



**The Impact of Welfare Reform on Post-Recession
East Renfrewshire**

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1. Background

The changes to welfare reform announced by the new coalition government will have a significant impact on the residents of East Renfrewshire and how they are supported by East Renfrewshire Council.

This summary sets out the impact that these reforms will have on the most vulnerable residents of East Renfrewshire, as well as the impact on the Council's Revenues, Housing and Council Tax Benefit and other services.

Some of the key elements of the reform include:

- A new 'Universal Credit' will replace the vast majority of current in-work and out-of-work benefits;
- Disability Living Allowance will be replaced with a new 'Personal Independence Payment', which will involve a new 'objective' medical assessment process;
- Housing Benefits will be scaled back via changes in the way the benefit is calculated and an increase to the age threshold for the Shared Room Rate;
- Move to the Consumer Price Index (CPI) for the price indexation of benefits, pensions and tax credits.
- A cap on the total amount of benefits a household can claim;
- A package of changes to State Pensions

The following section gives an overview of how the recession has affected the East Renfrewshire labour market. Section 3 then projects the financial and economic impacts that the welfare reforms will have on East Renfrewshire. Section 4 then explains why East Renfrewshire may be particularly vulnerable to these reforms.

2. The effect of the recession on the East Renfrewshire labour market¹

The timing of these welfare reforms is particularly disconcerting for many of the residents of East Renfrewshire given the impact the recession has had on the East Renfrewshire labour market.

- **Increased Unemployment-** The unemployment rate in East Renfrewshire at 7% of the working age population is now slightly higher than national averages in the aftermath of the recession (6%).
- **Decreased Employment Rate-** This increase in unemployment in East Renfrewshire is reflected in a decline in the employment rate. This is now below the Scottish rate of employment.
- **Economic Inactivity-** the number of economically inactive (12,500) has increased in East Renfrewshire over the last 5 years whilst the national levels have remained fairly stable. The economically inactive population is over three times larger than the unemployed population. Interestingly, Renfrewshire has the same rate of economic inactivity (23%) as East Renfrewshire despite Renfrewshire having a much higher proportion of its residents claiming key out-of-work benefits. There are 1,988 individuals economically inactive individuals unaccounted for by the available data. They represent the 'hidden' unemployment of East Renfrewshire.
- **Increases in Workless Benefits-** During the recession, the benefit claimant rate increased at a faster rate in East Renfrewshire (9%) than what was seen across Scotland and the UK (5.4%). The disproportionate increase in benefit claimants in East Renfrewshire when compared to national averages has been driven primarily by the increase in the number of JSA claimants.
- **More Choices, More Chances-** Despite having the best school leaver's destination statistics in Scotland many young people in East Renfrewshire are still not in education, employment or training. This amounted to 260 individuals in 2009 with 72 young people leaving school in 2009-10 to unemployment. In addition to this, 600 young people 16-19 are unemployed.
- **High Increases in Youth Unemployment-** The total claiming JSA amongst 20-24 year olds increased by 157% between 2008 and 2011, showing the clear effect the

¹ Full report '*The Effect of the Recession on the East Renfrewshire Labour Market- Analysis and Recommendations*' June 2011 available from ERCET.

recession has had on youth unemployment within the East Renfrewshire area. There is now 22% unemployment amongst 20-24 year olds, double the national rate.

- **Graduate Unemployment** - There is evidence of increasing graduate unemployment between 2007 and 2009, with the rate of graduates entering unemployment increasing from 9% to 11%. With the downturn continuing in 2010-2011 and subsequent increases in youth unemployment, an assumption can be made this has increased further. Some wards within East Renfrewshire are now experiencing youth unemployment when before the recession there was none. This may also be an indication of increasing graduate unemployment in East Renfrewshire especially as the authority has the highest number of school leavers entering higher education in Scotland.

3. What are the Economic Implications for East Renfrewshire?

Many perceive 'welfare' and 'economy' to be two separate entities; however, the two are intricately linked. One of the key objectives of the welfare system was, and is, to maintain purchasing power. The cuts in welfare benefits will have a detrimental impact on the private sector in East Renfrewshire and the surrounding area in terms of output and employment due to reduced consumer spending power. Cutting welfare benefits may not only directly affect benefit claimants in East Renfrewshire, and consequently the standards of living of a significant portion of the local population but also, through a decrease in demand for goods and services in the local economy as a whole, significantly delay a full economic recovery.

The following sections quantify the main financial impacts on East Renfrewshire where possible.

3.1 Changes to Benefits

Benefit	Number of Claimants	Average Annual Loss per Claimant	Annual Loss for East Renfrewshire
Incapacity Benefit/Employment Support Allowance Migration to Job Seekers Allowance*	895	£1,469	£1,314,755
Disability Living Allowance-20% reduction in overall budget**	4,130	£780	£3,222,259
Child Benefit Freeze	11,480	£74	£849,520
Total Loss			£5,386,534

*Based on Government's assumption that 23% of IB/ESA claims will fail and that 30% of these claimants will come off benefit altogether.

**Consultation is underway on replacing DLA with a 'Personal Independence Payment'. It is assumed that the same 20% reduction of the DLA budget will result from this change.

The migration from Incapacity Benefit (IB) to Employment & Support Allowance (ESA) and Jobseekers Allowance (JSA) is perhaps the most immediate and pressing issue with huge losses in benefits for East Renfrewshire. Based on the Government prediction of how many people will fail, the annual projected loss to East Renfrewshire is £1.315 million by the end of the migration process.

The impact of these benefit cuts will result in:

- Loss of income to households in East Renfrewshire
- Loss of income to the local economy
- Consequential loss of jobs across East Renfrewshire, Greater Glasgow and across Scotland
- The expectation that those on benefits will move to employment despite the economic situation and the rising unemployment
- Greater demand for council services

3.2 Benefit Uprating

More than 50% of the welfare savings will come from the switch between inflation indexes, this amounts to £5.8 billion of the £11 billion in 2014/15. As of April 2011 the Government now adopts the Consumer Price Index (CPI) for the uprating of benefits and tax credits. The Retail Price Index (RPI) was formerly used.

- The CPI does not include mortgage costs, whereas the RPI does and is typically lower than the RPI – this means that, as interest rates start to increase, consumers will not be compensated for rising housing costs.
- The actual CPI which will be used for uprating in 2011/12 is 3.1% compared to the previous RPI of 4.6%. The impact of this on the main benefits affected is outlined in the table below.

Benefit	Number of Claimants	Average Weekly Claim	Annual Impact Per Claimant	Total Impact on East Renfrewshire
Job Seekers Allowance JSA	1,352	£60.66	£47.40	£64,078
Disability Living Allowance DLA	4,130	£75.02	£58.52	£241,670
Income Support	1,580	£81.42	£63.51	£100,242
Attendance Allowance	3,160	£62.70	£48.91	£154,453
Employment Support Allowance ESA	710	£71.82	£56.02	£39,774
Incapacity Benefit	2,010	£69.38	£54.12	£108,774
Severe Disablement Allowance	300	£69.95	£36.37	£10,912
Carers Allowance	1,200	£53.66	£41.85	£50,226
Widows Benefit	8	£91.35	£71.25	£570
Bereavement Benefit	130	£101	£79.02	£10,273
Total Impact				£780,972

3.3 Housing Benefit and Council Tax Benefit

The UK Government's deficit reduction plans will see housing benefit recipients and the Scottish economy lose approximately £80million per year by 2013.

The effect on East Renfrewshire will be to reduce individuals' and families' spending power, with detrimental effects for the local private sector and wider economy. Furthermore, it is possible that landlords may face rising rent arrears as tenants' benefits are reduced and they struggle to meet payments, although this is likely to be a short-term issue as tenants would eventually move to more affordable housing, either voluntarily or by eviction order.

The table below shows the financial impact these changes to Housing Benefit will have on East Renfrewshire.

Change	No of Households Affected	Average Annual Loss Per Household	Potential Annual Loss For East Renfrewshire
Move to 30th percentile (LHA)	450	£624	£280,800
£15 excess (LHA)	210	£598	£125,580
Single Room Rate Extension (LHA)	50	£1,212	£60,606

4. How Vulnerable is East Renfrewshire?

East Renfrewshire could be particularly negatively affected by the welfare changes, for a number of reasons:

- **Youth unemployment in East Renfrewshire is now double the national rate.** The welfare reforms will impact on East Renfrewshire at the worst possible time for many young people. Worsening labour market conditions could see young people on out-of-work benefits for lengthy periods and forthcoming cuts will further decrease incomes and increase barriers to employment.
- **Economic inactivity has increased at a faster rate in East Renfrewshire during the recession than has been seen across Scotland.** While Inactivity rates have been relatively stable in Scotland and the UK over the last 5 years, they have increased in East Renfrewshire. This means a relatively large proportion of the East Renfrewshire population will be affected by the welfare reforms.
- **Much of the reform in respect of unemployment benefits appears to presume the availability of surplus employment. The validity of this assumption is debatable in the current economic climate.** The recession caused significant increases in the amount of individuals for each vacancy within East Renfrewshire. This peaked at 30 JSA claimants for every vacancy in April 2010 and has been considerably higher than the Scottish and UK averages over the course of the recession.
- **The reforms will compound the financial constraints already faced by many households within East Renfrewshire particularly in the most deprived wards.** The loss of income to households in East Renfrewshire due to benefit cuts will hit jobless individuals and families the hardest. In these concentrations of poverty within East Renfrewshire there are already numerous barriers to employment for many of the people living there. Reducing household incomes could see many turning to the informal economy for income due to even more difficult labour market conditions.

- **Significant cuts to Disability Living Allowance will lead to higher costs and could lead to social exclusion for many East Renfrewshire residents.** The proposed changes to disabled people's support may result in higher costs to the NHS and East Renfrewshire Council – for hospital treatment, increasing need for residential care and through disabled people and carers being forced to give up work. Recent evidence shows that claimants use DLA to link to other support such as bus passes, Council Tax Benefit and Carer's Allowance. Therefore there could be a 'domino effect' in East Renfrewshire due to cuts in DLA, significantly increasing poverty and social exclusion for disabled people and their families.
- **Housing Benefit Reform and Changes to Mortgage Interest Support may have detrimental impact on the local housing market.** Having experienced an extreme spike in prices, the East Renfrewshire property market has since undergone severe price corrections; although there now seems to be a recovery. Many homeowners are already struggling with repayment capacity and the prospect of repossession. This may be exacerbated by the reform of Housing Benefit and reduction in Mortgage Interest Support from 6.08% to approximately 3.63%.
- **The potential impacts do not account for the inevitability of future interest rate hikes given ongoing inflationary pressures.** This will further erode income levels in East Renfrewshire with a detrimental impact on expenditure.