

# Executive summary – *The cumulative impact of welfare reform: a commentary*

## A study by the Social Security Advisory Committee Occasional Paper No. 12

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### Introduction

Since coming to power in May 2010 the Government has pursued a programme of ‘welfare reform’ that seeks to introduce ‘...greater fairness to the welfare and pensions systems by making work pay and reinvigorating incentives to save for retirement...while protecting the most vulnerable – disabled people and pensioners’.<sup>1</sup>

We have found it difficult to assess the extent to which these goals have been achieved. One reason for this is that impact assessments are produced for individual policies rather than for the cumulative impact of welfare reform as a whole. Since 2010 there have been more than 20 separate impact assessments published which relate to welfare reforms.

Some overall assessments of impact are available, in particular for impacts across the income distribution, and across geographic areas. This report provides a summary of such analysis and draws attention to any gaps in the evidence base.

The focus of this report is on working-age benefits and tax credits. It does not consider pension-age benefits. This is in response to the comparatively large number of changes being made to working-age benefits, and the Government’s focus on ensuring that changes to the benefit system make work pay.<sup>2</sup> Furthermore, the report does not look to consider how changes to policy are implemented.

### What is being said about welfare reform?

#### Quantitative-based analysis

##### HM Treasury distributional analysis

The Government regularly publish analysis of the cumulative impact of its policies since coming to power in 2010, alongside Budgets and Autumn

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<sup>1</sup> DWP (2013) *DWP reform: DWP’s welfare reform agenda explained*, page 3. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/269568/dwp-reform-agenda-explained-dec-2013-1.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/269568/dwp-reform-agenda-explained-dec-2013-1.pdf)

<sup>2</sup> As outlined in DWP (2010), *21<sup>st</sup> Century welfare*. Available at: <http://www.dwp.gov.uk/docs/21st-century-welfare.pdf>

Statements. This analysis, most recently updated in March 2014<sup>3</sup>, shows that changes to tax credits and benefits (excluding Universal Credit) have had a negative impact upon claimant incomes across the income distribution, with the greatest impact being felt by those on lower incomes. However the analysis also shows that once Universal Credit is fully implemented it will be 'progressive' – with significant gains accruing to low income groups. Taken together, the overall impact of welfare reform, including Universal Credit, will be positive for only the bottom income decile. Even for this group, there is likely to be a significant wait before they are able to benefit from UC, as it is rolled-out.

Universal Credit is designed to effect behavioural change; in particular in encouraging workless households to enter employment. Such dynamic effects are not included in the HM Treasury analysis, nor any other quantitative analysis we considered.

Whilst the HMT distributional analysis is informative about the impact of social security reform across different income groups, how the impact is distributed with respect to other significant characteristics is not in the scope of their analysis. For example, are reductions in benefit income disproportionately falling on those with a disability, on particular age groups, one or other gender, or within particular geographic regions?

#### The Geographic distribution of impacts from welfare reform

A study from The Centre for Regional Economic and Social Research (Sheffield Hallam University) found an average impact of welfare reforms of £470 a year per adult, with this impact distributed unevenly across local authorities.

*Britain's older industrial areas, a number of seaside towns and some London boroughs are hit hardest. Much of the South and East of England outside London escapes comparatively lightly. [...] As a general rule, the more deprived the local authority, the greater the financial loss.<sup>4</sup>*

**Centre for Regional Economic and Social Research  
(Sheffield Hallam University)**

A similar piece of analysis from the Centre for Economic & Social Inclusion (CESI) produced a figure for the average impact per claimant (rather than per adult). The CESI report finds that '*average impacts per claimant are relatively*

<sup>3</sup> HM Treasury (2014), *Impact on households: distributional analysis to accompany Budget 2014*. Available at: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/293738/budget\\_2014\\_distributional\\_analysis.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293738/budget_2014_distributional_analysis.pdf)

<sup>4</sup> Centre for Regional Economic and Social Research (Sheffield Hallam University) (2013), *Hitting the poorest places hardest: the local and regional impact of welfare reform*. Available at: [http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/hitting-poorest-places-hardest\\_0.pdf](http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/hitting-poorest-places-hardest_0.pdf)

*evenly spread – with all regions except London seeing average losses between £1,500 and £1,650 per year*<sup>5</sup> (excluding the impact of Universal Credit). The explanation for the relatively even spread of impacts is that a larger average impact due to Housing Benefit changes occurs in the south, but that this is balanced by a larger average impact due to changes in out-of-work and low-income support in the north. The impact in London is higher because of high levels of both benefit receipt and housing costs. With an average impact per claimant being fairly consistent across the country, differences in impact across areas are due to the relative proportion of residents who claim benefits.

### Financial work incentives

A report from The Institute for Fiscal Studies (IFS) looked at how reform of the benefits system has impacted on financial work incentives, whilst taking account of changes to the UK economy. The economic backdrop to reform is important because, if benefit and tax credit payments were to increase in line with inflation and with inflation rising faster than earnings, the returns from work are likely to become less attractive in relation to benefits.

The IFS found that in the absence of welfare reforms, the financial incentive to be in work would have been diminished (as measured by the ‘replacement rate’). However, adding in the effect of welfare reform meant that work incentives had in fact increased. Universal Credit was found to contribute to this increase in work incentives, though other aspects of reform were found to be more significant.

The IFS report finds the impact of Universal Credit to be:

*‘[a] strengthening of incentives to be in work - a notable achievement given that it is broadly revenue-neutral and distributionally neutral. But the strengthening [of work incentives] is predominantly caused by reductions in the generosity of [other] means-tested benefits....’*<sup>6</sup>

**Institute for Fiscal Studies**

### Impact of reform on disabled people

Analysing the cumulative impact for disabled people using microsimulation (in line with HMT distributional analysis) is particularly challenging. This is due to assumptions being required to model how claimants will be affected following assessments for the newly introduced disability-related benefits.

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<sup>5</sup> The Centre for Economic & Social Inclusion (2013), *The local impacts of welfare reform: an assessment of cumulative impacts and mitigations*. Page 5.

<sup>6</sup> IFS (2013), *Do the UK Government’s welfare reforms make work pay?* Available at: <http://www.ifs.org.uk/publications/6853>

However, the cumulative impact of reforms to the benefits system on disabled people are particularly important to understand. This is because:

- households receiving disability-related benefits are likely to be receiving a combination of benefits simultaneously. Different reforms may therefore successively reduce household income, with impact analysis of each reform not reflecting the situation the household faces as a result; and
- those receiving disability-related benefits are, in general, less able to enter work, or move to lower cost housing, as a response to lower social security payments. Some disabled claimants will simply be unable to enter paid work.

A number of organisations, as well as MPs, have therefore called on Government to produce an analysis of the cumulative impact of welfare reform on disabled people.

*[I]t is critical that it [a cumulative impact assessment] is attempted. Individual Impact Assessments are all well and good when making a single policy change here and there, but when dozens of changes are underway simultaneously – 18 Impact Assessments were issued for the Welfare Reform Bill alone – this piecemeal approach is both inadequate and misleading.<sup>7</sup>*

**DEMOS**

### **Qualitative-based analysis**

An alternative approach to demonstrating the cumulative impact of welfare reform is through illustrative case-studies, which can be either hypothetical, or based on actual claimant experiences. The latter option has been a focus of media coverage, which tends to target the more extreme and negative cases – in order to present the most remarkable narrative. Such cases are naturally concerning, however they do not reflect the typical experience of social security reform. Claimant experiences might, however, also be investigated through social research, which can take a more representative approach to the range of claimant experiences (both positive and negative).<sup>8</sup> This might entail a collection of case studies showing the impact of reform upon modelled families in different circumstances.

<sup>7</sup> Demos / Claudia Wood (2013), *Destination unknown* (blog post). Available at: <http://www.demos.co.uk/blog/destinationunknownapril2013>

<sup>8</sup> For example, Community Links have undertaken research on the cumulative impact of welfare reform in the London Borough of Newham (Community links (2014), *Tipping the balance?*. Available at: <http://www.community-links.org/our-national-work/publications/tipping-the-balance/>

A number of organisations have employed case-studies on a small-scale to illustrate the potential impact of welfare reforms. Our report includes examples from the *Church Urban Fund*<sup>9</sup> and *Contact a Family*.<sup>10</sup>

### What is the Government saying in response?

The Government has been asked to provide analysis of the cumulative impact of welfare reform on a number of occasions. For example, a recent Parliamentary Question asked for a review of the ‘decision not to carry out a cumulative impact assessment on the effect of welfare reform on people with a disability’.

In response to the previously cited Parliamentary Question, the Government stated:

*The Government regularly produces analysis of the cumulative impact of all coalition changes, including welfare, on households across the income distribution. This information is produced by the Treasury and is published alongside every Budget and Autumn Statement, in the interests of transparency. The previous Government did not provide this type of analysis.*

...

*Distributional analysis is provided for the whole population on the basis of household income and household expenditure. However this is not disaggregated to the level of household characteristics such as disability status or lower level geographies. No organisation is able to do this robustly.*

...

*The Government currently has no plans to undertake a review or change the decision on cumulative impact assessments.*<sup>11</sup>

**Minister of State for Disabled People,  
Department for Work and Pensions**

The Government has consistently stated its belief that modelling difficulties prevent it from producing a cumulative impact assessment of welfare reform which is sufficiently robust to be published. In particular, the outcome of medical assessments – used in migrating claimants to reformed disability-related benefits – cannot be inferred from the survey data upon which the Government’s modelling is based.

<sup>9</sup> Church Urban Fund & Church of England (2013), *It all adds up: the cumulative impact of welfare reform*. Available at: <http://www.cuf.org.uk/welfare-reform-add-up>

<sup>10</sup> Contact a family (2012), *The cumulative effect – the impact of welfare reform on families with disabled children now and for future generations to come*. Available at: [http://www.cafamily.org.uk/media/756575/cumulative\\_impact\\_universal\\_credit\\_briefingupdate\\_dnov2013.pdf](http://www.cafamily.org.uk/media/756575/cumulative_impact_universal_credit_briefingupdate_dnov2013.pdf)

<sup>11</sup> Hansard (2014), *Written answers: Social Security Benefits: Disability* (Hansard reference: 9 Apr 2014: Column 299W-300W). Available at: <http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140409/text/140409w0003.htm#1404103000153>

## Conclusions and recommendations

In reviewing existing analysis on the cumulative impact of welfare reform it was found that:

- some overall assessments of impact already exist, in particular for impacts across the income distribution, and across geographic areas. These impacts are largely negative, as they focus on the direct and immediate effect of reforms upon incomes, rather than any employment or behavioural effects, and because the potentially positive effects of UC are yet to be introduced on a national scale;
- qualitative analysis can provide a more detailed understanding of the impacts felt by households with particular characteristics (for example by employing illustrative case studies). Case studies have been produced by a range of organisations focusing on areas of particular concern. However these case studies do not show the full range of impacts arising from welfare reform across different types of household; and
- particular focus has been drawn to the cumulative impact of welfare reform on disabled people. This is because they are both more likely to be claiming multiple benefits, and less likely to be able to change their behaviour to mitigate the impact of reforms.

However, whilst the immediate impact on claimant income is often negative, the Government's programme of welfare reform is also intended to bring about longer-term positive impacts. Such longer term impacts include changes in claimant behaviour. Existing analysis has shown how reforms to social security have improved incentives to undertake employment. Yet it is in many ways too soon to assess the consequential impact of these improved work incentives on claimant behaviour.

.. ————— ..

### Recommendation 1:

The Government's own analysis of the distributional impact of its policies, published by HM Treasury, employs microsimulation of the population to estimate the impact of reforms on households. However the published findings are limited to showing the effects of reform across the household income distribution.

Whilst recognising the significant challenges involved in modelling the impacts of reform upon people with a disability, SSAC does not believe that such methodological problems are insurmountable to the extent that headline findings cannot be produced, given appropriate modelling assumptions. A similar approach might be taken to that of the most recent Universal Credit Impact Assessment, which provides average impacts for households which include a disabled person, and those which do not. This is not an ideal solution, as taking disabled people as a single group will not distinguish between people with very different levels of ability. However it would provide information on the broad allocation of resources between claimants with

disabilities and others. Results might also be provided as a range – representing alternative modelling assumptions.

**We recommend that the Government produces further secondary analysis of the datasets behind Charts 1 and 2, bringing together the cumulative impact of welfare reform on vulnerable groups such as disabled people, and with the findings published within six months.**



### **Recommendation 2:**

Case studies showing the cumulative impact of welfare reform on particular (model) families have been produced both within the media, and by interest groups. Government could add significant value by providing a wider range of such case studies – ensuring that a more complete set of representative cases are considered. Further value could be added by identifying the number of households affected in a similar manner alongside each case study. This analysis might be produced by DWP itself, or commissioned from a suitable external organisation.

**We recommend that DWP provide a range of case study examples of the cumulative impact of welfare reform, to sit alongside further quantitative analysis. Such examples, based on model households, would illustrate how the effect of individual reforms might accumulate for particular claimant groups (in terms of their income and their behavioural choices).**



### **Recommendation 3:**

Social research might also be employed to further understand the impact of successive social security reforms. Hereby a range of methods would be employed to better understand the experience of affected claimants, including: surveys, interviews or focus groups. Such analysis could take the form of an evaluation of the Government's programme of reform, and should consider both its positive and negative impact. Positive impacts might include entering work, or moving to lower cost accommodation to reduce living costs. Negative impacts might include lower incomes and any associated consequences.

**We recommend that DWP consider extending its forthcoming evaluation of Universal Credit so as to also evaluate the impact of its wider programme of welfare reform.**



**Recommendation 4:**

It may be that more extensive analysis and/or evaluation of the cumulative impact of welfare reform would highlight a disproportionate impact upon particular client-groups. Were this to be the case, DWP may wish to take action by way of mitigation.

**We recommend that, following further analysis of the impact of welfare reform, DWP consider whether there have been any cumulative impacts on vulnerable claimant groups that need to be mitigated.**



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