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### **Published version**

BEATTY, Christina and FOTHERGILL, S (2014). The local and regional impact of the UK's welfare reforms. *Cambridge Journal of Regions, Economy and Society*, 7 (1), 63-79.

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# THE LOCAL AND REGIONAL IMPACT OF THE UK'S WELFARE REFORMS

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## **Abstract**

*The Coalition government that came to power in the UK in 2010 is implementing unprecedented welfare reforms. These have the effect of substantially reducing payments to a wide range of low-income and out-of-work households. This article examines the local and regional impact of the reforms, showing how national reforms have a sharply different impact on different places. Taken as a whole, the welfare reforms impact most on derived areas and are widening the gap in prosperity between the best and worst local economies across the UK.*

## **Key words**

*Welfare reform      Regions      Districts      UK      Austerity*

**JEL codes:** H53, I38

## Introduction

The 2008 financial crisis ushered in a new era of ‘austerity’ in many Western economies. After a brief period when governments’ budget deficits were allowed to grow to ease the effects of recession, the financial orthodoxy has been that deficits should be reduced. In the UK, the focus of this article, the emphasis has been on reducing public spending as the main way of cutting the deficit. The Coalition government that came to power in 2010 has sought to reduce spending on welfare benefits, in particular, by a combination of tighter restrictions in eligibility and reductions in the value of payments (HM Treasury 2010).

The intention of the UK’s welfare reforms has been not only to save money. The aim has also been to ‘make work pay’ by raising the financial incentives for out-of-work claimants to take a job, in the expectation that levels of unemployment will as a result be reduced (Department for Work and Pensions 2010a).

The UK’s welfare reforms are a *national* strategy implemented by a Westminster government but applying in nearly every detail to the whole of the UK, including Scotland, Wales and Northern Ireland, where there are now devolved administrations with discretion over a wide range of other matters. Unlike in the United States, where individual states have a say in the form and level of welfare provision, in the UK municipal authorities, even in the largest cities, cannot ‘opt out’ or introduce their own version of the reforms.

It is inevitable that national welfare reforms of this kind have a different impact on different places, if for no other reason than the fact that the claimant rate of so many welfare benefits varies a great deal across the country. This article therefore traces the financial impact of the UK’s welfare reforms on different cities, regions and districts. This is an explicitly empirical exercise but one that demonstrates how national austerity policies can have local consequences that, if not entirely unsurprising, were certainly not thought through nor articulated in advance.

Welfare reform is a deeply contentious issue in the UK and in documenting the impacts the present article does not attempt to comment on the merits of the reforms. However, it is important that the impact on different places is fully exposed because this is a key dimension that is too often overlooked. The impact on different places is also one of the yardsticks by which the reforms should be judged.

## Existing evidence

Although ‘welfare reform’ is not a wholly new concept in the UK – all social security systems are modified from time to time – prior to 2010 the reform agenda was dominated by the introduction of the Labour government’s New Deals. These offered greater support to return

to work alongside, in many cases, stronger obligations to take part in the available programmes (see for example Department for Work and Pensions 2006). The impact of the New Deals on different places across the country is an issue that has attracted attention (Sunley et al 2005, Theodore 2007). More generally, Labour's social policy record as a whole has been subject to comprehensive scrutiny (Lupton et al 2013).

The welfare reforms introduced since 2010 have a distinctly different focus, targeting instead the scope of entitlement and the financial value of benefits. The reforms also extend well beyond just out-of-work benefits. With lower public spending as the ultimate goal, the reforms are best understood in the context of wider debates about the policy response to the 2008 financial crisis (Boyer 2012, King et al 2012, Sawyer 2012) and the geographical impact of austerity (Kitson et al 2011).

The welfare reforms themselves are however generally too recent to have attracted much scrutiny in academic journals or books. Indeed, given the lead-times in implementation some of the impacts have been slow to be felt. Unsurprisingly, therefore, much of the evidence on the post-2010 reforms is so far piecemeal and in the form of reports rather than journal articles.

Most of the literature to date focuses on specific elements of the reform package, notably the impact of Housing Benefit reform (National Audit Office 2012) and in particular its impact on housing associations and their tenants (Consortium of Associations in the South East 2012, Chuvunga 2012, Hickman and Reeve 2013, Ipsos MORI 2013, Riverside Group 2013, Williams et al 2013). The published evidence on the impact of the Housing Benefit reforms on the private-rented sector is presently more limited (Beatty et al 2012, 2013). Other studies have focussed on the impact of the welfare reforms on specific places, for example Hampshire (Beatty et al 2011), Manchester (Jackson and Nixon 2012), North East England (Edwards et al 2013) and Haringey and Birmingham (Slay and Penny 2013).

By comparison, quantitative evidence on collective impact of the reforms across different parts of the UK as a whole has been distinctly lacking. The report on which the present article is based (Beatty and Fothergill 2013) can justifiably claim to be the first in this regard. Since its publication, in April 2013, a second report (Wilson et al 2013) has presented similar calculations, though only for England rather than GB as a whole.

## **The UK's welfare reforms**

The figures presented here cover ten major welfare reforms that were underway or initiated in the UK between 2010 and 2013. These are listed in Table 1. They comprise a wide range of reductions in assistance with housing costs, a new cap on household entitlement, more restrictive eligibility for incapacity and disability benefits, reductions in benefits to families with children, reductions in tax credits for lower and middle income households and below-inflation uprating of most working-age benefits.

**Table 1: Details of UK welfare reforms**

<b>HOUSING BENEFIT: (1) LOCAL HOUSING ALLOWANCE</b>
<ul style="list-style-type: none"> <li>• Maximum rents set at 30<sup>th</sup> percentile of local rents, rather than 50<sup>th</sup> percentile, from 2011-12</li> <li>• Caps on maximum rents for each property size, with 4-bed limit, from 2011-12</li> <li>• Abolition of £15 excess formerly retained by tenants paying below maximum LHA rent, from 2011-12</li> <li>• Increase age limit for shared room rate from 25 to 35, from January 2012</li> <li>• Switch from 30<sup>th</sup> percentile rents to CPI indexation for LHA, from 2013-14</li> </ul>
<b>HOUSING BENEFIT: (2) UNDER-OCCUPATION</b>
<ul style="list-style-type: none"> <li>• Limit Housing Benefit payments to working-age households in social rented accommodation to a level reflecting the number of bedrooms justified by the size and age composition of the household, from 2013-14</li> </ul>
<b>NON-DEPENDANT DEDUCTIONS</b>
<ul style="list-style-type: none"> <li>• Up-rating the deductions in stages between April 2011 and April 2014 to reflect growth in rents and increases in Council Tax since 2001, when the deductions were frozen, and subsequent link to prices</li> </ul>
<b>HOUSEHOLD BENEFIT CAP</b>
<ul style="list-style-type: none"> <li>• Total household benefit payments for working-age claimants capped so that workless households receive no more in benefit than the average weekly wage, after tax and national insurance, from 2013-14, administered through Housing Benefit payments</li> </ul>
<b>COUNCIL TAX BENEFIT</b>
<ul style="list-style-type: none"> <li>• 10 per cent reduction in expenditure by HM Treasury and transfer of responsibility for the scheme to local authorities, from 2013-14.</li> <li>• Reduction in entitlement only permitted for working-age households; entitlement of pensioner households fully protected.</li> <li>• Some local authorities in England have chosen not to pass on the reduction to claimants, in whole or in part, absorbing the cut within their budget. In Scotland and Wales the devolved administrations have made arrangements that avoid the reduction falling on claimants</li> </ul>
<b>DISABILITY LIVING ALLOWANCE</b>
<ul style="list-style-type: none"> <li>• Phased replacement of Disability Living Allowance (DLA) for working-age claimants by Personal Independence Payments (PIP), from 2013-14</li> <li>• Introduction of more stringent medical test and regular re-testing</li> <li>• Reduction in number of payment categories</li> </ul>
<b>INCAPACITY BENEFITS</b>
<ul style="list-style-type: none"> <li>• Introduction of Employment and Support Allowance (ESA) for new claimants and a new, tougher medical test (the Work Capability Assessment), from October 2008</li> <li>• Applying the Work Capability Assessment to existing incapacity claimants from autumn 2010 onwards, and migration to ESA if not deemed 'fit for work'</li> <li>• Time-limiting to 12 months non-means tested entitlement for ESA Work Related Activity Group, from 2012-13</li> <li>• New conditionality for ESA Work Related Activity Group</li> </ul>
<b>CHILD BENEFIT</b>
<ul style="list-style-type: none"> <li>• Freeze benefit rates for three years from 2011-12, instead of up-rate with inflation</li> <li>• Withdrawal of benefit from households including a higher earner (threshold at £50,000 and taper to £60,000), from January 2013</li> </ul>
<b>TAX CREDITS</b>
<ul style="list-style-type: none"> <li>• Adjustments to thresholds, withdrawal rates, supplements, income disregards and backdating provisions affecting Child Tax Credit and Working Tax Credit, from 2011-12 onwards</li> <li>• Changes in indexation and up-rating, from 2011-12 onwards</li> <li>• Reductions in childcare element of Working Tax Credit, from 2011-12</li> <li>• Increase in working hours requirement for Working Tax Credit, from 2012-13</li> </ul>
<b>1 PER CENT UP-RATING</b>
<ul style="list-style-type: none"> <li>• 1 per cent up-rating (instead of by CPI) for three years from 2013-14 for main working-age benefits, and for two years from 2014-15 for Child Benefit and for Local Housing Allowance within Housing Benefit</li> </ul>

The vast majority of these welfare reforms were initiated by the post-2010 Coalition government, notably but not exclusively through the *Welfare Reform Act 2012*. Some of the incapacity benefit reforms, however, are Labour measures that pre-dated the 2010 general election but were only taking full effect in later years. They have been included here, alongside the Coalition's reforms, to provide a comprehensive view of the impact of the reforms concurrently underway.

The figures presented here show the impact *when the reforms have come into full effect*. This is important because some of the reforms are being implemented in stages over a number of years. In most cases the figures show the expected impact in the 2014-15 financial year. The exceptions are the incapacity benefit reforms (specifically the wider application of means-testing) which take full effect in 2015-16, the 1 per cent up-rating which also applies in 2015-16, and the changeover from Disability Living Allowance (DLA) to Personal Independence Payment (PIP) which is not expected to be completed until 2017-18.

A close observer of the list of reforms will note a number of apparent omissions. The most significant of these is *Universal Credit*, which is scheduled to replace just about all means-tested working age benefits and is arguably the single biggest reform of all. There are three reasons for omitting Universal Credit. First, Universal Credit is best understood as a repackaging of existing benefits. It introduces for the first time a consistent benefit withdrawal rate, intended to ensure that claimants are always financially better off in work, but the rules governing eligibility are essentially carried over from the existing benefits it replaces. Second, unlike the other welfare reforms covered here, Universal Credit is not expected to result in a net reduction in benefit entitlement. At the level of the individual or household there will winners and losers but on balance Universal Credit is expected to result in slightly higher expenditure, particularly as transitional relief will be available to existing claimants transferring across. Third, most of the impact of Universal Credit will be felt well beyond 2015. Its introduction began in 2013 only in a small number of pilot areas and only for new claimants. The full impact is unlikely before 2018, and this assumes that the ambitious timetable for implementation can be met.

Two further omissions are worth noting: The first of these is a further restriction on *Income Support for lone parents*. The Coalition government has reduced the qualifying age of the youngest child from under 7 to under 5, a final stage in the lowering of the age limit from what had, less than a decade earlier, been 16. The effect is to transfer the lone parent from Income Support to Jobseeker's Allowance (JSA) at the same payment rate. There is therefore no loss of income, but on JSA the lone parent is required to look for work.

The other omission is the changeover from the *Retail Price Index (RPI)* to the *Consumer Price Index (CPI)* as the norm for benefits up-rating. This was introduced from 2011-12 and results in substantial savings to the UK Exchequer, especially in the long-term. However, this reform is really part of a much wider UK accounting reform, including for example all public service pensions. For three years from April 2013, CPI itself has also been superseded by the 1 per cent up-rating of most working-age benefits.

When fully implemented, the welfare reforms covered here are expected to save the UK Treasury almost £19bn a year.

## Measuring the impacts

The UK government has in most cases not produced estimates of the local impact of the reforms. It does however publish a range of statistics that allow the local impact to be estimated. This information includes:

- HM Treasury estimates of the overall financial saving arising from each element of the reforms, published in the annual *Budget* or *Autumn Statement*. The estimates here are fully consistent with these Treasury figures.
- The *Impact Assessments* and (where available) *Equality Impact Assessments* that the DWP publishes for key elements of the reforms (Department for Work and Pensions 2010b, 2011a, 2011b, 2011c, 2012a, 2012b, 2012c, 2012d)
- Benefit claimant numbers and expenditure, by local authority, published by DWP and Her Majesty's Revenue and Customs (HMRC)
- Additional official statistics – for example on median earnings by local authority to help calibrate the impact of the withdrawal of Child Benefit from higher earners
- DWP evidence from pilot schemes, in the context of the incapacity benefit reforms

The starting point in all the calculations is the UK government's own figure on the anticipated financial saving, modified where necessary for inflation (where figures are for different financial years), for revision in the implementation timetable (in the case of DLA reform) and to include pre-2010 elements of the incapacity benefit reforms.

The key tools in distributing these savings across local areas are the official statistics on benefit claimants and expenditure by district. If there is no reason why a claimant should lose more in one place than another the anticipated financial saving to the Treasury can be allocated in proportion to claimant numbers. In other cases – Housing Benefit is a case in point because of differences in rent levels – the government's *Impact Assessments* anticipate that the loss per claimant will be greater in some places than others and this is built-in to the calculations.

Whilst this general model applies to estimating the impact of each of the reforms, in practice the availability of data and the multi-faceted nature of some of the reforms mean that the fine details of the calculations vary. The numbers adversely affected by reforms to Council Tax Benefit, for instance, are taken from monitoring by the New Policy Institute (Bushe et al 2013) and are based on the actual decisions by local authorities on the extent to which loss of government grant is passed on claimants. The distribution of the loss arising from changes to incapacity benefits draws on earlier estimates of the local impact of this particularly complex area of reform (Beatty and Fothergill 2011).

The estimates are all based on the data available in March 2013, when the calculations were finalised. In practice, there is a regular flow of new information on claimant numbers and

there are occasional adjustments to *Impact Assessments*. The most significant concerns the number of households affected by the household benefit cap, a figure now reduced from 56,000 to 40,000 to reflect revised regulations introduced after March 2013 (Department for Work and Pensions 2013). However, the household benefit cap accounts for less than 2 per cent of the overall financial saving arising from welfare reform and there is no new data to suggest that its geographical impact requires revision.

The full details of the data sources and methods underpinning the calculations are published elsewhere (Beatty and Fothergill 2013). Following official practice in the *Impact Assessments*, the estimates here make no allowance for the small share of the financial impact falling on Northern Ireland, which means they slightly overstate the impact on other parts of the UK. In contrast to the original estimates (Beatty and Fothergill 2013), the figures here on the numbers adversely affected by the replacement of Disability Living Allowance also include those expected to experience a decrease in their award as well as those expected to lose entitlement entirely.

In comparing the impact of the welfare reforms on different places, the financial loss *per adult of working age* is the key yardstick. A focus on adults of 'working age' – the official definition in the UK is everyone between the ages of 16 and 64 – is appropriate because the UK's welfare reforms have intentionally been targeted almost exclusively at this group. By contrast, benefit claimants of pensionable age are essentially unaffected by the reforms. The main exceptions are a small minority (around 5%) of Housing Benefit recipients in the private rented sector who are of pensionable age, and a small number of pensioners who have dependent children for whom they receive Child Benefit.

Some of the welfare reforms focus on *households* – the reforms to Housing Benefit for example. Others – the reforms to incapacity benefits for example – are about the entitlement of *individuals*. Additionally, several of the reforms impact simultaneously on the same households and/or individuals. It is possible to estimate how many people are affected by each element of the reforms, and how much they lose. The financial losses can be added together, but to avoid counting the same people twice the number of households/individuals affected cannot be summed to an overall total.

Finally, in estimating the impact of the welfare reforms *all other factors are held constant*. What this means in practice is that the figures presented here make no assumptions about the growth of the economy or about future levels of employment and unemployment. Nor do they make assumptions about the extent to which reduced support for housing costs feeds through to lower rent levels.

UK ministers take the view that the welfare reforms will increase the financial incentives to take up employment and because more people will look for work more people will find work. This assumes, of course, that extra labour supply leads to extra labour demand from employers. 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. Some individuals will undoubtedly find work to compensate for the loss of benefit income but whether the *overall level* of employment will be any higher as a result is questionable. More often than not, they will simply fill vacancies that would have gone to other jobseekers. So the figures presented



here do not assume that loss of income from benefits will wholly or in part be replaced by additional income from employment.

## **The impact of the reforms**

### *Overall national impact*

Table 2 shows the estimated impact of the welfare reforms across the UK as a whole. As noted earlier, when the reforms have come into full effect it is estimated that they will reduce government spending by almost £19bn a year. This represents around £470 a year for every adult of working age in the country.

The individual reforms vary greatly in the scale of their impact, in the number of individuals or households affected, and in the intensity of the financial loss imposed on those affected. A great deal of UK media coverage has focussed on the 'bedroom tax' and the overall household benefit cap. In fact, the biggest financial impact comes from the reform of incapacity benefits – an estimated reduction in benefit spending of more than £4.3bn a year. Changes to Tax Credits and the 1 per cent up-rating of most working-age benefits also account for substantial sums - £3.6bn and £3.4bn respectively.

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. A sub-set of households that include a higher earner lose more substantial sums in Child Benefit.

The household benefit cap, by contrast, impacts on far fewer households but the average financial loss for each of these households is relatively large.

Sickness and disability claimants can expect to be hit hard. The individuals adversely affected by the incapacity benefit reforms can expect to lose an average of £3,500 a year, and those losing out as a result of the changeover from Disability Living Allowance to Personal Independence Payments by an average of almost £2,500 a year. Often these will be the same individuals: most DLA claimants of working age are out-of-work on incapacity benefits and in both cases the group most exposed to benefit reductions are those with less severe disabilities or health problems.

The same individuals may also find they encounter reductions in Housing Benefit entitlement. The overall reductions in Housing Benefit are estimated to be more than £1.6bn for those in the private rented sector (affected by Local Housing Allowance reforms), £490m for those in the social rented sector (affected by the 'bedroom tax') and £340m by higher deductions for non-dependants (which mostly impact on Housing Benefit). The losses for the households affected – often £1,000 a year – are large.

**Table 2: Overall impact of welfare reforms by 2014/15**

	No of h'holds/individuals adversely affected	Estimated net loss £m p.a.	Average loss per adversely affected h'hold/individual £ p.a.	No. of h'holds/individuals adversely affected per 10,000	Loss per working age adult £ p.a.
Incapacity benefits <sup>(1)(3)</sup>	1,250,000	4,350	3,480	310	110
Tax Credits	4,500,000	3,660	810	1,750	90
1 per cent uprating <sup>(3)</sup>	n.a.	3,430	n.a.	n.a.	85
Child Benefit	7,600,000	2,845	370	2,960	70
Housing Benefit: LHA	1,350,000	1,645	1,220	520	40
Disability Living Allowance <sup>(1)(2)</sup>	960,000	1,500	2,450	250	40
Housing Benefit: 'bedroom tax'	660,000	490	740	260	10
Non-dependant deductions	300,000	340	1,130	120	10
Council Tax Benefit	2,450,000	340	140	950	10
Household benefit cap	56,000	270	4,820	20	5
<b>Total</b>	<b>n.a.</b>	<b>18,870</b>	<b>n.a.</b>	<b>n.a.</b>	<b>470</b>

<sup>(1)</sup> Individuals affected; all other data refers to households

<sup>(2)</sup> By 2017/18

<sup>(3)</sup> By 2015/16

Source: Sheffield Hallam estimates based on official data

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 – and estimated £140 a year – is more modest than the other benefit cuts, though still likely to be hard to find in many cases.

### *Impact by local authority*

Figure 1 shows the overall impact of the welfare reforms by local authority district. The measure used here is the financial loss per adult of working age so the data measures the *intensity* of the financial impact in each area.

The overall impact of the welfare reforms presents a complex picture, not least because different reforms impact on places in different ways. Nevertheless, the map shows clear patterns that will be readily recognisable to anyone with a reasonable understanding of the geography of the UK. Three types of area are hit hardest:

The first group comprises *the older industrial areas of England, Scotland and Wales*. These include substantial parts of North West and North East England, the South Wales Valleys and the Glasgow area in Scotland. Older industrial areas account for the largest proportion of the worst-hit places.

The second group of hard-hit places comprises *a number of seaside towns*. These include Blackpool, Torbay, Hastings, Great Yarmouth and Thanet (which includes Margate). Not all seaside resorts are badly hit but this group – which includes several of the least prosperous – matches the impact on older industrial areas.

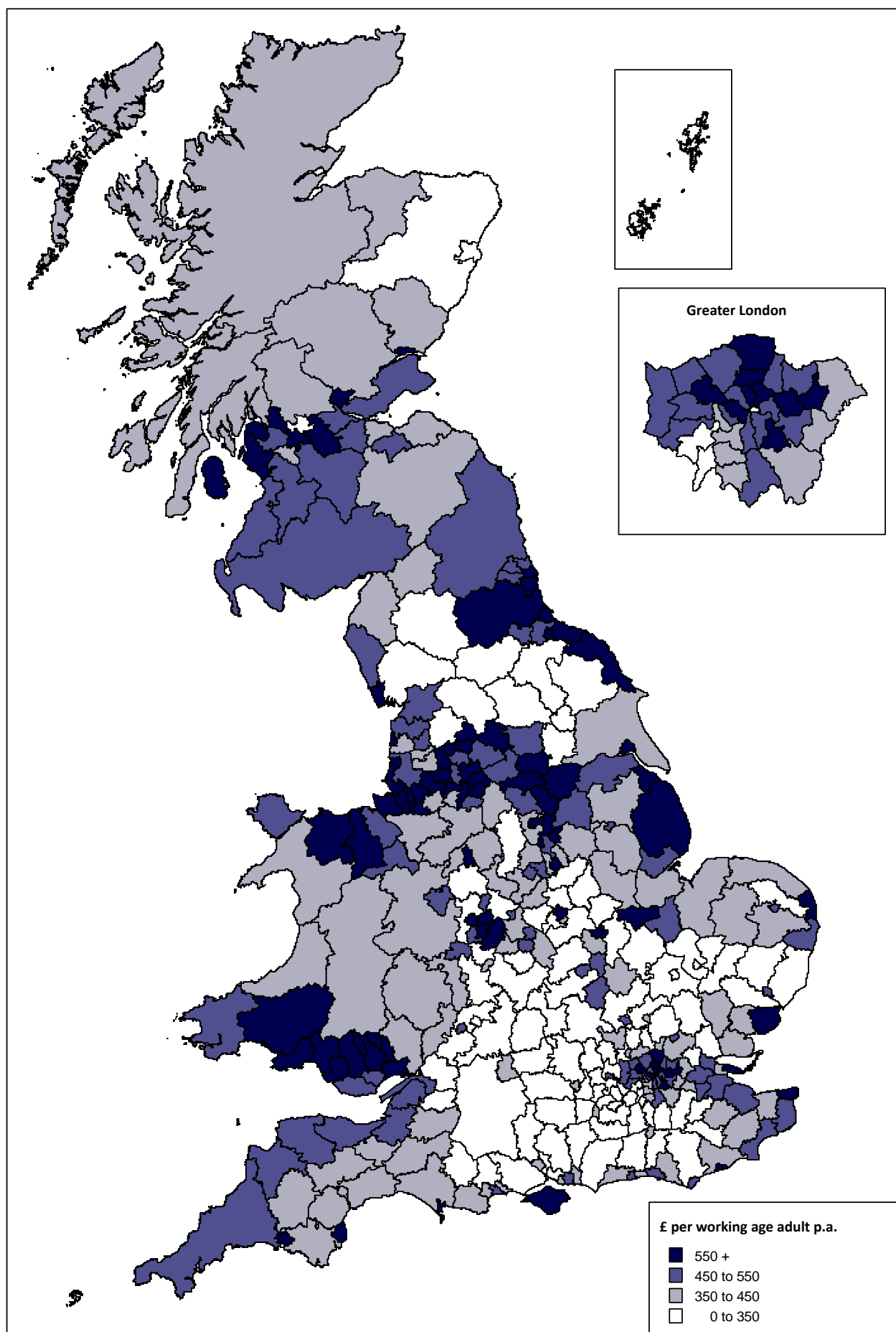
The third group is made up of *a number of London boroughs*. These include not just those that have traditionally been identified as ‘deprived’ (for example Hackney) but also boroughs such as Westminster and Brent.

At the other end of the spectrum, a substantial part of southern England outside London is much less acutely affected by the welfare 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 escape relatively lightly.

### *Worst affected places*

To underline the disparities, Table 3 lists the 50 local authority districts worst affected by the reforms, measured on a per capita basis, and contrasts this with the 20 least affected. In this and the following table the London boroughs are denoted with the pre-fix ‘LB’.

Figure 1: Overall financial loss arising from welfare reform by 2014/15<sup>(1)</sup>, by local authority



<sup>(1)</sup>Except DLA by 2017/18, incapacity benefits and 1% uprating by 2015/16

Source: Sheffield Hallam estimates based on official data

**Table 3: Overall impact of welfare reforms by 2014/15<sup>(1)</sup>, by local authority**

		Loss per working age adult £ p.a.			Loss per working age adult £ p.a.
TOP 50 DISTRICTS			(cont)		
1.	Blackpool	910	40.	Great Yarmouth	610
2.	LB Westminster	820	41.	Sandwell	610
3.	Knowsley	800	42.	Pendle	610
4.	Merthyr Tydfil	720	43.	Birmingham	610
5.	Middlesbrough	720	44.	East Lindsey	610
6.	Hartlepool	710	45.	Manchester	610
7.	Torbay	700	46.	West Dunbartonshire	600
8.	Liverpool	700	47.	Mansfield	600
9.	Blaenau Gwent	700	48.	LB Lewisham	600
10.	Neath Port Talbot	700	49.	Bridgend	600
11.	Hastings	690	50.	Bolsover	600
12.	Burnley	690			
13.	Rochdale	680		<b>BOTTOM 20 DISTRICTS</b>	
14.	LB Barking and Dagenham	680	360.	Mid Sussex	280
15.	LB Brent	680	361.	East Hampshire	280
16.	Hyndburn	680	362.	Waverley	280
17.	Blackburn with Darwen	670	363.	Cotswold	270
18.	Thanet	670	364.	Harborough	270
19.	Stoke-on-Trent	670	365.	Horsham	270
20.	Rhondda Cynon Taf	670	366.	Surrey Heath	270
21.	LB Hackney	670	367.	Mole Valley	270
22.	LB Enfield	670	368.	South Cambridgeshire	270
23.	Glasgow	650	369.	Winchester	270
24.	Salford	640	370.	Chiltern	270
25.	Caerphilly	640	371.	South Bucks	260
26.	Oldham	640	372.	Guildford	260
27.	Wirral	640	373.	South Northamptonshire	260
28.	LB Haringey	640	374.	South Oxfordshire	260
29.	St. Helens	630	375.	Rutland	260
30.	Inverclyde	630	376.	Wokingham	250
31.	Barrow-in-Furness	630	377.	Cambridge	250
32.	Kingston upon Hull	630	378.	Hart	240
33.	Barnsley	630	379.	LB City of London	180
34.	Tameside	620			
35.	South Tyneside	620			
36.	Halton	620			
37.	Redcar and Cleveland	620			
38.	Sunderland	620			
39.	Tendring	620			

Note: LB, London Borough

<sup>(1)</sup> Except DLA by 2017/18, incapacity benefits and 1% up-rating by 2015/16

Source: Sheffield Hallam estimates based on official data

At the very 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 £910 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. The high level on out-of-work benefits in Blackpool partly reflects the erosion of the town's traditional tourist base and the associated decline in employment. Blackpool also has a particularly high proportion of households living in the private-rented sector, often in properties that were once guest houses or small hotels, who are badly exposed to the reductions in Housing Benefit. It is also worth noting that Blackpool borough (to which the figures refer) is something of an 'inner urban area' within a larger built-up area that also includes Lytham St Anne's and Fleetwood. Residential segregation between rich and poor parts of the wider urban area accentuates the exposure to welfare reform in Blackpool borough itself.

The London borough of Westminster, at number two on the list, is the glaring exception to the general rule that the poorest parts of the UK are hit hardest. But there are special factors at work. One is the possibility that the 2011 Census population figures, used here, significantly under-estimate the local population, as Westminster Council has claimed, in which case the benefit losses in this table are being spread across too few people and the true figure could be lower. But also the extremely high rents in Westminster mean that, more than anywhere else in the UK, the Housing Benefit reforms and the household benefit cap lead to very large financial losses here. The impact of the other welfare reforms on Westminster is far more modest.

Beyond Blackpool and Westminster, more than two-thirds of the 50 local authority districts worst affected by the reforms could be described as 'older industrial areas' – places like Liverpool, Stoke-on-Trent, Glasgow, Sunderland and a succession of Welsh Valleys (Merthyr Tydfil, Blaenau Gwent, Neath Port Talbot, Rhondda Cynon Taf, Caerphilly).

In all these older industrial areas the incapacity benefit reforms, in particular, hit very hard indeed. This is especially significant because the changes to incapacity benefits are set to deliver the largest financial savings to the Exchequer. Incapacity claimant rates in older industrial UK are far in excess of those in more prosperous parts of the country, not least because of the problems that men and women with health problems or disabilities face in finding work in these difficult local labour markets. Indeed, in older industrial UK the principal labour market adjustment in response to the loss of mining and manufacturing jobs has mostly been a diversion onto incapacity benefits rather than unemployment benefits (Beatty and Fothergill 2005).

The reforms to Disability Living Allowance also hit hard in older industrial UK, not least because DLA is claimed by nearly half of all incapacity benefit claimants (Beatty et al 2009). More generally, the higher reliance on benefits and tax credits in older industrial UK means that the failure to up-rate with inflation and the reductions to tax credits have a greater impact here.

Middlesbrough, at number 5 on the list of hardest-hit districts, is a classic example. This is a town of 138,000 people forming part of the wider Teesside conurbation in North East England. Middlesbrough was once dominated by the steel and chemical industries. Both

still survive in the area but employ only a fraction of the former numbers. High unemployment and incapacity claimant rates have been the result. Low wages in the local economy have fostered a reliance on tax credits, and the high proportion of housing in the social-rented sector, which reflect municipal priorities over the years, exposes large numbers of residents to the 'bedroom tax'. Middlesbrough, like many other older industrial areas, is therefore hit hard by welfare reform – the estimate is an average loss, across the entire working age population, of £720 a head.

In contrast the City of London – the small administrative area covering the main financial district, not to be confused with London as a whole – emerges as the least affected part of the country, but the City has a very small population and should perhaps be discounted. The other places least affected by the welfare reforms, beginning with Hart district (in Hampshire) and followed by Cambridge and Wokingham (in Berkshire) are exclusively in the south and east of England outside London.

At the extremes, the loss per working age adult in the worst affected districts is approaching double the national average (£470 a year). Conversely, the loss in the least affected districts is around half the national average. Or to express the same figures in a different way, there is a four-fold difference in the impact of the welfare reforms between the most and least affected districts.

### *Impact on urban UK*

Many of the places where the impact of welfare reform is greatest are urban areas. Four of the UK's largest cities are among the worst-hit 50 districts – Liverpool (at number 8), Glasgow (23), Birmingham (43) and Manchester (45). The data here is for the city council area at the core rather than the wider conurbation but a number of immediately adjacent local authorities also make the worst 50 – Knowsley, Wirral, St Helens and Halton (near Liverpool); Rochdale, Salford, Oldham and Tameside (near Manchester); Inverclyde and West Dunbartonshire (near Glasgow) and Sandwell (near Birmingham). The worst-hit 50 also includes seven London boroughs.

Conversely, the places escaping lightest – City of London excepted – are nearly all rural or commuter districts or, in the case of Cambridge, a comparatively small city. The obvious conclusion would be that the impact of the UK's welfare reforms falls primarily on urban areas. As a generalisation, this is broadly correct.

But in detail the pattern is more complex than simply an urban-rural continuum. In particular, the worst-hit areas include a number of former coalmining districts, in the Welsh Valleys for example, where small towns and villages are the norm. The worst-hit areas also include a number of modest-sized industrial towns – Hartlepool, Burnley, Barrow- in Furness, Barnsley and Mansfield are examples. The seaside districts on the list also cover places well below city-size.

A more accurate characterisation of impact of the UK's welfare reforms would therefore be that the worst affected areas are not exclusively urban. Indeed, many urban areas are hit hard not because of their size but because they are older industrial areas or run-down

seaside towns where there is high worklessness, or in the case of London, because specific boroughs are where poorer residents are concentrated or rents are stratospherically high..

### *Largest absolute losses*

Table 4 looks at the same information but from a different angle. It lists the 20 districts where the absolute scale of the financial loss is greatest. This list is inevitably dominated by cities with a large population.

**Table 4: Districts with largest absolute loss attributable to welfare reform**

		Estimated loss £m p.a.	Loss per working age adult £ p.a.
1.	Birmingham	419	610
2.	Glasgow	269	650
3.	Leeds	232	460
4.	Liverpool	227	700
5.	Manchester	217	610
6.	Bradford	194	590
7.	County Durham	188	560
8.	Sheffield	173	470
9.	Cornwall	171	520
10.	LB Brent	146	680
11.	Bristol	141	480
12.	Kirklees	140	510
13.	LB Enfield	136	670
14.	Edinburgh	135	400
15.	LB Westminster	133	820
16.	LB Croydon	129	540
17.	Wirral	127	640
18.	LB Newham	127	580
19.	Leicester	126	560
20.	LB Ealing	125	540

Note: LB, London Borough

Source: Sheffield Hallam estimates based on official data

Birmingham (population 1,073,000) – UK’s largest local authority by some margin – somewhat inevitably tops this list with a financial loss of nearly £420m a year, but this is also in part because its per capita loss (an estimated £610 per working age adult) is well ahead of the national average. Glasgow (population 593,000) comes second with a loss of nearly £270m a year.

Beyond the largest cities, County Durham (population 513,000), which covers an extensive and often deprived former mining area, loses nearly £190m a year in benefit income.



Cornwall (population 532,000), which has the lowest GDP per head of all English sub-regions, loses £170m a year. The worst affected London borough is Brent (population 311,000), which loses just short of £150m a year.

### *Impact by region*

Table 5 summarises the impact by region. There is a clear pattern here. The three regions of northern England (North East, North West, Yorkshire) are all hit substantially harder, per working age adult, than the south and east of England. This is principally because they cover so many of the older industrial areas that are badly affected by the reforms. In total, the three northern English regions lose around £5.2bn a year.

**Table 5: Overall impact of welfare reforms by 2014/15<sup>(1)</sup> by region**

	<b>Estimated loss £m p.a.</b>	<b>Loss per working age adult £ p.a.</b>
North West	2,560	560
North East	940	560
Wales	1,070	550
London	2,910	520
Yorkshire and the Humber	1,690	500
West Midlands	1,740	490
Scotland	1,660	480
East Midlands	1,310	450
South West	1,440	430
East	1,490	400
South East	2,060	370
<b>Great Britain</b>	<b>18,870</b>	<b>470</b>

<sup>(1)</sup> Except DLA by 2017/18, incapacity benefits and 1% up-rating by 2015/16

Source: Sheffield Hallam estimates based on official data

London is also hit relatively hard – its loss per working age adult is £50 a year above the GB average – but this is primarily because the Housing Benefit reforms affecting tenants in the private rented sector, plus the household benefit cap, have a big impact here.

Wales is also hit much harder than the GB average, to much the same extent as northern England and essentially for the same reasons – a concentration of older industrial areas badly affected by the incapacity benefit reforms in particular. Scotland escapes a little more lightly, partly because it includes areas of prosperity as well as areas of high worklessness and partly because the Housing Benefit reforms impact on a relatively small private-rented sector.

One way of looking at the regional differences is that if the five worst affected regions (the three northern English regions plus Wales and London) only experienced the same per capita loss as South East England, total incomes there would be £2.8bn a year higher.

### *The relationship to deprivation*

There should be no surprises in this geography. It is to be expected that welfare reforms will hit hardest in the places where welfare claimants are concentrated, which in turn tend to be the poorest areas. To underline this point, Figure 2 shows the relationship between the impact of the welfare reforms (measured in terms of the loss per adult of working age) and the scale of deprivation in each local authority.

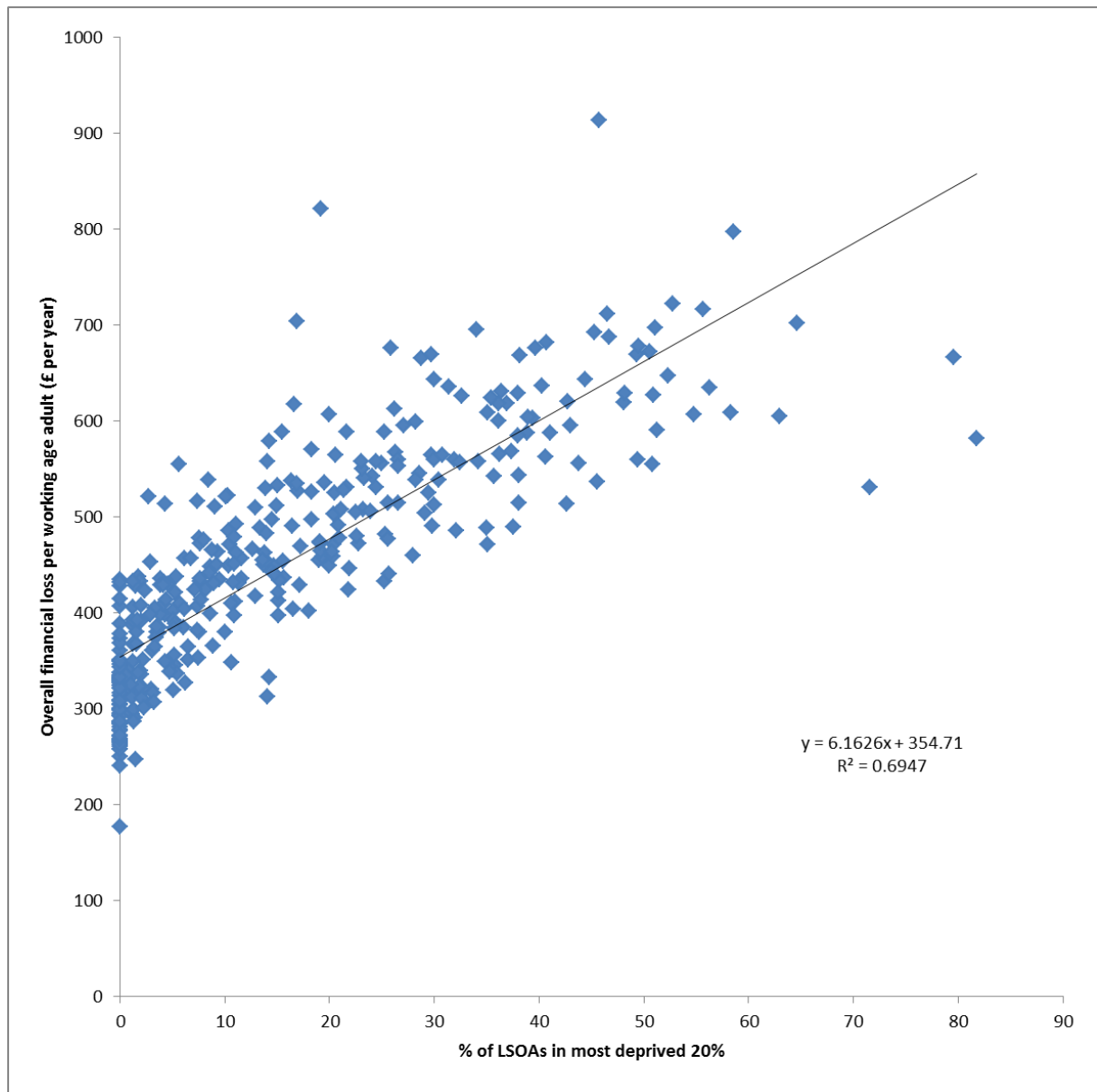
The deprivation measure used here is the share of local neighbourhoods (Lower Super Output Areas (LSOAs) in England and Wales, Datazones in Scotland) in the worst 20 per cent nationally. To overcome inconsistencies between the separate deprivation indices for the constituent countries of the UK, the deprivation figures here are taken from research that re-works the data to produce deprivation statistics for the UK as a whole (Payne and Abel 2012).

There is a clear and unambiguous relationship: as a general rule, the more deprived the local authority, the greater the financial hit. Overall, for every ten percentage point increase in the share of neighbourhoods in the most deprived 20 per cent, the scale of the financial loss arising from the welfare reforms rises by roughly £60 per adult of working age.

Blackpool and Westminster are the two most significant outliers above the regression line in Figure 2. This means that the financial loss arising from the welfare reforms is much larger in these two places than deprivation alone would have suggested. The reasons, noted earlier, are Westminster's exceptional exposure to the Housing Benefit reforms affecting the private rented sector and Blackpool's unusual combination of very high worklessness and very large numbers of Housing Benefit claimants in the private rented sector.

The three east London boroughs of Hackney, Tower Hamlets and Newham are the most significant outliers below the regression line, on the right of the diagram. The share of neighbourhoods in the most deprived 20 per cent nationally is exceptionally high here, though the scale of the financial losses is no larger than in a number of other places with high deprivation.

**Figure 2: Relationship between impact of welfare reform and deprivation, by local authority**



Sources: Sheffield Hallam estimates and Payne and Abel (2012) based on Indices of Deprivation for England, Wales and Scotland

## **Concluding remarks**

The impacts of the UK's welfare reform are very substantial – an estimated loss of income of approaching £19bn a year once all the reforms have been fully implemented, or an average of £470 a year per adult of working age across the whole of Britain. For some of the individuals affected by the changes the loss of income is much, much greater. What is also clear, however, is that the financial losses arising from the reforms hit some places much harder than others.

As a general rule, the most deprived local authorities across the UK are hit hardest. The loss of benefit income, which is often large, will have knock-on consequences for local spending and thus for local employment, which will in turn will add a further twist to the downward spiral. A key effect of welfare reform will therefore be to widen the gaps in prosperity between the best and worst local economies across the country.

At the extremes, as we noted, the loss per head is four times greater in Blackpool than in parts of Hampshire. UK's older industrial areas, a number of seaside towns and some London boroughs are hit hardest. Much of southern and eastern England outside London escapes comparatively lightly.

This is an economic geography that overlaps strongly with the UK's political geography. The parliamentary constituencies in the south and east of England outside London have traditionally elected Conservative or Liberal Democrat MPs – the two parties making up the post-2010 Coalition government. By contrast, the older industrial areas that are so hard hit by the welfare reforms have traditionally voted Labour. It was not necessarily the intention of the welfare reforms that they should target Labour-voting areas – rather, this is mainly a by-product of the higher benefit claimant rates in these places – but the effect is that the Coalition government is presiding over national welfare reforms that impact principally on individuals and communities outside its own heartlands.

### *Acknowledgement*

The research on which this article is based was funded by Sheffield Hallam University, by the Scottish Parliament and by the *Financial Times* (by a grant from the Pulitzer Centre on Crisis Reporting in Washington). The views expressed are those of the authors alone.

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