Where to next, poor city?

A forecasting commentary on how welfare reform in a downturn will affect Wolverhampton's working age households, public service agencies and the local economy 2013 -17

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Image: private sector property in All Saints, Wolverhampton, autumn 2012.

Executive Summary

When the BBC's Robert Peston blew the cover off Northern Rock's desperate plea to the Bank of England, late on September 13th 2007, it set in train not only an iconic bank run, but a catastrophic period of UK economic history. A sixth consecutive Christmas has just passed in constant downturn.

The causes, of course, were neither Peston nor Northern Rock per se, but a decade of reckless financial alchemy on an international scale, levering debt to stratospheric levels of risk. The consequences since have been profound, in terms of recessions, business failure, unemployment, housing prices, levels of government deficit and household indebtedness. Future growth forecasts remain meagre.

In a local area these accumulated stresses are typically manifested as too much personally acquired debt, becoming harder to repay, which then pressurises normal household budgeting and, at worse, culminates in housing crisis. Whether mortgaged or renting, a household that cannot pay its housing costs ends up losing the property.

Wolverhampton has already suffered extensively since Peston spoke, in every sector. A notable chunk of city centre retail units remain closed. Iconic stores have gone. Public sector jobs have also been cut. The more sensitive measures of social change display these recent economic impacts starkly: child poverty here was 17% in 2007; by 2011 it was 34%. Unemployment locally has soared and stuck, accelerating the city's decline from 34th most deprived area (2004) to 20th in 2011.

But why has the city suffered so badly through these 5 years – clearly experiencing a deeper impact than almost every other English area?

The clues suggest that our otherwise stoic and cohesive local communities (communities well used to surviving on modest average incomes since the 1980s) have several severe weaknesses to modern financial pressures. Issues like personal debt, (driven by low earnings, limited credit options and reliance on welfare income) stand out vividly in recent data from the city.

It is particularly so across the working age groups, and these are exactly where the major welfare cuts bite from April 2013 <u>and</u> where the financial sector is seeking either new profit (Payday loans) or a need to cut losses (rising preliminary actions for property possessions). This city is now being regularly forecasted as unlikely to keep a swathe of property in the hands of the current occupiers.

The new 2011 census has just been published. It shows the city has nearly double the English average of unemployed working age persons. This fact alone requires circa £66m pa more benefit payments than other average areas. Groups most vulnerable to financial stresses – like lone parents – are 25% larger than norms elsewhere.

Whilst the national economy recently showed hopeful indications of more private sector jobs (including a flourish of business start ups in Wolverhampton) the Job Seekers Allowance rate locally (the best measure of unemployment) grew by a further 4% in 2012 (more than any other Black Country authority). In Heath Town, JSA went up 19.5% during 2010-12; in Ettingshall it rose by 30%. These are alarming trends, suggesting the working age cohort in some of our deprived wards may be losing touch with the main economy.

Other recent signs also point in the wrong direction. In late 2012 the city became the most exposed area for threatened homelessness outside London (1 in 65 of local households have a Possession Notice in place). Approaching 40% of our city's income could be from welfare (more research is ongoing in this regard) but we do know this source is about to diminish. Wolverhampton's jobs are skewed towards a larger public sector than normal – again, at a time when this sector may shrink. Our award winning voluntary sector is faltering, with neighbourhood advice agencies regularly closing.

We are now just weeks away from the inception of the largest bi-partisan cutting back of the welfare state ever, all of the changes being focussed on working age households. The Benefits Cap may only reduce the income of some 256 households (and has some transition taper) but each of those households typically includes 3 or more children.

The Housing Benefit cuts, however, affect over 4,000 local households, with 512 alone in Heath Town ward, many losing 14% of their subsidy for rent payment. Over 800 lose 25%. Landlords expect serious rent arrears escalation ahead. Over 15,000 disabled claimants also face a separate exercise to replace Disability Living Allowance with a new benefit, and some 20% of those replacement claims are expected to fail. Some unlucky few households will lose from every change.

The initial loss of benefits to the local economy may seem relatively modest – less than £20m in 2013/14 – but this effect multiplies several fold when it is placed in context. The city is heavily indebted. A staggering £80m is outstanding in County Court Judgements, which act to exclude up to 30,000 (one third) of households from accessing normal High Street credit rates. As a result over 31,000 highly expensive payday or "doorstep" loans are running. In a city that probably has a current level of "actively pursued" personal/household debt beyond £150m, debt interest, fines and charges (the constant costs of servicing debt, costs which buy nothing tangible) will bite ever deeper into diminishing benefits income and/or low wages.

And worse will soon come. When the Bank of England starts to return mortgage rates towards normal market levels after almost 5 years of extreme protection (predicted in 2014) up to £75m of extra interest will be required from the mortgaged sector in the city. The largest portion of local households (57%) is mortgaged. In this city, the effects of welfare reform must be modelled within the context of profound existing (and still growing) indebtedness.

A serious spate of mortgage repossessions has been forecast in the city ever since 2008 (when Fitch Ratings noted 10% of our mortgaged sector had sub prime loans) but favourable factors and diligent local intervention work has delayed this event. What now seems likely is that the April 2013 onward benefit cuts will trigger a rapid increase in some household rent arrears to landlords, followed by a parallel rise in mortgage arrears from 2014 (separately stimulated by the Bank of England changes). Several thousand homes will then simultaneously be affected by a “double wave” of potential landlord evictions and mortgage possessions, possibly affecting beyond 10% of local households over a 4 year period.

The governments Welfare Reform Act 2012 aims to make work pay, encourage better claimant budgeting and create a mass shift into digital connectivity. It was promulgated to feed a growing jobs economy. However in Wolverhampton too few decent jobs are forecasted to emerge, local basic skills are inadequate and digital access is woefully incomplete.

Encouraging government policy incentives - like a big rise in personal tax allowances and favourable benefit/earnings tapers in Universal Credit - are likely to be completely overwhelmed by the tough new claiming regime which is less generous, causes widespread change, requires new claimant responsibilities and stimulates inevitable initial anxiety.

The majority of city households will be affected. Weaker up-rating of many benefits in the future guarantees that working age welfare drops steadily lower every year ahead. At city level, each benefit up-rated below the inflation rate loses more £millions each year. Welfare reform is not a “passing fad” project for 2013.

The combination of new market pressures (payday loans, and especially rising mortgage interest payments) plus less state support (complicated benefit cuts, often disrupting rent payment) will reduce the city’s income by an estimated £86m pa by 2017 and will most often affect households in Low Hill, St Peters and Bilston. Other wards, like Heath Town and Ettingshall, are plummeting fast in recent data. East Park is also struggling.

What can be done? We <u>all</u> need to learn more about what welfare “gives” to the local economy – the income, the support, the complexities, the vulnerabilities and most of all the possibilities for change. Although it comes first to claimants, much of it then recycles: into landlords, food, retail, transport and the economic lifeblood of the city. It especially underpins the support our communities can muster and offer for their children.

In an immediate sense we need to better detect, assess and model the level of mortgage and rent arrears (in order to forecast if, when and where a potential surge of repossessions will occur). Repossessions, if they emerge at scale, will cause widespread social impact, especially to the children in affected households and the mental wellbeing of many adults too. If there are large volumes of people who cannot avoid being repossessed, should the city – perhaps controversially – find a way to supportively manage this? Many will have a right to be statutorily re-housed, needing careful consideration.

Faced with such complex possibilities, we need to maximise the available resources, including a new organisational approach to release the best value from the depleted advice agencies, so that "legal events" affecting households are more swiftly addressed. This will require a new prevention drive, hopefully involving voluntary efforts and public sector workforces, to "identify and inform" large numbers of householders. A spectrum of support will be needed to encourage the entire working age population to be:

a) digitally connected
b) better able to budget and save, and
c) to know when, where and how to seek free advice.

The younger groups may already use social media/smart phones, making these tasks potentially feasible, but the rest must also become connected. This is not easy, and it seems frustrating that it falls to a local area to stimulate a national drive into digital connectivity.

The Wolverhampton Partnership must better understand a) the significance and vulnerability of a city with such heavy indebtedness and long term dependency on welfare income and b) how far that welfare income reaches (far beyond the unemployed, right through the "working poor" and up into the supposedly average earning brackets). In Wolverhampton, 57% of those claiming Housing Benefit aged under 25 are actually parents, and many are also working. Welfare income is not just a sideline issue in a couple of city wards; it is an economic watermark through most of our households.

The Partnership then needs to c) decide if it really wants to prioritise and incentivise mainstream services towards helping the thousands of families facing child poverty. This will need the Local Authority in particular to think about the wider issue of d) whether it is actually "responsible" for (or feels motivated to) mitigate the consequences of both national government policy change and financial market activity. If so, it must decide exactly what its scope of focus might be, what kind of extra interventions may be successful, and finally which geographic areas or social groups rank highest in the risk forecasts to attract such prioritisation.

None of these questions are familiar or easy. Time is also short. But they are the lot of this Local Authority and the whole Partnership in spring 2013. Beneath all of the questions lies one fundamental major question: <u>how do we make every local household financially sustainable</u>, when we cannot rectify the economy (jobs/earnings), or policy change (benefits income), or the finance market (credit and its costs)? Last month 5,000 local households (about 6%) received a food parcel in Wolverhampton. Food parcels address symptoms, not causes. Like the viral growth of payday loans, food parcel demand is a warning of deeper needs which we ignore at our peril.

Once some of the above thinking is complete, then many further details can be operationally refined. The challenges are vast. Watching thousands of local people contemplate potential repossession during 2013-17 is sobering. Having hundreds of children move neighbourhood (essentially for market reasons) is disruptive to their sense of place and education. Assuring 15,000 disabled claimants who are being told Disability Living Allowance is changing will be hard. Ceasing the Social Fund cash system is a challenge.

Much of this change, confusion, anxiety and questioning will spill out far beyond the smaller advice agencies. Politicians, public service workforces and the local media will all be affected. It would be very natural to feel like victims, but wouldn't it be better to try to be entrepreneurs? The question is: how?

Universal Credit could be the biggest peace time reform programme any government has ever started. It relies on (as yet un-built) computers in government, innumerable existing payrolls, and thousands of computers in local homes, all to mesh. It takes 4 years just to launch - and in an environment where constant debt servicing saps cost, confidence and frays stability.

But therein lies a potentially unique opportunity: because every sector and most households (in this city at least) are affected, there is a "burning platform" moment that could be used to "transform" rather than just "reform".

A number of ways into this elusive opportunity are suggested in the CAB's main paper on this subject, which is being rapidly developed with partners and officers. We ought also to glean the best and brightest of ideas from peer authorities.

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