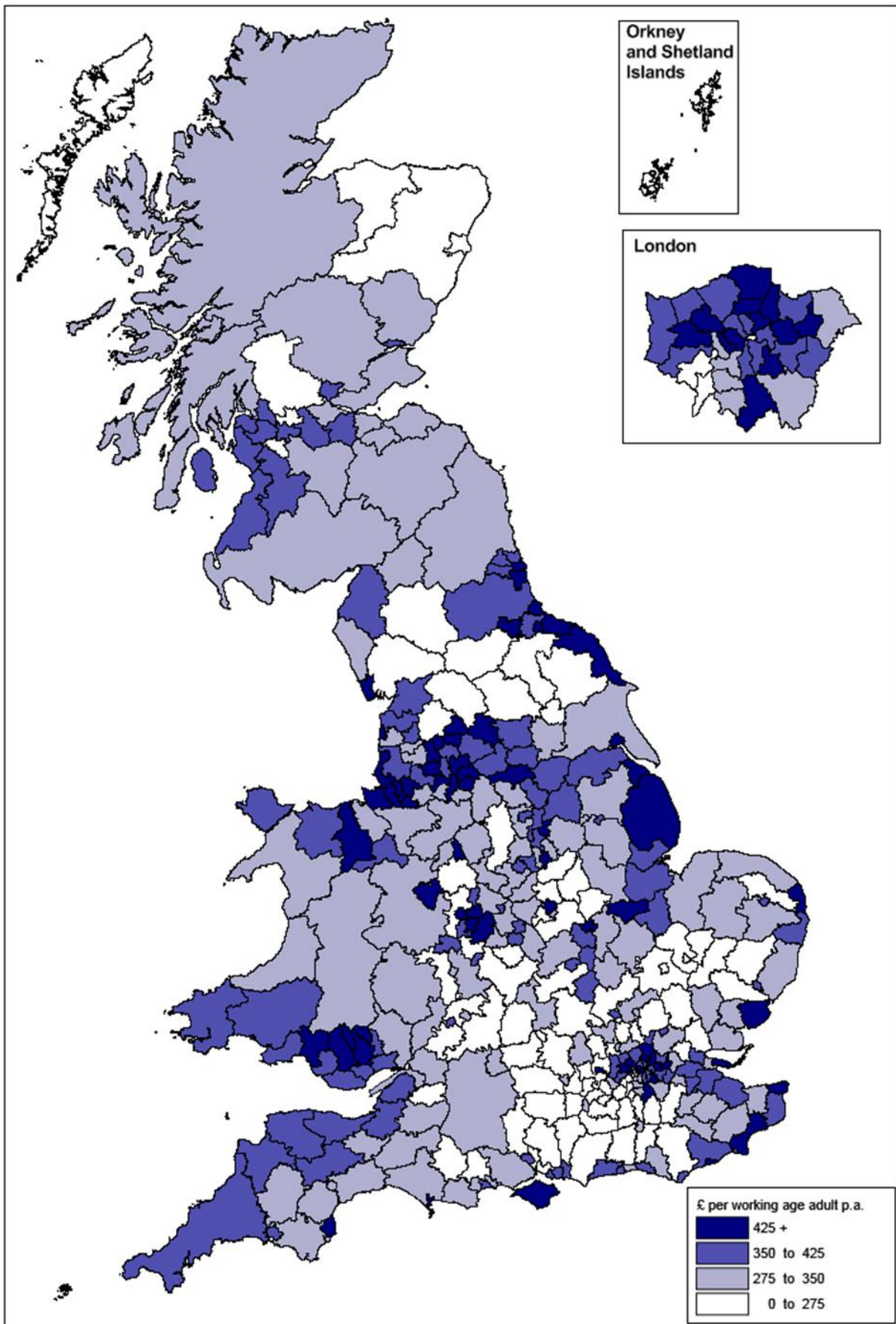
Source: HM Treasury and authors' estimates based on official data

Table 2: Estimated financial loss arising from welfare reform by March 2016

	Loss per working age adult £ p.a.		Loss per working age adult £ p.a.
<b>TOP 10 DISTRICTS</b>		<b>BOTTOM 10 DISTRICTS</b>	
Blackpool	720	South Oxfordshire	220
Westminster	680	Winchester	220
Knowsley	560	South Northamptonshire	220
Brent	550	Wokingham	210
Middlesbrough	550	Aberdeenshire	210
Hastings	540	Guildford	210
Barking and Dagenham	540	Hart	210
Torbay	530	Aberdeen	210
Enfield	530	Shetland	200
Hartlepool	520	Cambridge	190

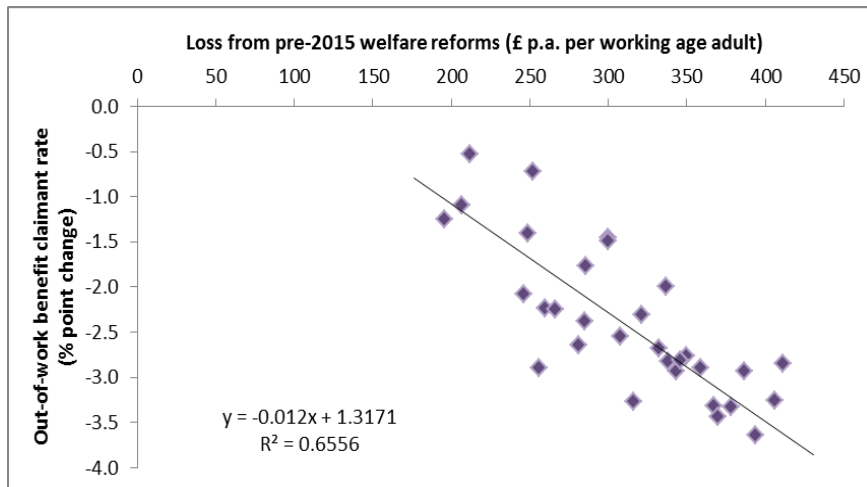
Source: Authors' estimates based on official data

Figure 1: Estimated loss arising from welfare reform by March 2016, by district



Source: Authors' estimates based on official data

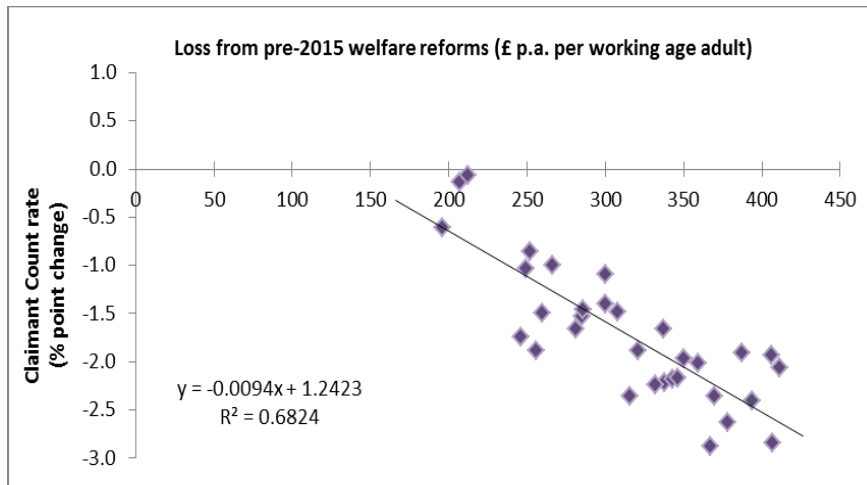
Figure 2: Relationship between financial loss arising from welfare reform and out-of-work benefit claimant rate, Scottish local authorities, Feb 2011- May 2016



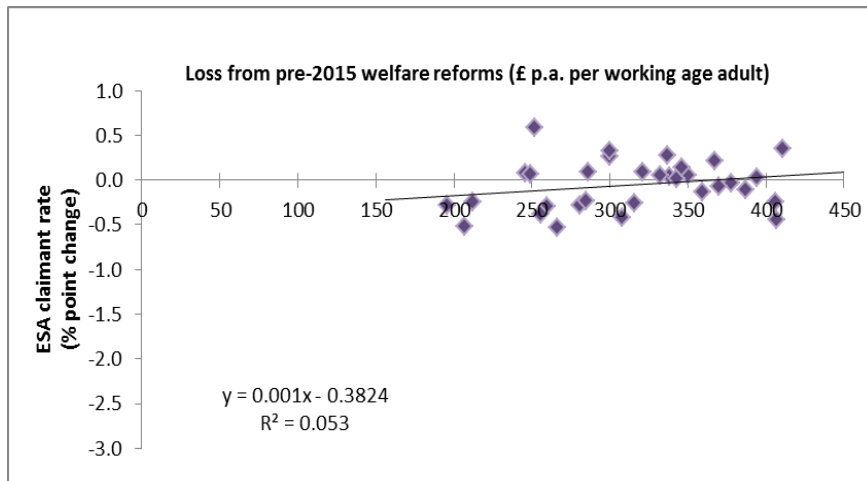
Sources: DWP and authors' estimates based on official data

Figure 3: Relationship between financial loss arising from welfare reform and JSA and ESA claimant rates, Scottish local authorities, Feb 2011 – May 2016

*Jobseeker's Allowance (JSA)*



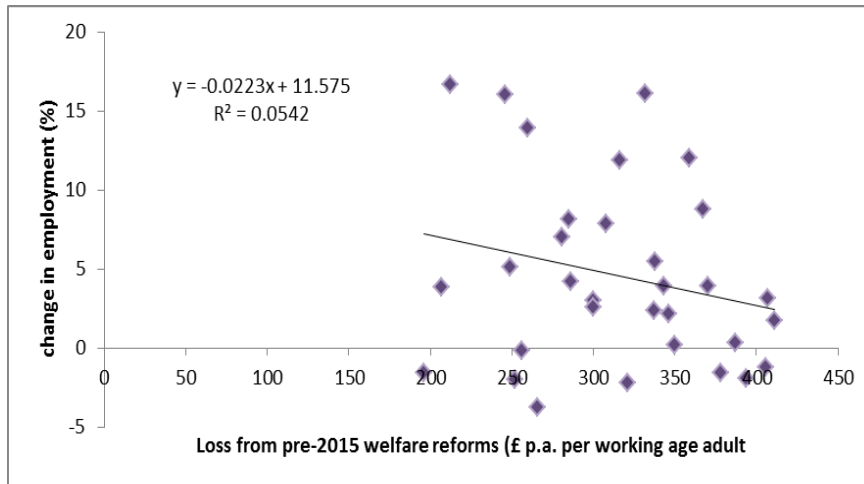
*Employment and Support Allowance (ESA)\**



\*includes pre-ESA incapacity-related benefits

Sources: DWP and authors' estimates based on official data

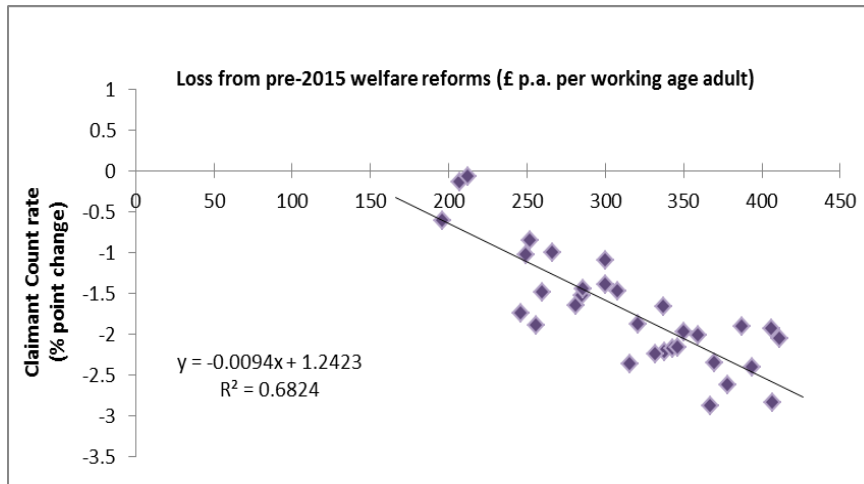
Figure 4: Relationship between financial loss arising from welfare reform and growth in employment, Scottish local authorities, late 2010 – late 2015



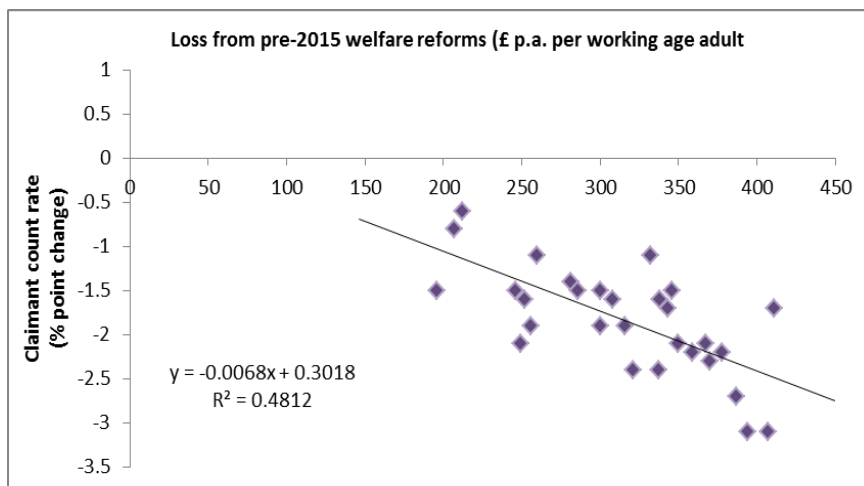
Sources: BRES and authors' estimates based on official data

Figure 5: Reductions in claimant unemployment in Scottish local authorities: comparison between upturns

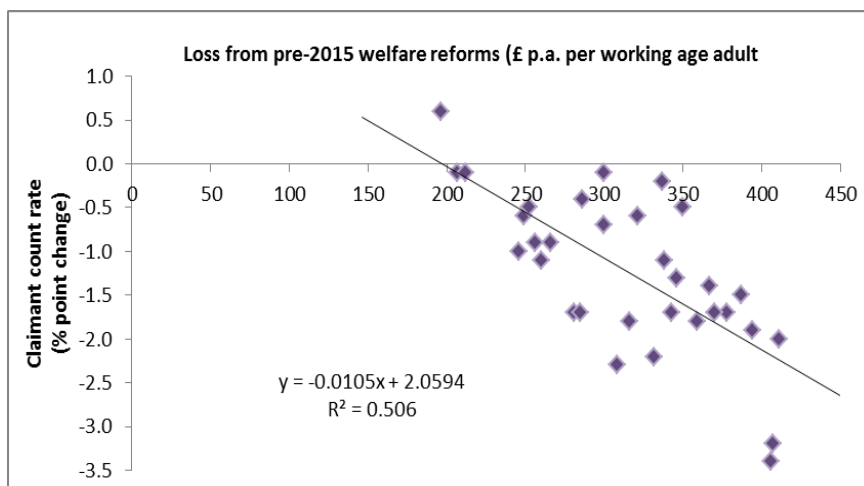
*Feb 2011 – May 2016*



*Feb 1998 – Nov 2004*



*Aug 1993 – Aug 1996*



Sources: DWP and authors' estimates based on official data