**The Economic Impact of Welfare Policy Changes on Glasgow**

**A report to Glasgow City Council from the Fraser of Allander Institute**

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The Fraser of Allander Institute

for Research on the Scottish Economy,

University of Strathclyde

100 Cathedral Street

Glasgow G4 OLN

Scotland, UK

Tel: 0141-548 3958

Email: fraser@strath.ac.uk

Website: www.fraser.strath.ac.uk

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1. **Introduction**

In 2011 the UK government introduced the Welfare Reform Act (2012), which introduced a series of amendments to the UK benefit system (detailed below).

The main elements of the Act are:

* the introduction of Universal Credit to provide a single streamlined payment
* a stronger approach to reducing fraud and error
* a new claimant commitment showing clearly what is expected of claimants
* reforms to Disability Living Allowance, through the introduction of the Personal Independence Payment
* a new approach to Housing Benefit
* reforming Employment and Support Allowance
* changes to support a new of child support system
* giving to local authorities greater power over the Social Fund system

However, it is clear that a fundamental aim the recent changes are also to reduce expenditure on benefits. In 2010, the Government announced several cuts to welfare spending, intending to bring total welfare savings of around £18 billion a year by 2014-15. What is clear is that benefit cuts of this magnitude will undoubtedly have significant economic consequences and, indeed, some aspects of the above changes have been considered in a 2011 study by Sheffield Hallam University.[[1]](#footnote-1) This argued that, at the UK level, the reform of benefits could result in up to 600,000 claimants being pushed out of the benefits system entirely and increase the numbers on Jobseeker’s Allowance by as much as 300,000.

The aim of study is to assess how benefit reform will impact on Glasgow by considering the extent to which the reduced spending resulting from the reforms will affect the local economy in the City of Glasgow. Note that the research examines how benefit changes will affect Glasgow as a whole, and does not take discuss the probable disproportionate impact on individual communities which have a higher reliance on benefits.

The next section outlines the benefit changes assessed here. Following this, we next explain the methods used to estimate the total economic impact (both the reduced level of payments brought about by the reforms and the employment and wage effects that result from these).The estimated impacts are detailed in the final section.

Note that we do not include any change in spending arising from changes to tax credits, and are in effect assuming that that any impact from this on households, particularly low income households, would be compensated for any changes in tax credits with increases in Housing Benefit and Council Tax benefit.

1. **Background**

The specific benefits which will be affected by changes in the Welfare Reform Act, and which we have assessed the impact on Glasgow, are detailed in Table 1[[2]](#footnote-2).



1. **Methods**

This study aims to assess how cuts in benefit spending will impact upon the Glasgow economy, in terms of reduction in the number of jobs and the loss of wages in Glasgow, and we now explain the methods used to derive the estimates reported below.

The Department for Works and Pensions (DWP) publishes data on both the number of people in Glasgow who receive each benefit and the average weekly amount paid for each benefit,[[3]](#footnote-3) and we have used these data to estimate the annual amounts paid to Glasgow residents for each benefit. The *reduction* in benefit payments was then estimated by considering how the set of policy changes outlined above would affect each benefit. For example, we estimate below that Child Benefit (CB) payments in Glasgow total just under £100 million (M). The particular policy change here is the freezing of benefits, and we estimate that this will reduce payments to Glasgow residents by £3.1M.[[4]](#footnote-4) Note, however, that some benefits will be affected by more than one change in policy –for example, we have estimated the impact of a 20% reduction in DLA spending and also that DLA will now be uprated by the Consumer Price Index (CPI) instead of the Retail Price Index (RPI). Where a benefit is affected by more than one change, we have reported the total impact on this benefit.

Having derived an estimate of reduced payments, we next estimate how this will affect spending. As discussed below, we have estimated the impacts by using an Input/output framework. This estimates impact on the basis of how reduced spending affects individual industries and we consequently require estimates of reduced benefit spending will be distributed by industry. For example, the ONS figures used (see immediately below) show that around 15% of all spending in the lowest 10% of the income distribution is on food & non-alcoholic drinks, 4% is on clothing & footwear, etc.

These estimates have been developed by assuming that spending by industry will be reduced in line with the distribution of spending of the lowest 10% (by income) of the UK income distribution as reported by the Office for National Statistics (ONS) – the actual figures are those published in the 2011 edition of the ONS’s Family Spending (Table 3.2).[[5]](#footnote-5)

These reduced levels of spending by industry were then sorted into the categories used in the Scottish Government’s Scottish Input Output Tables (SIOT). The results reported in this study were derived as the solution of a Leontief Inverse problem, with reduced benefit spending used as the initial injection.

This estimated the reduction in output by industry consequent on reduced benefit spending and employment and wage impacts were subsequently derived through Employment/Output and Wage/Output ratios.

We show how benefit changes will affect bot Glasgow and Scotland. The figures shown are based on the assumption that the initial or first round impacts will fall on Glasgow, and that subsequent effects on Glasgow depend on Glasgow’s share of employment in the relevant industrial sector.

Finally, most of the benefits discussed here were previously uprated by the Retail Price Index (RPI) but will now be uprated by the Consumer Price Index (CPI), a change announced in the 2010 budget[[6]](#footnote-6). In assessing the impact of this, we have used an estimate of the long-term CPI/RPI difference produced in a paper by the Office for Budget Responsibility (OBR), [[7]](#footnote-7) which estimates this at 1.4%.

1. **Results**
2. Disability Living Allowance (DLA)

We assess two aspects of change in DLA. The Chancellor announced in June 2010 that he anticipated that benefit reform will result in a cut of 20% of forecast DLA expenditure and this level of saving has also been assumed in the Department for Work and Pensions (DWP) impact estimate[[8]](#footnote-8). We firstly therefore examine the impact on Glasgow of a 20% reduction in DLA spending in the city.

However, DLA spending will also be affected by one other change. As noted above, benefits will now be uprated by the Consumer Price Index (CPI), and we therefore also include the impact due to this benefit being uprated by the CPI instead of the Retail Price Index (RPI).

Table 2 details how these policy changes will affect the total spent on DLA on Glasgow. DWP caseload figures show that 56,000 people in Glasgow received DLA in May 2011. DLA is payable at three rates and we have used DWP figures on average weekly amount of benefit for each rate in Glasgow to estimate the effect of a 20% reduction in this total and then reduced this by the difference between CPIU and RPI. Our final assessment is that this would reduce DLA payments to Glasgow residents by £41.5 million (M) in the year to May 2012 (Table 2). This figure takes account of both the 20% cut in spending on DLA and the difference in spending due to uprating by the CPI.



Table 3 details the effect of this reduction (£41.5 M). Our estimate is that changes to DLA would result in a loss of 467 jobs in Glasgow and of a further 233 jobs elsewhere in Scotland - a total loss of 700 jobs across Scotland as a whole. We also estimate that the changes to DLA will lower wage incomes in Glasgow by £12.2M.



1. Child Benefit

The 2010 budget uprated a number of benefits including DLA by CPI instead of RPI, but it also announced a more substantial change to Child Benefit (CB). Child benefit is to be frozen for three years[[9]](#footnote-9), and Tables 5 and 6 below estimate the impact of this.

Regional statistics on CB payments by UK local authority are provided by HM Revenue and Customs (HMRC). [[10]](#footnote-10) These show that 67,495 families in Glasgow received CB in August 2011[[11]](#footnote-11). Table 4 below shows the distribution of this total by the number of children in each family.



CB is paid at two rates, £20.30 per week for the first child and £13.40 for each subsequent child. Based on the figures in Table 4 and the rates payable, we estimate that total CB spending in Glasgow at just under £100M (£99.96 M) per annum.

We have estimated the effect of freezing CB by assuming that it would have increased by the full amount of the RPI, which increased by 3.1% between May 2011 –May 2012[[12]](#footnote-12). On this basis, CB payments in Glasgow would fall by £3.1M (Table 5).



Table 6 below details the impact of this on Glasgow and Scotland.



1. Incapacity Benefit/Severe Disablement Allowance (IB/SDA)

While the other policy changes can be summed up fairly readily[[13]](#footnote-13), the changes to Incapacity Benefit/Severe Disablement Allowance (IB/SDA) are more complex. The key change is that IB/SDA will be phased out and will be replaced by Employment and Support Allowance (ESA). Existing IB/SDA claimants will be required to undergo a new test, known as the Work Capability Assessment (WCA). This uses a points system to assess claimant’s capabilities and claimants must scores sufficiently highly in order to qualify for ESA - subsequent payments to claimants depend on whether or not they qualify for ESA.

The key changes to IB/SDA are as follows:

* IB/SDA is being phased out, to be replaced by Employment and Support Allowance (ESA). All existing IB/SDA claimants will be re-tested and the government aims to complete the process of re-testing all claimants by March 2014
* From May 2011, those aiming to migrate to ESA will be required to undertake a new medical test, the Work Capability Assessment (WCA). Those required to undertake the WCA can be allocated to one of three groups, with the following consequences.
* If allocated to the Support Group, claimants will continue to receive ESA
* In the second (Work Related Activity Group) claimants will be required to engage in activities designed to help them find employment (such as work-focussed interviews) and failure to participate in these means that ESA can be withdrawn. Given the requirement to participate in activities targeted towards finding employment, the assumption is that, for this group, ESA will only be a temporary benefit paid pending a return to work
* The third group is those who are deemed to be “Fit for Work”. Those in this group will be denied ESA altogether, and they may then receive another benefit or move off benefits altogether

In order to assess the impact of the migration process (i.e., what will happen to existing IB/SDA claimants who must undergo the WCA before receiving ESA), we must firstly estimate how many claimants will be allocated to each of the above groups. Based on WCA reassessment carried out between October 2010 and July 2011, DWP figures show that:

* 32% of IB/SDA claimants in Glasgow were allocated to the Support Group
* 32% were allocated to the Work related Activity Group
* 36% were assessed as being “Fit for Work” [[14]](#footnote-14)

Secondly, we must estimate the subsequent destinations of those assessed as being “Fit for Work”, particularly in terms of whether they receive a different benefit or move off benefits altogether. We have used the DWP’s own assumptions, which is that:

* 50% of those who fail to qualify for Employment and Support Allowance will move onto Jobseeker’s Allowance
* 20% will move onto another benefit
* 30% will move off benefits altogether[[15]](#footnote-15)

Finally, we must also include the difference in IB/SDA payments that result because the amounts paid for IB/SDA will also be uprated by the CPI instead of the RPI.

Including all of the above impacts, we estimate that the changes introduced in the Welfare Reform Act will reduce IB/SDA payments in Glasgow by £31.6M (Table 7).



Table 8 below shows that this will reduce employment in Glasgow by a total of 356 jobs and reduce wage payments in the city by £9.3M.



1. Employment and Support Allowance (ESA)

The main change to ESA is that from April 2012 those in the Work-Related Activity Group will face a 12 month limit on the duration of non-means tested ESA for, after which these claimants will only be eligible for means-tested ESA.

Around 30% of all ESA recipients in Glasgow receive Contributions –Based ESA[[16]](#footnote-16) and the effect of this change will be to remove ESA from 3,310 people in Glasgow.[[17]](#footnote-17) In addition, ESA will also be uprated by the CPI, and we estimate that the total effect of these two changes will be to reduce payments to residents by a total of almost £6M (£5.96M, see Table 9)[[18]](#footnote-18).



Table 10 below shows that, based on the above assumptions, this will reduce employment in Glasgow by 67 jobs and reduce wages in the city by £1.75 M.



1. Income Support

Income support (IS) payments are estimated to fall by a total of £12.3M, although note that this results from two benefit changes. Firstly, the Welfare Reform Act also introduced a rule that people receiving Income Support on the grounds of incapacity would also undertake the new WCA procedure, which will affect 64% of all local residents receiving this form of benefit[[19]](#footnote-19). While some will be assessed as “Fit for Work”, all will move onto another benefit (as these are on means tested benefit already) but they will lose the disability premium[[20]](#footnote-20).

Secondly, IS will be upgraded by CPI instead of RPI, and this effect is also included when estimating the total impact. We estimate that the total effect of changes these changes will be to reduce spending in Glasgow by £12.3M (Table 11) and that this will result in employment in Glasgow falling by 138 jobs and reduce wage incomes in Glasgow by £3.6M (Table 12).





1. Housing Benefit[[21]](#footnote-21)

We also assess the impact of a number of changes to Housing Benefit (HB) introduced in the Welfare Reform Act and in subsequent announcements, as follows:

* Benefits changing from 50th to 30th percentile
* Introduction of the 4 bedroom rate
* Loss of the £15 excess
* Single room rate extension
* Non-dependent deductions
* The introduction of new size criteria for new and existing working age Housing Benefit claimants living in the social rented sector

Our estimate of the total reduction in spending in Glasgow is that all HB changes will result in reduced payments to Glasgow residents of £18M (Table 13). Table 14 details that this will mean the loss of a further 202 jobs in the city and reduce wage payments by £5.3 M.





1. Other Benefits

In addition to the changes outlined above, payment of a number of other benefits will be affected by the change from the RPI to the CPI announced in the 2010 budget. We have assessed the impact of this for a number of benefits as detailed in Table 15, and the sum of these changes will be to reduce payments by £2.4M. Table 16 shows our estimate that will result in the loss of 27 jobs in Glasgow.



\*Instead of RPI



1. Total Impacts

Table 17 summarises the reduction in spending in Glasgow resulting from all changes discussed above. In total, we estimate that benefit payments in Glasgow will fall by £114.8 M.



We estimate that total impact of welfare reform on Glasgow will be a loss of 1,293 jobs and £33.7M worth of wage income in the city (Table 18)[[22]](#footnote-22).



1. “Incapacity Benefit Reform, The local, regional and national impact,” Christina Beatty and Steve Fothergill, Centre for Regional Economic and Social Research, Sheffield Hallam University, 2011. [↑](#footnote-ref-1)
2. The relevant changes to these benefits are discussed in the text..

 [↑](#footnote-ref-2)
3. Available from the DWP tabulation tool, http://statistics.dwp.gov.uk/asd/index.php?page=tabtool. We have used the figures for Glasgow for May 11, the beginning of the three-year period covering the migration of IB/SDA claimants to ESA.

 [↑](#footnote-ref-3)
4. This is on the assumption that CB would have increased by the RPI.

 [↑](#footnote-ref-4)
5. Household expenditure by gross income decile group, available at: http://www.ons.gov.uk/ons/search/index.html?newquery=household+income+by+decile&newoffset=0&pageSize=50&sortBy=&sortDirection=DESCENDING&applyFilters=true

 [↑](#footnote-ref-5)
6. This change is outlined in H.M Treasury, Budget Report 2010,

(http://www.direct.gov.uk/prod\_consum\_dg/groups/dg\_digitalassets/@dg/@en/documents/digitalasset/dg\_188581.pdf), paragraph 1.43. [↑](#footnote-ref-6)
7. “The long-run difference between RPI and CPI inflation”, OBR Working Paper Number 2, November 2011, Table 3.1.

 [↑](#footnote-ref-7)
8. http://www.dwp.gov.uk/docs/dla-reform-wr2011-ia.pdf. This objective was reconfirmed in a 2010 interview with the Minister for the Disabled, who said “Yes, we are looking at saving 20% of Disability Living Allowance expenditure in line with the Chancellor’s commitment in the Emergency Budget.” See http://ablemagazine.co.uk/exclusive-interview-maria-miller-mp-on-the-dla-consultation/

 [↑](#footnote-ref-8)
9. H.M Treasury, Budget Report 2010, page 3. [↑](#footnote-ref-9)
10. http://www.hmrc.gov.uk/stats/child\_benefit/chb-geog-aug11.pdf [↑](#footnote-ref-10)
11. While most of the analysis here is for the period from May 2011, HRMC only publishes regional CB figures for August. [↑](#footnote-ref-11)
12. Office for National Statistics, Consumer Price Indices, July 2012 (http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/july-2012/stb---consumer-price-indices---july-2012.html). [↑](#footnote-ref-12)
13. For example, the government itself has announced that it seeks to cut DLA spending by 20%. [↑](#footnote-ref-13)
14. These figures are those published in “Employment and Support Allowance – Incapacity Benefits Reassessments: Outcomes of Work Capability Assessments, Regions and Local Authorities”, Department for Work and Pensions, Official statistics bulletin, 20th April 2012. The figures shown are based on reassessments between October 2010 and July 2011, and we have applied these to all existing claimants in Glasgow. [↑](#footnote-ref-14)
15. These figures are reported in the Sheffield Hallam study (page 10) and sourced as: Department for Work and Pensions (2011) “Employment and Support Allowance: Impact Assessment”, DWP, London. [↑](#footnote-ref-15)
16. This figure is published in the DWP Tabulation tool. [↑](#footnote-ref-16)
17. We assume that the remaining 70% will move to means-tested ESA. [↑](#footnote-ref-17)
18. The ESA loss per person following withdrawal of non-means tested is assumed to be £71.0 per week paid during the assessment phase plus £28.15 per week for the work-related activity component. [↑](#footnote-ref-18)
19. Calculated from figured published in the DWP Tabulation tool. [↑](#footnote-ref-19)
20. We have assessed the loss per person at the 2011/12 single person rate (£28.85 per week). [↑](#footnote-ref-20)
21. The estimated change in spending on Housing Benefit was supplied to us by Glasgow City Council. [↑](#footnote-ref-21)
22. Although, as s noted in footnote 2 above, this does not include any impacts due to changes in Tax Credits. [↑](#footnote-ref-22)